BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WorldCom, Inc., f/k/a MFS Intelenet of Washington, Inc.,	)	
Complainant,	)	
v.	)	
GTE Northwest, Inc.,	)	**DOCKET NO. UT-980338**
Respondent.	)	

GTE NORTHWEST'S "POST-HEARING" MEMORANDUM

Preliminary Statement

State commissions, including this one, are sometimes wrong. In fact, the Washington Utilities and Transportation Commission ("WUTC") recently ruled that ADSL traffic to Internet Service Providers ("ISPs") fell within its intrastate jurisdiction – only to have that ruling preempted by a contrary decision of the Federal Communications Commission ("FCC") on October 30, 1998. In that decision, the FCC stated,

> "[W]e decide here only the issue designated in our investigation of GTE's federal tariff for ADSL service, which provides specifically for a dedicated connection, rather than a circuit-switched, dial-up connection to ISPs and potentially other locations. . . .We therefore intend in the next week to issue a separate order specifically addressing reciprocal compensation issues."

In the Matter of GTE Telephone Operating Cos., GTOC Tariff No. 1, and GTOC Transmittal No. 1148, CC Docket 98-79, FCC 98-292 (October 30, 1998) ("GTE ADSL Order").

Four months have lapsed since the FCC expressed its intent to address the reciprocal compensation issues at stake in this proceeding, but a decision is expected any day. With a potentially dispositive decision by the FCC in the offing and in the face of a contrary ADSL

ruling, the reliance of WorldCom, Inc. ("WorldCom") and the WUTC Staff on non-binding legal authority from its own state commission and others is now misplaced. Weaker still is the WUTC Staff's request for penalties in misguided reliance on a WUTC arbitration decision to which GTE Northwest Incorporated ("GTE") was not even a party.

What is also presently apparent, from a review of the direct testimony of WorldCom's own Ruth Durbin, is that WorldCom dropped the proverbial ball – not once, but twice – with respect to the attempts by GTE to negotiate a permanent interconnection agreement before the interim one expired. WorldCom cannot be heard to say that it extended the life of the interim interconnection agreement beyond the July 15, 1998 expiration date based on preliminary negotiations for a permanent agreement that WorldCom subsequently aborted before the interim interconnection agreement even expired. Having allowed the deadlines under the 1996 Telecommunications Act (the "Act") and the interim interconnection agreement to lapse, WorldCom has no statutory or contractual basis to insist that it be compensated pursuant to the terms of the interim interconnection agreement beyond July 15, 1998. No matter what the FCC or this Commission decides regarding reciprocal compensation for dialed-up access to the Internet via ISPs, GTE is entitled to prevail on its counterclaim as a result.

Statement of Undisputed Facts

The following facts are not in dispute:

1. The Interim Interconnection Agreement and the Alleged Breach by GTE

- The interim interconnection agreement at issue here was executed by the parties on July 16, 1996. Complaint at ¶ 2; Conditional Counterclaim at ¶ 1.

- The interim interconnection agreement was supposed to last for two years, or until it was superseded by a permanent agreement, in accordance with 47 U.S.C. § 251/2, was in place. However, negotiations for the permanent agreement were to begin no later than 45 days before the interim agreement expired. Durbin Direct Testimony at p. 7.

- In this agreement, the parties agreed to reciprocal compensation for local traffic which was actually terminated within the "local" or "extended service" area as those terms were historically defined in the tariffs. Complaint at ¶ 26. No party contends that the tariffs address traffic to ISPs.

- Nor does anyone contend that the parties *intended* to include data traffic to ISPs or that it was even discussed at the time of the negotiations for the July 16, 1996 interconnection agreement. The record is silent on this issue. Gary Ball of WorldCom in his reply testimony only indicates what WorldCom's intent was as of 1997 when it filed suit against US WEST to collect reciprocal compensation for traffic to ISPs. Ball Reply Testimony at p. 5.

2. ***Expiration of the Interim Interconnection Agreement and WorldCom's Failure to Negotiate A Permanent One***

- WorldCom initiated negotiations for a permanent interconnection agreement pursuant to 47 U.S.C. Section 251 that would cover several states including *Washington beginning on November 4, 1997. See* Durbin's Direct Testimony at pp. 2-3. *See also* letter attached as Exhibit A.

- WorldCom admits that it stopped all negotiations on this global agreement in February 1998 – approximately five months before its interconnection agreement with GTE expired on July 15, 1998. *See* Durbin Direct Testimony at pp. 5-6.

- On May 29, 1998 – approximately 46 days before the interim interconnection agreement between GTE and WorldCom for the state of Washington was about to expire – GTE wrote to request WorldCom to begin the negotiations required by Section VIII of the Interim Interconnection Agreement. A copy of this letter is attached as Exhibit B.

- WorldCom did not even attempt to respond to this letter until after the interconnection agreement expired on July 15, 1998. On July 21, 1998 – five days after the interim interconnection agreement expired – Ruth Durbin of WorldCom supposedly responded to GTE's May 29 letter stating that WorldCom was not then in a position to negotiate a permanent agreement. A copy of this letter is attached as Exhibit C. She also affirmatively stated that she did not have the authority to initiate negotiations for the permanent interconnection agreement pursuant to 47 U.S.C. § 251/2.

- This Complaint was filed on July 31, 1998. Complaint at p. 23.

- On August 13, 1998, GTE again wrote WorldCom requesting a response to its May 29, 1998 letter. A copy of this letter is attached hereto as Exhibit D.

- Via facsimile dated August 17, 1998, Ruth Durbin wrote to GTE, admitting 1) that her July 21 letter had not been received by GTE and 2) that WorldCom was still not in a

position to negotiate another agreement. Sixty-five days had then lapsed since GTE had requested WorldCom to negotiate a second agreement as required by the original interconnection agreement which lapsed on July 15, 1998 by its own terms. A copy of the facsimile cover sheet is attached hereto as Exhibit E.

3. ***The Commission Decision in WorldCom v. US WEST is not binding on GTE.***

- GTE was not a party to this proceeding, nor was GTE given an opportunity to be heard. Pitterle Reply Testimony at pp. 6-7.

- GTE had no chance to put on evidence or cross-examine the evidence against its position. *Id.*

- This proceeding involved a different interconnection agreement than the one at issue here. In fact, the interconnection agreement between WorldCom and US WEST is not even in the record, just as the interconnection agreement between GTE and WorldCom was not in evidence in the WorldCom vs. US West case.

- The WorldCom vs. US WEST case is on appeal to the Ninth Circuit Court of Appeals. Complaint at ¶ 17.

- Not only was the interconnection agreement between GTE and WorldCom never amended to reflect the decision by the WUTC in the WorldCom vs. US WEST case, WorldCom never requested any such amendment. Pitterlee Reply Testimony at pp. 4-5.

Argument

I. No Compensation Under the Interim Agreement Is Due After July 15, 1998.

Regardless of the Commission's ruling with respect to reciprocal compensation to be paid under the Interim Interconnection Agreement prior to July 15, 1998, nothing in the Act or the Interim Interconnection Agreement permits WorldCom to collect reciprocal compensation for ANY traffic after July 15, 1998. The Interim Interconnection Agreement was – as the name indicates – intended to be an *interim* agreement until such time as a *permanent* interconnection agreement in compliance with 47 U.S.C. § 251 was determined either through negotiation or arbitration as required by the Act. The parties stated as much on page 1 of the "Interim Interconnection Agreement:"

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> WHEREAS the Parties intend to negotiate a *permanent* interconnection agreement pursuant to Section 251 of the Telecommunications Act of 1996, but desire to enter into an *interim* interconnection agreement pending completion of the agreement under federal law;
>
> WHEREAS this [interim] Agreement is not intended by either Party to constitute compliance with the interconnection requirements of Section 251 of the Telecommunications Act of 1996;

See Exhibit F (emphasis added).

In accordance with this intention, the parties further stipulated to the following language governing the expiration of the Interim Interconnection Agreement:

> MFS and GTE agree to interconnect with each other pursuant to the terms defined in this [interim] Agreement until it is superseded by a [permanent] interconnection agreement negotiated between the Parties pursuant to Section 251 of the Telecommunications Act of 1996. Notwithstanding the foregoing, this [interim] Agreement shall, if not superseded by an [permanent] interconnection agreement, expire two years after the effective date of the [interim] Agreement. In the event that the [interim] Agreement expires after two years, the *interconnection arrangements* in this [interim] Agreement shall remain in place until the Parties are able to negotiate and implement a new interconnection agreement. Negotiations on such a new agreement shall commence *no later that 45 days prior to the expiration of this [interim] Agreement.*

Exhibit F, Section VIII, page 19 (Emphasis added). The above provision contemplates expressly that WorldCom had to initiate negotiations for a permanent interconnection agreement in accordance with the Act at least 45 days before the expiration of the Interim Interconnection Agreement. Once negotiations were initiated by WorldCom, WorldCom was then bound by the temporal limitations set forth in the Act to complete those negotiations or to arbitrate. *See* 47 U.S.C. § 252(c)(1). Under no rational interpretation of this provision can it be said that GTE agreed to pay *indefinitely* reciprocal compensation to WorldCom at the rates contemplated in the Interim Interconnection Agreement. Nor can it be said that GTE agreed to leave in place the interconnection arrangements contemplated by the Interim Interconnection

Agreement *beyond the deadlines contemplated by the Act.*

In its subsequent correspondence pertaining to the permanent interconnection agreement, WorldCom acknowledged and – in fact – invoked the temporal limitations set forth in the Act. On November 4, 1997, Ruth Durbin wrote to GTE to say the following:

> [P]ursuant to Section 251(c)(1) of the Telecommunications Act, WorldCom Technologies, Inc., on behalf of itself and affiliated operating companies providing telecommunications services in Washington (WorldCom), requests that GTE Northwest Incorporated (GTE) commence good faith negotiations to reach agreement for the following terms . . . . (terms omitted) In light of the need to engage in meaningful negotiations before the expiration of the 135 days provided in the Act [§252] for voluntary negotiations, WorldCom requests a response by Friday, November 14th. *See* Exhibit A.

By requesting that good faith negotiations begin in accordance with the Act and by referencing the 135-day deadline set forth in Section 252(b)(1) of the Act, WorldCom started the statutory clock for the Parties to complete their negotiations. If the Parties do not reach an agreement regarding the terms of interconnection after 135 days of negotiations, the Act permits a "requesting carrier," like WorldCom, to file for arbitration between the 135th and 160th days. *See* 47 U.S.C. 252(b)(1). Accordingly, WorldCom had to no later than the end of April, 1998 to petition this Commission for arbitration in order to secure a permanent interconnection agreement. The deadlines set forth in the Act are jurisdictional and therefore cannot be waived by either agreement of the parties or by order of a state commission. The Act requires WorldCom to begin negotiations all over again. *See e.g., In the Matter of Local Exchange and Exchange Access Telecommunications Competition*, State of North Carolina Utilities Commission, Docket No. P-100, Sub 133, Order Regarding Timing of Arbitrations dated November 4, 1998 (Attached hereto as Exhibit G).

WorldCom, however, failed to initiate negotiations again before the expiration of the

Interim Interconnection Agreement, which called for negotiations under the Act to begin no later than 45 days before the expiration of the Interim Interconnection Agreement. GTE even went so far as to remind WorldCom of the impending July 15, 1998 deadline by letter dated May 29, 1998. *See* Exhibit B. WorldCom did not attempt to respond to the May 29th letter from GTE until July 21, 1998 – six days after the Interim Connection Agreement lapsed and 51 days after GTE had sent the reminder. In fact, GTE sent another reminder on August 13, 1998 because it never received the July 21, 1998 letter. *See* Exhibit D. Finally, on August 17, 1998, Ruth Durbin faxed her July 21 letter to Steve Pitterle of GTE with a transmittal note stating "Steve: apparently the attached response to Steve M's 5/29 letter was not received by GTE. Sorry for the inconvenience. Responsibility for negotiations is now with Scott Lowry. He can be reached at 918 590 5042. Ruth Durbin." *See* Exhibit E.[1]

It is these preliminary negotiations that WorldCom admittedly aborted that WorldCom now claims magically extended the life of the Interim Interconnection Agreement. This interpretation by WorldCom of Section VIII of the Interim Interconnection Agreement fails for three reasons.

First, it is evident by the reference to the Act that GTE was agreeing to no more time than the Act would otherwise allow, *provided that* good faith negotiations towards a permanent interconnection agreement began no more than 45 days before the expiration of the interim interconnection agreement. Put another way, the Parties could predict with certainty when a

[1]In her July 21 correspondence, Ms. Durbin further acknowledged that she, on behalf of WorldCom, "previously began negotiations with GTE concerning this agreement but were unable to make satisfactory progress. WorldCom is evaluating its positions given recent and proposed mergers and I will get in touch with you shortly with respect to the negotiations of this agreement." *See* Exhibit C.

permanent interconnection agreement would be in place once negotiations were commenced because the Act permits 135 days of negotiations, 25 days more to petition a state commission for arbitration and then the state commissions must reach a decision within nine months. 47 U.S.C.§ 252 *et seq.* Notwithstanding these unambiguous jurisdictional deadlines, WorldCom appears to argue in the testimony of Ruth Durbin and Gary Ball that it merely had to initiate negotiations *at any time* before the 45-day deadline in the Interim Interconnection Agreement *and do nothing more*. That is to say, WorldCom believes that it could ignore the deadlines set forth in the Act, and avoid negotiations of a permanent interconnection agreement indefinitely but GTE would still be obligated to pay reciprocal compensation to WorldCom under the terms of the Interim Interconnection Agreement well into the next millennium.

Second, Section VIII does not bind GTE to *pay* any of the rates set forth in the Interim Interconnection Agreement after the agreement expires. Indeed, it expressly contemplates that "[i]n the event that the [interim] Agreement *expires after two years*, the *interconnection arrangements in this [interim] Agreement shall remain in place* until the Parties are able to negotiate and implement a new interconnection agreement." (Emphasis added). Notably, this sentence contemplates that the Interim Interconnection Agreement *would expire* and that only the *interconnection arrangements* set forth in the Interim Interconnection Agreement would remain in place – not the Interim Interconnection Agreement itself. It is GTE's position that it merely agreed in this provision to continue transporting traffic once the Interim Interconnection Agreement expired – subject to whatever compensation the parties agreed to pay, or were required to pay as a result of an arbitration, in the permanent interconnection agreement.

Third, the 1996 Act requires all parties to negotiate in good faith. *See, e.g.,* 47 U.S.C. § 251(c)(1) ("The requesting telecommunications carrier also has the duty to negotiate in good

faith the terms and conditions of such agreements.") WorldCom has failed to negotiate at all – much less in good faith. In her testimony, Ms. Durbin admitted that she agreed to provide GTE with drafts of proposed language for contemplated permanent interconnection agreement by March 1998. Durbin Testimony at pp. 5-6. She then admits the following:

> Q Did you provided these draft in March 1998?
>
> A No. During the period after these meetings but prior to the March due dates, there were extensive reorganization activities ongoing at WorldCom, and I realized that I would be unable to meet the March dates. I communicated this fact to Mr. Monti.
>
> Q What was WorldCom's assessment of these negotiations with GTE?
>
> A WorldCom concluded that a large amount of additional personal resources and an inordinate amount of time would have to be devoted to preparing additional materials to respond to GTE in order to make any progress in negotiations that would ultimately result in interconnection agreements with GTE.

Ms. Durbin thereby admitted that WorldCom dropped the proverbial ball in the negotiations. She also admitted receipt of GTE's reminder of May 29, 1998. Durbin Testimony at p. 6. Nonetheless, she admitted in her July 21, 1998 response to GTE's May 29 letter that WorldCom was *still* not in a position to negotiate a permanent interconnection agreement with GTE. Therefore, WorldCom has no one but itself to blame for the fact that the parties have neither negotiated or arbitrated a permanent interconnection agreement. Instead of doing what the Act requires – negotiation for 135 days then arbitration – WorldCom has merely rebuffed all attempts by GTE to renegotiate. This kind of behavior is exactly what the jurisdictional deadlines set forth in the Act were meant to prevent. GTE should prevail on its Counterclaim as a result – regardless of what this Commission decides with respect to WorldCom's claim for compensation prior to July 16, 1998.

II. WorldCom is not Entitled to the Windfall that is Seeks Under the Interim Interconnection Agreement Prior to July 16, 1998.

A. The Structure of the Internet

The Internet is an interconnected international network of trunking, routers, servers and data bases. Using the Internet, a subscriber can access information from points throughout the globe. The exact manner by which a subscriber access data from the Internet is complex, but it invariably relies upon the services of an Internet Service Provider (ISP).

To access the Internet, a subscriber typically dials an ISP with a seven or ten digit number in order to connect the subscriber's modem to the aggregation modem belonging to the ISP. Jones Testimony at pp. 3-4. The ISP modem then passes that call on to Internet Protocal routers. Jones Testimony at p. 4. A subscriber who has reached the ISP aggregation modem has not yet completed a transmission path to a place where information can be obtained. Jones Testimony at p. 5. The ISP aggregation modem can be – and often is – located hundreds, and possibly thousands of miles away from the subscriber. Jones Testimony at pp. 5-6. By contrast, a subscriber obtains information from a local call which actually terminates within his local or extended calling area. For this and other reasons, a call to an ISP is therefore much more like a long distance call as Exhibit 1 to Howard Jones's testimony indicates. Jones Testimony at p. 5.[2]

To say that the end user's call is local in nature because it travels to the ISP effectively ignores that the call reaches the Internet. Aside from defying logic, this view contradicts the FCC's description of Internet services:

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[2] It is noteworthy that WorldCom made no attempt whatsoever to respond to the specific technical testimony offered by GTE. It relied solely on the opinion of its management. Mr. Jones expert opinions stand unrebutted in this arbitration.

> The Internet is an interconnected global network of thousands of interoperable packet-switched networks that use a standard protocol ... to enable information exchange. *An end user may obtain access to the Internet from an Internet service provider, by using dial-up or dedicated access to connect to the Internet service provider's processor. The Internet service provider, in turn, connects the end user to an Internet backbone provider that carries traffic to and from other Internet host sites.*

Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Comm. Act of 1934, as Amended, First Report and Order and Further Notice of Proposed Rulemaking, CC Dkt. No. 96-149 (Dec. 24, 1996), note 291 (emphasis added).

This language confirms the plain fact that the end user's call only *transits through* the ISP's local point of presence. It does not *terminate* there. The call to the ISP from the end user is not disconnected after the ISP modem answers, but stays "up" for the duration of the call. The ISP is thus properly viewed as one link in the chain of uninterrupted transmission of signals between the end user and the host computer.

This point is critical from a legal standpoint because a communication must be analyzed, for jurisdictional purposes, "from its inception to its completion." *See Teleconnect Co. v. Bell Tel. Co. of Penn. et al.*, 10 FCC Rcd 1626, 1629-30 (1995), *aff'd Southwestern Bell Tel. Co. v. FCC*, No. 95-119 (D.C. Dir. June 27, 1997). Just as "an interstate communication does not end at an intermediate switch," *id.*, an interstate communication does not end at an ISP's node. When the ISP forwards an end user's call to the websites on the Internet, it does not do so through a "second call." Instead, the ISP routes the end user's initial call to a destination typically outside the local exchange area of the end user and the ISP's modem banks much like an interexhange company's switch routes an end user's call. Even AT&T has admitted that

> ISP traffic is overwhelmingly and inseparably interstate in nature and is unlike local business traffic because, for the vast majority of traffic, it is switched by the

ISP at its local POP to distant data centers or internet sites located in other states (or other countries).

Requests by ALTS for Clarification of the Commission's Rules Regarding Reciprocal Compensation for Information Service Provider Traffic, CCB/BPD 97-30, Comments of AT&T at 1.

B. This Commission Does Not Have Jurisdiction To Deem ISP Traffic Local For Reciprocal Compensation Purposes.

This long-standing interpretation by the FCC has been reaffirmed – and the kind of "two-call theory" that WorldCom is now promoting was expressly rejected – by the FCC in its most recent decision regarding traffic between subscribers and ISPs. *GTE ADSL Order*. In its opinion to approve GTE's ADSL tariff, the FCC noted that "the commission traditionally has determined the jurisdictional nature of communications by the end point of the communication and consistently has rejected attempts to divide the communications at any intermediate points of switching or exchanges between carriers." *GTE ADSL Order* at ¶ 17. The FCC expressly rejected the "two call" theory:

> We disagree with those commenters who argue, for jurisidictional purposes, and end-to-end-to-end ADSL communication must be separated into its two components: an intrastate telecommunication service, provided in this instance by GTE, and an interstate information service, provided by the ISP. As discussed above, the commission analyzes the totality of the communication when determining the jurisdictional nature of a communication . . . We, therefore, analyze ISP traffic as a continuous transmission from the end user to a distant internet site.

Id., ¶ 20.

That this FCC decision was based on a dedicated, ADSL, connection as opposed to a non-dedicated, "dial-up" ISP traffic makes no difference in the analysis. Examination of the precedent that served as the basis for the GTE ADSL Order demonstrates an unbroken

chain of FCC authority which leads to the inevitable conclusion that traffic to ISPs is interstate in nature, whether it is "dial-up" or dedicated. The GTE ADSL Order explicitly rests upon *Teleconnect Co. V. Bell Te. Co. Of Penn., et al.,* 10 Rcd 1626, 1629-30 (1995), *aff'd Southwestern Bell Tel. Co. V. FCC*, No. 95-119 (D.C. Dr. June 27, 1997). *See* GTE ADSL Order, ¶ 18. The *Teleconnect* case dealt with a dial-up switched service. *Id.* Relying upon *Teleconnect*, the Commission reiterated its conclusion that "an interstate communication does not end at an intermediate switch. . . the interstate communication itself extends from the inception of a call to its completion, regardless of any intermediate facilities." *Id.* Simply put, the FCC's analysis is inescapable: whether dedicated or dial-up, a call from an end user to the Internet is not a local call to an ISP and some separate transaction between the ISP and widely scattered websites. It is one call, be it intrastate, interstate or international.

The fact that a call may at once be intrastate, interstate, and international renders it inseverable for jurisdictional purposes. In the case of such "mixed-use" facilities, jurisdiction lies exclusively with the FCC under the criteria set forth in *Louisiana Pub. Serv. Comm'n v. FCC*, 476 U.S. 355 (1986). Indeed, the FCC has uniformly rejected attempts to divide interstate calls into jurisdictionally intrastate segments. In the *Memory Call* case, for instance, the FCC applied its end-to-end analysis to BellSouth's voicemail service to conclude that it is jurisdictionally interstate. Even though the service allowed out-of-state callers to retrieve messages using an intratstate call forwarding service, the FCC focused on the existence of a "continuous two-way transmission path from the [out-of-state] caller to the voice mail service" to find the entire call to be "an interstate communication." *Petition for Emergency Relief and Declaratory Ruling Filed by BellSouth Corp.*, 7 FCC Rcd 1619 (1992), *aff'd Georgia Pub. Serv.*

Comm'n v. FCC, 5 F. 3d 1499 (11th Cir. 1993). Of particular importance to the instant case, the agency explained:

> Our jurisdiction does not end at the local switch, but continues to the ultimate termination of the call. The key to jurisdiction is the nature of the communications itself rather than the physical location of the technology. Jurisdiction over interstate communications does not end at the local switchboard, it continues to the transmission's ultimate destination .... This Commission has jurisdiction over, and regulates charges for, the local network when it is used in conjunction with the origination and termination of interstate calls.

Id. at 1620-21.

The FCC again affirmed its jurisdiction over local calls used to provide interstate service in *New York Telephone Co. – Exchange System Access Line Termination Charge for FX and CCSA Service*, Memorandum Opinion and Order, 76 FCC 2d 349 (1980). The petitioners there challenged a New York Telephone state tariff imposing a charge on local exchange service used by out-of-state customers of foreign exchange (FX) and common control switching arrangement (CCSA) services. Those services permitted an end-user in New York to call an out-of-state customer by dialing a local number and paying local rates. Even though the originating caller reached the service through a local telephone number and paid local rates, and even though the FX customer had to purchase local exchange service from New York Telephone, the FCC found the service as a whole to be interstate, thus subject to its jurisdiction. It noted further that the Communications Act did not "reserve to the state jurisdiction over the local exchange portion of the interstate services." *Id.* at 352.

These cases bear directly on the dispute before this Commission. In those cases, as in the situation before the Commission, an interstate call is complete, in part, through use of intrastate local exchange services. In each instance, the originating end user makes the call by dialing a local number and paying local service charges. In such situations, the FCC has specifically

declined to treat the call as the sum of jurisdictionally severable parts, and instead ruled that the service as a whole was interstate.

Further evidence that ISP traffic is interstate for jurisdictional purposes is the fact that it would be subject to interstate access charges but for a specific exemption granted by the FCC. When the FCC adopted a mechanism for recovery of intrastate costs in 1983,[3] it determined that all providers of interstate services that rely on local telephone company plant should contribute to this mechanism. Contributors, the FCC concluded, should include not only typical long-distance carriers such as AT&T, but also smaller resellers and ISPs.[4] Nevertheless, the FCC recognized that resellers and ISPs previously had "been paying the generally much lower business service rates," and that "[they] would experience severe rate impacts were [the FCC] immediately to assess carrier access charges upon them." *Access Charge Reconsideration Order* at ¶ 83. To "avoid this rate shock," *ibid*, the FCC decided to impose a transitional scheme under which ISPs would pay only local business rates and subscriber line charges for their switched access connections to local exchange company central offices. This "graduated transition" to a uniform access charge regime was upheld by the District of Columbia Circuit Court. *Nat'l Ass'n of Reg. Util. Comm'rs v. FCC et al.*, 737 F.2d at 1095, 1136 (D.C. Cir. 1984).

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[3] *MTS and WATS Market Structure*, Third Report and Order, 93 FCC 2d 241 (1983) ("*Access Charge Order*").

[4] *See MTS and WATS Market Structure*, Memorandum Opinion and Order ("*Access Charge Reconsideration Order*"), 97 FCC 682, 715 at ¶ 83 (1982)(original intent was to apply these charges to all "users who employ exchange service for jurisdictionally interstate communications").

The FCC removed the access charge exemption from resellers in 1986,[5] and the following year proposed to eliminate the temporary exemption for ISPs.[6] Ultimately, however, the Commission decided, again as a transitional matter, not to eliminate the ISP access charge exemption, based largely on concerns about the stability of the information services industry.[7] The FCC again emphasized, however, that this exemption was not intended to be permanent, and that it could be justified only because the enhanced services industry "is in a uniquely complex period of transition."[8] The FCC continued to rely upon this rationale in its 1997 *Access Charge Order*, concluding that allowing ISPs to avoid paying access charges would "avoid disrupting the still-evolving information service industry" and promote the continued rapid development of the Internet. *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge*, First Report and Order, CC Dkt. Nos. 96-262, 96-241, 91-213, 96-263, at ¶ 344 (1997).

In short, the FCC's continued exemption of ISP traffic from access charges for policy reasons – an exemption it could chose to remove at any time – demonstrates the agency's recognition that such traffic is interstate. Because federal access charges apply only to interstate access traffic, the need for an exemption at all is conclusive proof that the FCC considers Internet

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[5] *WATS-Related and Other Amendments of Part 69 of the Commission's Rules,* Report and Order, 59 Rad. Reg. 2d (P&F) 1418 (¶¶ 26-27) (released Mar. 21, 1986).

[6] *Amendments of Part 69 of the Communication's Rules relating to Enhanced Service Providers*, Notice of Proposed Rulemaking, 2 FCC Rcd 4305 (1987) ("*ESP Exemption NPRM*").

[7] *Amendments of Part 69 of the Commission's Rules Relating to Enhanced Service Providers*, Order, 3 FCC Rcd 2631, at ¶ 1 (1988)(exemption reasonable given "the current state of change and uncertainty" in the industry)("*ESP Exemption Order*").

[8] *Id.* at 2631,¶ 2 and 2632,¶ 13.

traffic to be interstate in nature. This Commission should therefore reject any invitation to exercise jurisdiction over ISP traffic, in contravention of decades of FCC precedent.

Indeed, even CLECs have acknowledged that the FCC is the proper forum for resolution of the reciprocal compensation issue. ALTS, the CLEC's federal trade association, has asked the FCC to address whether calls to an ISP should be handled differently than local traffic under current reciprocal compensation agreements. ALTS's assertion that the requested clarification was "plainly within the [FCC's] exclusive jurisdiction"[9] is consistent with GTE's position here.

C. The WorldCom's Reliance on Other States' Decisions Is Misplaced.

In an effort to persuade the Commission that ISP traffic is jurisdictionally local, WorldCom in its Complaint urges this Commission to join other states which have purportedly held that "local calls terminating at ISPs are local traffic for purposes of the reciprocal compensation provisions of the interconnection agreement." (Complaint at ¶ 33) Again, however, WorldCom draws conclusion broader than the precedent can support. All of the state decisions relied upon by WorldCom in its Complaint predate the FCC's decision regarding GTE's federal tariff for ADSL traffic. Indeed, many of the decisions contain no policy rationale at all, let alone any legal or factual analysis.

With regard to final decisions that do exist, they do not deserve the weight WorldCom claims. While a few states have made generic policy decisions about whether ISP traffic is local and thus subject to reciprocal compensation, most have not. The cited decisions were typically

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[9] ALTS's June 27, 1997 Letter to the FCC. In response to the letter, the FCC initiated Docket number CCB/CPD 97-30, *Request by ALTS for Clarification of the Commission's Rules Regarding Reciprocal Compensation for Information Service Provider Traffic.* The FCC has also undertaken a separate proceeding to resolve issues relating to the impact of Internet traffic on the public switched network. *Usage of the Public Switched Network by Information Service and Internet Access Providers*, Notice of Inquiry, CC Dkt. No. 96-263 (Dec. 24, 1996).

rendered in the context of interconnection complaints under specific agreements or arbitration proceedings which barely touched upon the ISP traffic issue. It is not surprising, then, that the conclusions reached were patently erroneous under FCC precedent.

For instance, in four of the states where MFS WorldCom has prevailed, MFS apparently convinced the Commissions in arbitrations with US WEST that the FCC's decision to treat ISPs as end users for purposes of access charges was tantamount to classifying ISP traffic as local. In fact, as the above-discussed history of the access charge exemption demonstrates, just the opposite is true. The FCC's access charge exemption is necessarily rooted in the recognition that ISP traffic is *interstate* in nature. Otherwise, the FCC could not have lawfully imposed the exemption. But none of the US WEST decisions address the fundamental issue of the jurisdictional nature of ISP traffic; indeed, none of them engage in any factual or legal analysis.

In Arizona, the ISP traffic issue was apparently not even raised during the evidentiary portion of the arbitration. The entire resolution of the issue is as follows: "This item of dispute was not discussed at arbitration or in closing briefs. The Commission also must decide this issue solely based upon the positions taken in the Agreement. The Commission will adopt the exemption permitted by the FCC. However, the Agreement should indicate that if and when the FCC modifies the access charge exemption, the Agreement will also be modified." *Petition of MFS Comm. Co., Inc. for Arbitration of Interconnection Rates, Terms, and Conditions with U.S. West Comm., Inc. Pursuant to 47 U.S.C. sec. 252(b) of the Telecomm. Act of 1996*, Decision No. 59872 (Oct. 29, 1996). In the absence of any evidence (or even any citation to specific FCC authority), the Commission, not surprisingly, misapprehended the nature of the FCC's access charge exemption.

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The matter of reciprocal compensation for ISP traffic apparently arose at a similarly late point in the Minnesota arbitration involving MFS and US West, and received just as little attention. This issue was not covered in the Arbitrator's report, but rather resolved by the Commission in response to MFS' exceptions listing additional, unresolved issues. *Consolidated Petitions of AT&T Comm. of the Midwest, Inc., MCImetro Access Transmission Services, Inc., and MFS Comm. Co. for Arbitration with US WEST Comm., Inc. Pursuant to Section 252(b) of the Fed. Telecomm. Act of 1996*, Order Resolving Arbitration Issues, Dkts. P-442, 421/M-96-855, etc., at 3, 75 (Dec. 2, 1996). The Commission decided the matter in just 4 sentences of a 79-page decision, concluding that US WEST had "failed to meet its burden of demonstrating a need to discriminate regarding the handling of ESP traffic." *Id.* at 75-76. Once again, without any meaningful focus on this issue during the proceeding, the Commission blithely adopted MFS' mistaken notion of the significance of the FCC's access charge exemption.

The same is true of the Oregon and Washington arbitration decisions between US WEST and MFS. The Oregon arbitrator summarily concluded: "I adopt the MFS proposed language in Joint Position Statement, at 12. There is no reason to depart from existing law or speculating what the FCC might ultimately conclude in a future proceeding." *Re MFS Comm. Co., Inc.*, Slip Op., ARB 1 Order No. 96-324, at 16 (Dec. 9, 1996). The Washington Commission's entire discussion of its decision was even more terse: "It is premature to change the treatment of ISPs at this time." Petition for Arbitration of an Interconnection Agreement Between MFS Comm. Co., Inc. and US WEST Comm., Inc. Pursuant to 47 USC sec. 252, 175 P.U.R. 4th 362, 1997 Wash. UTC Lexis 1, 44 (Jan. 8, 1997). If the Commissions had properly understood the FCC's actions, of course, they would have known that the FCC's has never held that ISP traffic is local traffic for the purposes of reciprocal compensation.

Other decisions outside the arbitration context are also narrower than WorldCom suggests. For instance, the Maryland Commission did *not* deem ISP traffic to be local. In the context of an MFS complaint against Bell Atlantic, the Commission merely recognized, but did not settle, the "question as to whether these communications are 'jurisdictionally interstate communications'" under FCC precedent. (Letter from D.P. Gahagan, Exec. Secretary, Maryland Pub. Serv. Comm'n, to D. Hall *et al.*, Sept. 11, 1997.) Although the Commission found MFS should receive compensation under the specific terms of its interconnection agreement with Bell Atlantic, it emphasized that eventual FCC action in its proceeding on ISP traffic might require revision to the Commission's directives under the MFS-Bell Atlantic agreement. *Id.*

The West Virginia Commission has likewise recognized that the courts have ruled that enhanced services are "within the FCC's exclusive jurisdiction" and agreed that a final determination on the matter of ISP traffic classification for reciprocal compensation "rests with the FCC." *MCI Telecomm. Corp. petition for Arbitration of Unresolved Issues for the Interconnection Negotiations Between MCI and Bell Atlantic-West Virginia, Inc.*, Commission Order, Case No. 97-1210-T-PC, at 29 (Jan. 13, 1998). Although the Commission accepted, in the meantime, MCI's ill-founded arguments that ISP traffic should be considered local for purposes of paying reciprocal compensation, it recognized that this determination would likely have little practical effect. Because MCI had not yet received a certificate to provide local service, the Commission remarked that: "A change in the FCC's policy regarding Internet traffic therefore may occur before the issue of compensating LECs for transport and termination of Internet-bound traffic becomes pertinent." *Id.* at 30.

These cases demonstrate that, if ever there was a time to reject the follow-the-leader approach WorldCom advocates, this is it. Other states' tentative and/or ill-reasoned conclusions

based on misapprehension of FCC precedent are no basis for a reasoned ruling by this Commission. GTE urges the Commission here to follow the path it always has and to do its own analysis of the relevant law and the parties' positions. This process will compel the conclusion that interconnecting companies are not entitled to reciprocal compensation for ISP traffic, which is jurisdictionally interstate.

Besides the fact that the decisions by state commissions upon which WorldCom relies in its Complaint were decided before the FCC's decision on GTE's ADSL traffic, those state commission decisions have often contemplated the pending FCC decision and that an FCC decision consistent with the GTE ADSL Order would alter the outcome of those state decisions:

North Carolina:

- "The FCC has not squarely addressed this issue, although it may do so in the future. While both parties presented extensive exegesis on *the obscurities of the FCC rulings bearing on ISPs, there is nothing dispositive in the FCC rulings thus far.*" *In re Interconnection Agreement Between BellSouth Telecommunications, Inc. And US LEC of North Carolina*, LLC, Dkt. No. P-55, SUB 1027 at 7 (N.C. PUC Feb. 26, 1998) (emphasis added).

Missouri:

- "The Commission has been advised by the parties and takes official notice that, as to the crucial issue in this case, i.e. reciprocal compensation under this type of scenario, the FCC has requested comments and taken the matter under advisement in Docket No. 97-30. *The record presented by the parties is not sufficiently persuasive to move this Commission to make a final decision on the reciprocal compensation issue in light of the FCC's pending proceeding on the same issue."*

* * * *

"Prior to a decision from the Federal Communications Commission on the issue of reciprocal compensation for traffic to ISPs within a local calling scope, the parties shall compensate one another for such traffic in the same manner that local calls to non-ISP end users are compensated, *subject to a true-up following the Federal Communication Commission's determination on*

the issue." In re Birch Telecom of Missouri, Inc., 1998 WL 324141 *3, *5 (Mo. PSC April 24, 1998) (emphasis added).

Arizona:

- "The Commission will adopt the exemption permitted by the FCC. However, the Agreement should indicated that *if and when the FCC modifies the access charge exemption, the Agreement will also be modified." MFS Communications Comp., Inc.*, 1996 WL 787940 *5 (Ariz. Corp. Com'n Oct. 29, 1996) (emphasis added).

Illinois:

- "After reviewing relevant FCC precedent, *this Court finds that the FCC has not reached a coherent decision on this issue of the compensation of LECs providing Internet access.* This result is *due, in part, to the fact that Internet, as a recently new development to the telecommunications world, presents questions that have not previously been addressed by FCC* decisions and policy . . . Thus, the precise issue under review in the instant case is currently being decided by the FCC. As of the date of this Memorandum Opinion and Order, the issue has not been resolved. *Any ruling by the FCC on that issue will no doubt affect future dealings between the parties on the instant case." Illinois Bell Tel. Comp. v. WorldCom Technologies, Inc.*, No. 98C 1925, Mem. Op. And Order at 17-18 (N.D. Ill. July 21, 1998) (citations and footnotes omitted) (emphasis added).

Massachusetts:

- *"We agree* with Bell Atlantic *that the FCC has jurisdiction over Internet traffic. Pursuant to that authority, the FCC may make a determination* in proceedings pending before it that could require us to modify our findings in this Order." *Complaint of WorldCom Technologies, Inc.*, D.T.E. 97-116 at 5, n. 11 (Mass. Dept. Of Telecom. And Energy, Oct. 21, 1998) (emphasis added).

Ohio:

- *"We also recognize that the FCC is in the process of considering arguments addressing these broader implications.* The FCC's deliberations could, therefore, have an impact on this Commission's view of the issues presented by the parties in this complaint. *We specifically reserve our rights to consider these policy implications in a future proceeding." Complaint of ICG Telecom Group, Inc.*, Case No. 97-1557-TP-CSS, at 8 (Pub. Util. Com'n Ohio, Aug. 27, 1998) (emphasis added).

Pitterle Reply Testimony at pp. 8-10.

At a minimum, the Commission should issue an order that permits a "true-up" between the parties or an opportunity for GTE to petition this Commission for modification of an adverse ruling in this docket -- in the event the FCC subsequently issues a ruling favorable to GTE.

C. Treating ISP Traffic As Local For Reciprocal Compensation Purposes Is Anti-Competitive.

As discussed above, because ISP traffic is interstate in nature, this Commission has no jurisdiction to deem it local for reciprocal compensation purposes. Even if it did have the authority to order the payment of reciprocal compensation for ISP traffic, such a directive would contravene sound public policy – contrary to the assertions of Glenn Blackmon.[10] Applying the existing reciprocal compensation scheme to ISP traffic would severely compromise the development of local competition.

Reciprocal compensation agreements are grounded in the understanding that traffic between two networks will be roughly balanced, as the average user receives about as many calls as he makes. In the case of a CLEC serving an ISP, however, this expectation is widely skewed; while ISPs do not generally make calls, they generate an enormous amount of inbound calls. *See* Pitterle Direct Testimony at p. 10. For example, telephony engineers have long documented that the "typical" voice telephone call lasts four minutes or less. In contrast, a "typical" Internet call lasts more than 20 minutes. *See* Pitterle Direct Testimony at pp. 4, 9, 12-13. WorldCom

[10] Although the Commission has already ruled on GTE's motion to strike and motion for a declaratory ruling concerning the role of staff in this proceeding, GTE hereby incorporates those pleadings by reference in the event of an appeal in this case. In any event, Mr. Blackmon's testimony should be disregarded because it was not based on matters within his personal knowledge or within his expertise to opine. Indeed, much of what he asserts is contradicted by FCC precedent and the opinions of the investment community as noted herein.

admitted in the Stipulation and Order Resolving Discovery Disputes And Revising Schedule ("Stipulation") previously filed in this docket that "[a] substantial majority of the reciprocal compensation sought by WorldCom in the Complaint represents traffic transported to ISPs." Stipulation at ¶ 4. Applying reciprocal compensation to this largely one-way traffic will produce results that are unambiguously anti-competitive, and thus anti-consumer.

As Merrill Lynch noted in the attached "In-depth Report" ("Merrill Lynch Report") on "the arcane world of local telephone arbitrage called ISP-related reciprocal compensation" CLECs like WorldCom are reaping an enormous windfall of profits as a result of reciprocal compensation provisions for ISP traffic. Exhibit H at p. 1.[11] These profits have the potential, as GTE and other ILECs have argued, to result "in four unintended consequences that are detrimental to the public interest and intent of The 1996 Act: 1. Wealth Transfers . . . 2. Development of Competition delayed . . . 3. Disincentive to compete for end-user customers . . . 4. Disincentive to invest in local infrastructure . . . ." Exhibit H at p. 15. Based on its review of the industry, Merrill Lynch predicted that the excessive profits presently enjoyed by the CLECs because of reciprocal compensation for ISP traffic will "diminish materially over the next 12-24 months as existing local network interconnection agreements with ILECs (incumbent local exchange carriers) expire and per minute compensation rates are renegotiated at significantly lower levels." *Id.* at p. 4. Furthermore, "if the FCC rules that internet-destined traffic is interstate, the arbitrage game on reciprocal comp would be over – meaning ILECs/RBOCs would

[11] Exact figures for WorldCom were not disclosed, but Merrill Lynch made the following observations about WorldCom: "It's a mysterious world where getting straight answers is tough. AT&T, MCI and WorldCom gave us puzzlingly small numbers . . . . [w]e believe [] that the large LD companies, AT&T (pre-Teleport) along with MCI WorldCom and Sprint, are recipients of large amounts of reciprocal compensation." Exhibit H at pp. 1, 9.

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no longer pay the CLECs for ISP-destined traffic." *Id.* at 4. Notwithstanding this decline in profits, the CLECs are expected to survive. *Id.* at pp. 20-23.

The extreme effects of WorldCom's approach are easily illustrated through concrete examples. If an end user were to stay connected to an ISP for one hour each day during the month, the carrier serving the ISP would be entitled to $26.10 per month of reciprocal compensation (using a per minute rate of $0.145) from the connecting carrier. Pitterlee Direct Testimony at p. 10. "With an average residential flat rate of $13.37 per month it would be impossible to develop a business case that would make it attractive to enter the residential market." *Id.* With this type of incentive, the focus of carriers and, in turn, equipment vendors will be on maximizing and protecting these regulatory gaming arrangements dependent on today's network, rather than developing the advanced data network of tomorrow.

As the ILECs whom Merrill Lynch consulted argued, such a policy would eliminate competition among local exchange companies to serve the large and ever-expanding class of local customers who are heavy Internet users via an ISP. No CLEC would voluntarily serve such a subscriber if it stands to pay more in reciprocal compensation fees to the LEC that services a subscriber's ISP than it receives from providing local telephone service to that subscriber. This consequence is doubly troublesome to the extent that the ILEC retains a universal service obligation and cannot – like its CLEC competitor – refuse to serve customers with a high usage profile.

Another aberrant effect of applying reciprocal compensation to ISP traffic would be the severe distortion of competition among LECs to provide local service to ISPs. Instead of competing on the basis of service quality, technological improvements, and other market skills, CLECs would be motivated to actually pay ISPs to be their customers. Their ability to offer

customers reduced prices, commissions on reciprocal compensation and the like would derive not from greater efficiency, but rather from exploitation of a windfall opportunity made possible through regulatory fiat.

Moreover, if carriers are deemed entitled to reciprocal compensation for termination of ISP traffic, they will have little incentive to undertake the kind of facilities-based competition Congress envisioned as the ultimate outcome of opening the local exchange. A CLEC will be reluctant to provide facilities-based services to residential and business customers if it must pay the same reciprocal compensation payments for ISP traffic that it demands of ILECs.

These results are plainly contrary to this Commission's goal of fostering rational and efficient local competition, as well as with Congress's intent in mandating reciprocal compensation. By ensuring that a LEC is able to recover its actual costs of terminating local traffic originating on another LEC's network, (47 U.S.C. § 252(d)(2)(A)(i)), Congress sought to remove a barrier to the development of local competition. This is a far cry from creating a system of direct wealth transfer from ILECs to CLECs. By deciding that ISP traffic is not subject to reciprocal compensation, the Commission will place all LECS – both incumbents and new entrants – on an equal playing field. All companies will be expected to relay traffic to ISPs without receiving compensation. [12]

[12] No adverse impact on the consumer is even alleged, much less proven in this docket. To the contrary, FCC Chairman Kennard issued a statement on November 6, 1998, stating that the reciprocal compensation issue for ISP traffic "has nothing to do with consumer Internet charges." Pitterle Reply at p. 11.

III. The Commission Cannot Legally Imposè Penalties on GTE

Staff urges the Commission to impose penalties on GTE for GTE's purported failure to "abide by the terms of its interconnection agreement and state law." This request is patently frivolous and must be rejected for at least three independent reasons.

First, Staff seems to confuse the Commission's decision in the MFS/US West arbitration as an expression of state law – much like a rule or regulation. Clearly it is not. If the Commission wished to promulgate a regulation regarding the jurisdictional nature of ISP traffic, it certainly could do so, but only *after* providing appropriate notice of its proposed action and review of comments by interested parties. *See* RCWA § 34.05.010 *et seq.* That interested parties be given notice and an opportunity to be heard is a requirement mandated by due process. Yet Staff seems oblivious of these concerns, asking that penalties be imposed based on a single decision in an arbitration to which GTE was neither a party nor had the opportunity to be heard.

Second, even if the MFS/US West decision was deemed a regulation, rule or order – something it clearly is not – then it should have been served on GTE pursuant to RCWA § 80.04.160. If this procedure had been utilized, GTE would have been given the opportunity to object to the purported conclusive decision on ISP traffic. Moreover, GTE would have been given the opportunity to present evidence on the issue and to participate in the full hearing required by law. *Id.*

Lastly, penalties under RCWA § 80.04.380, as requested by Staff, cannot simply be imposed by the Commission in this proceeding. Specifically, RCWA § 80.04.400 provides in pertinent part that:

> [a]ctions to recover penalties under this title shall be brought in the name of the state of Washington in the superior court of Thurston county, or in the superior court of any county in or through which such public service company may do

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> business. In all such actions the procedure and rules of evidence shall be the same as in ordinary civil actions, except as otherwise herein provide.

Obviously, that procedure has not been invoked here. Consequently, any imposition of damages by the Commission in this proceeding would be unlawful.

Conclusion

For all of the foregoing reasons, GTE should prevail on both its Counterclaim and on WorldCom's Complaint. No compensation is due to WorldCom under the Interim interconnection Agreement because 1) WorldCom failed to negotiate a permanent interconnection agreement within the deadlines required by the Act and the Interim Interconnection Agreement; 2) the Interim Interconnection Agreement expressly indicates that it would expire within two years and only the interconnection arrangements would remain in place until a permanent interconnection agreement pursuant to the Act was in effect; and 3) WorldCom failed to negotiate a permanent interconnection agreement in good faith as the Act expressly requires. Nor is WorldCom entitled to any reciprocal compensation under the Interim Interconnection Agreement for ISP traffic prior to July 16, 1998, in the wake of the GTE ADSL Order – which reaffirmed an unbroken chain of FCC precedent indicating that traffic to ISPs is interstate. At a minimum, this Commission should afford GTE the opportunity to modify any adverse ruling in this proceeding once the FCC issues in its promised decision regarding "dial-up" traffic to ISPs. Finally, the Staff's pursuit of penalties ignores FCC precedent, Constitutional guarantees of due process and is based on inadmissible testimony.

C00540

Submitted this 11th day of February, 1999.

GTE NORTHWEST INCORPORATED

Kimberly Newman by Robert Merhige

Kimberly A. Newman
HUNTON & WILLIAMS
1900 K Street, N.W., Suite 1200
Washington, D.C. 20006
(202) 955-1500

and

Robert R. Merhige, IV
HUNTON & WILLIAMS
951 E. Byrd Street
Richmond, VA 23219
(804) 788-8772

Its Attorneys

C00541

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon Richard M. Rindler, Esq., Michael L. Shor, Esq., SWIDLER & BERLIN, CHARTERED, 3000 K Street, N.W., Suite 300, Washington D.C. 20007, counsel for WorldCom, Inc., f/k/a MFS Intelenet of Washington, Inc. and Gregory J. Trautman, Assistant Attorney General, 1400 S. Evergreen Park Drive SW, P.O. Box 40128, Olympia, Washington 98504-0128, counsel for the Staff of the Washington Utilities and Transportation Commission, via telecopy and by depositing a copy in the United States mail, first-class, postage pre-paid on February 11, 1999.

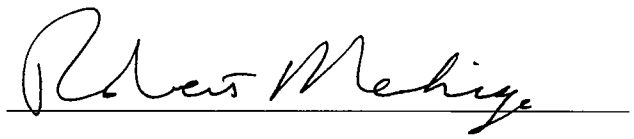

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EXHIBIT A

ALL-STATE LEGAL®

WORLDCOM

November 4, 1997

Mark Slosson
National Sales Manager
GTE Telephone Operations
P.O. Box 152092
Irving, TX 75015-1092

via facsimile and USPS: 972 718 3511

RE: Bona Fide Request for Negotiations pursuant to Section 251(c)(1) of the Telecommunications Act - Washington

Mr. Slosson:

I am writing to inform you that, pursuant to Section 251(c)(1) of the Telecommunications Act, WorldCom Technologies, Inc., on behalf of itself and its affiliated operating companies providing telecommunications services in Washington (WorldCom), requests that GTE Northwest Incorporated (GTE) commence good faith negotiations to reach an agreement for the following items:

- resale at wholesale rates, as defined in Section 252(d)(3), of any telecommunications services that GTE provides at retail to subscribers who are not telecommunications carriers;
- nondiscriminatory access to network elements on an unbundled basis;
- Section 251(c)(5): notice of changes in the information necessary for the transmission and routing of services using the incumbent local exchange carrier's network;
- Section 251(c)(6): collocation for the purposes of interconnection or access to unbundled network elements;
- Section 251(b)(2): number portability;
- Section 251(b)(3): dialing parity; and
- Section 251(b)(4): access to rights-of-way.

In light of the need to engage in meaningful negotiations before the expiration of the 135 days provided in the Act for voluntary negotiations, WorldCom requests a response by Friday, November 14th. Upon receiving your response, I will schedule a preliminary meeting to discuss these issues in detail.

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WC0001

I look forward to discussing this matter with you. Should you have any questions, my telephone number is 630 203 7058.

Sincerely,

Ruth Durbin

Ruth Durbin
Local Network Development

cc: Jodi Caro, Esq.
John Scarano
Jerry McKenzie
T.D. Huynh
Eric Arman
Steve McLellan, WUTC

C00544

WC0002

GTE Network Services
600 Hidden Ridge
P.O. Box 152092
Irving, TX 75015-2092

STEVE MACIEJEWSKI
STAFF MANAGER
GTE WHOLESALE MARKETS

JUN - 1 1998

Reply to
HQE04D31

May 29, 1998

AGREEMENT
MFS/WA

MFS Communications Company
Alex J. Harris
Vice President, Regulatory Affairs
33 Whitehall St., 15th Floor
New York, NY 10004

Subject: STATE OF WASHINGTON, INTERIM INTERCONNECTION AGREEMENT - JULY 15, 1996

Dear Alex:

The present Interim Interconnection Agreement between MFS Intelenet of Washington, Inc. and GTE Northwest Incorporated which was signed on July 15th, 1996, will expire in 45 days.

This present agreement does not contain a renewal clause; however, there is a continuation of service agreement during negotiations of a new interconnection agreement. As stated in the present agreement, notifications are being sent out to the all individuals by FAX and U.S. Mail.

GTE would like to start negotiations on a new agreement as soon as possible. Please indicate the direction that MFS would like to pursue with GTE.

If you have any questions or concerns on this matter, please feel free to contact me.

Sincerely,

Steve Maciejewski
Staff Manager
GTE Wholesale Markets

SM:jb

c: Steve Pitterle
Gayle Everhart
Sam Jones
David Small
Ruth Durbin, WorldCom
Eric A. Artman, MFS Communications

C00545

AUG 17 1998

1 Tower Lane, Suite
Oakbrook Terrace, I
(630) 203-7200
(630) 203-0569 Fax

WORLD COM

July 21, 1998

Steve Maciejewski
GTE Network Services
600 Hidden Ridge
P.O. Box 152092
Irving, TX 75015-2092

via facsimile and USPS: 972 718 3511

RE: MFS - GTE Interim Interconnection Agreement for Washington

Steve:

This letter is to acknowledge receipt of your letter dated May 29, 1998 and to respond to your request for the direction that WorldCom Technologies, Inc. (the successor entity to MFS Intelenet of Washington, Inc.) would like to pursue with GTE regarding re-negotiation of the agreement.

As described in Section VIII of the interim agreement ("Term"), the interconnection arrangement shall remain in place until the Parties are able to negotiate and implement a new agreement. As you know, we previously began negotiations with GTE concerning this agreement but were unable to make satisfactory progress. WorldCom is evaluating its position given recent and proposed mergers and I will get in touch with you shortly with respect to the negotiations of this agreement.

This letter in no way should be considered a request for interconnection negotiations pursuant to Sections 251/252 of the Telecommunications Act of 1996.

Please contact me at 630 203 7058 if you have any questions.

Ruth Durbin
Local Planning

cc: Eric Artman
Ed Cadieux

C00546

Steven J. Pitterle
Wholesale Markets Director-
Negotiations

GTE Net
Service

HQE03B6
600 Hidden Ridge
P.O. Box 152092
Irving, TX 75015-2092
972/718-1333
FAX: 972/718-1279

CERTIFIED MAIL

August 13, 1998

Ms. Ruth Durbin
Local and Access Planning
WorldCom, Inc.
1 Tower Lane, Suite 1600
Oakbrook Terrace, IL 60181

Mr. Eric A. Artman
Industry Relations
WorldCom, Inc.
225 Bush Street, Suite 1900
San Francisco, CA 94104

RE: State of Washington, Interim Interconnection Agreement

Dear Ms. Durbin and Mr. Artman:

GTE is very concerned that we have not received a reply to Steve Maciejewski's May 29, 1998 letter to Alex Harris. This letter was copied to both of you. Since that letter was written, the Interim Interconnection Agreement between MFS Intelenet of Washington, Inc. and GTE has expired. Section VIII of the Interim Agreement specifically provides that the Interim Agreement expired on July 15, 1998, and states that negotiations of a new Section 251 agreement shall commence no later than 45 days prior to the expiration of the Interim Agreement. Mr. Maciejewski's May 29, 1998 letter was intended to bring this requirement to your attention and provide notice of GTE's intent to negotiate a new agreement, in compliance with the terms of the Interim Agreement.

GTE requests that MFS Intelenet of Washington (or WorldCom, Inc. if WorldCom is the appropriate successor) confirm via response to this letter your desire to begin negotiations under Sections 251/252 of the Telecommunication Act of 1996 for a new interconnection agreement. GTE is confident that a new agreement can be finalized, and services between MFS and GTE can continue uninterrupted under a new interconnection agreement.

C00547

Please provide your response by August 24, 1998 and include the name and address of the appropriate person that GTE should contact for negotiations.

Sincerely,

Steve Pitterle
Director Negotiations

c.: Steve Maciejewski
Sam Jones
Dalene Florez

AUG 17 1998

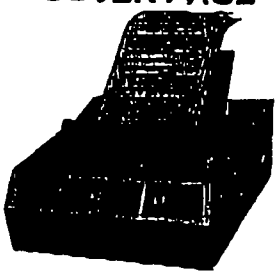
EXHIBIT E

ALL-STATE LEGAL®

WORLDCOM

1 TOWER LANE, SUITE 1600, OAKBROOK TERRACE, IL 60181: Phone: 630/203-7200
Fax: 630/203-0572

COVER PAGE



Date: 8/17/98

Number of Pages (including cover): (2)

TO Steve Pitterle

COMPANY: GTE

NUMBER: 972/718-1279

FROM: Ruth Durbin

FAX NUMBER: 630/203-0572

PHONE NUMBER: 630/203-7058

(please call if you don't receive all pages)

COMMENTS: Steve: apparently the attached response to Steve M's 5/29 letter was not received by GTE. Sorry for the inconvenience. Responsibility for negotiations is now with Scott Lowry. He can be reached at 918 590 5042.

Ruth Durbin

INTERIM INTERCONNECTION AGREEMENT

July 15, 1996

Pursuant to this Interim Interconnection Agreement ("Agreement"), MFS Intelenet of Washington, Inc. ("MFS") and GTE Northwest Incorporated ("GTE") (collectively the "Parties") agree to interconnect with each other within each LATA in which they both operate within the State of Washington, as described and according to the terms, conditions and pricing specified hereunder.

I. RECITALS & PRINCIPLES

WHEREAS, the Parties seek to accomplish interconnection in a technically and economically efficient manner; and

WHEREAS, the public will benefit if the local exchange networks of the Parties are interconnected so that customers of each carrier can seamlessly receive calls that originate on the other carrier's network and place calls that terminate on the other carrier's network;

WHEREAS the Parties intend to negotiate a permanent interconnection agreement pursuant to Section 251 of the Telecommunications Act of 1996, but desire to enter into an interim interconnection agreement pending completion of the permanent agreement under federal law;

WHEREAS this Agreement is not intended by either Party to constitute compliance with the interconnection requirements of Section 251 of the Telecommunications Act of 1996;

WHEREAS, the Washington Utilities and Transportation Commission has encouraged CLC-LEC interconnection; and

WHEREAS, MFS and GTE have agreed on interim interconnection terms and conditions;

NOW, THEREFORE, in consideration of the mutual provisions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MFS and GTE hereby covenant and agree as follows:

II. DEFINITIONS

A. "Bill and keep" means a form of compensation for the termination of local traffic, under which each party terminates local traffic on its network originated on the network of the other party, without express compensation but in consideration of

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the other party's agreement to likewise terminate traffic without express compensation.

B. "Calling Party Number" or "CPN" is a Common Channel Signaling parameter which refers to the number transmitted through the network identifying the calling party.

C. "Charge Number" is a CCS signaling parameter which refers to the number transmitted through the network identifying the billing number of the calling party.

D. "CLASS Features" mean certain CCS-based features available to end users. CLASS features include, but are not necessarily limited to: Automatic Call Back; Call Trace; Caller ID and Related Blocking Features; Distinctive Ringing/Call Waiting; Selective Call Forward; Selective Call Rejection.

E. "Centralized Message Distribution System" ("CMDS") is the transport system that the RBOCs and other incumbent LECs use to exchange outcollect and Carrier Access Billing System ("CABS") access messages among each other and other parties connected to CMDS.

F. "Commission" means the Washington Utilities and Transportation Commission.

G. "Common Channel Signaling" or "CCS" means a method of digitally transmitting call set-up and network control data over a special network fully separate from the public switched network elements that carry the actual call.

H. "Competitive Local Carrier" or "CLC" means a carrier registered by the Commission to provide Local Exchange Service, but does not include those entities classified as Local Exchange Carriers.

I. "Control Office" is an exchange carrier center or office designated as its company's single point of contact for the provisioning and maintenance of its portion of interconnection arrangements.

J. "Cross-connection" means an intra-wire center channel connecting the Parties' separate pieces of telecommunications equipment.

K. "DS-1" is a digital signal rate of 1.544 Megabits Per Second ("Mbps").

L. "DS-3" is digital signal rate of 44.736 Mbps.

C00551

M. "End Office Switches" are Class 5 switches from which end user Exchange Services are directly connected and offered.

N. "Exchange Service" means a service offered to end users which provides the end user with a telephonic connection to, and a unique local telephone number address on, the public switched telecommunications network, and which enables such end user to generally place calls to, or receive calls from, other stations on the public switched telecommunications network. Exchange Service includes basic residence and business line service, PBX trunk line service, pay phone line service, Centrex/CentraNet℠ line service and ISDN line services. Exchange Service does not include Private Line, Switched and Special Access services.

O. "Expanded Interconnection Service" or "EIS" is the collocation arrangement which GTE provides in its designated GTE wire centers, and shall have the same meaning as set forth in GTE's applicable tariff.

P. "Interexchange Carrier" or "IXC" means a provider of stand-alone interexchange telecommunications services.

Q. "ISDN" means Integrated Services Digital Network, which is a switched network service providing end-to-end digital connectivity for the simultaneous transmission of voice and data. ISDN is provisioned end-to-end pursuant to TR-444.

R. "Local Calling Area" means the calling area designated as "local" or "Extended Area Service" in the applicable tariffs of the LEC which historically served the area prior to the introduction of local exchange competition.

S. "Local Exchange Carrier" or "LEC" means "Incumbent Local Exchange Carrier" as that term is defined in §251(h) of the Communications Act of 1934, as amended by the Telecommunications Act of 1996.

T. "Local Exchange Routing Guide" or "LERG" is a Bellcore reference typically used by LECs, IXCs and CLCs to identify NPA-NXX routing and homing information as well as network element and equipment designations.

U. "Local Exchange Traffic" means calls made within a Local Calling Area.

V. "Local Interconnection Trunks/Trunk Groups" are trunks and trunk groups as identified in Section V.A.1 of this Agreement.

W. "Meet-Point Billing" refers to an arrangement whereby two local carriers (including a LEC and a CLC) jointly provide Switched Access Service to one of

the carrier's end office switches, with each carrier receiving, by mutual agreement, an appropriate share of their tariffed transport element revenues.

X. "MECAB" refers to the Multiple Exchange Carrier Access Billing document prepared by the Billing Committee of the Ordering and Billing Forum ("OBF"), which functions under the auspices of the Carrier Liaison Committee of the Alliance for Telecommunications Industry Solutions ("ATIS"). The MECAB document, published by Bellcore as Special Report SR-BDS-000983, contains the recommended guidelines for the billing of an access service provided by two or more local carriers (including a LEC and a CLC), or by one LEC in two or more states within a single LATA.

Y. "MECOD" refers to the Multiple Exchange Carriers Ordering and Design Guidelines for Access Services - Industry Support Interface, a document developed by the Ordering/Provisioning Committee under the auspices of the OBF, which functions under the auspices of the Carrier Liaison Committee of the ATIS. The MECOD document, published by Bellcore as Special Report SR STS-002643, establishes methods for processing orders for access service which is to be provided by two or more local carriers (including a LEC and a CLC).

Z. "Mid-Span Fiber Meet" is an interconnection architecture whereby MFS and GTE mutually agree to jointly plan and engineer their facility meet-point at a designated manhole or junction location. The meet point is the demarcation between ownership of the transmission facility.

AA. "NANP" means the "North American Numbering Plan", the system of telephone numbering employed in the United States, Canada, and certain Caribbean countries.

BB. "Numbering Plan Area" or "NPA" is also sometimes referred to as an area code. This is the three digit indicator which is defined by the "A", "B" and "C" digits of each 10-digit telephone number within the NANP. Each NPA contains 800 possible NXX Codes. There are two general categories of NPA. "Geographic NPA" is associated with a defined geographic area, and all telephone numbers bearing such NPA are associated with services provided within that Geographic area. A "Non-Geographic NPA", also known as a "Service Access Code" ("SAC Code") is typically associated with a specialized telecommunications service which may be provided across multiple geographic NPA areas; 500, Toll Free Service NPAs, 900, and 700 are examples of Non-Geographic NPAs.

CC. "NXX", "NXX Code", "Central Office Code" or "CO Code" is the three digit switch entity indicator which is defined by the "D", "E" and "F" digits of a 10-

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digit telephone number within the NANP. Each NXX Code contains 10,000 station numbers.

DD. "Percent Local Usage" or "PLU" is a calculation which represents the ratio of the local minutes to the sum of local and intraLATA toll minutes between exchange carriers sent over Local Interconnection Trunks. Transiting calls from other LECs or CLCs or wireless carriers are not included in the calculation of PLU.

EE. "Point of Interconnection" or "POI" denotes the physical equipment interface that establishes the technical interface, the test point and the point of operational responsibility hand-off between MFS and GTE for the local interconnection of their networks. The splice point at a Mid-Span Fiber Meet is not a POI.

FF. "Point of Responsibility" is the point at which each Party accepts terminating traffic over local interconnection trunks for purposes of routing and applying compensation.

GG. "Rating Point" is the V&H coordinates associated with a particular telephone number for rating purposes.

HH. "Routing Point" means a location which a LEC or CLC has designated on its own network as the homing (routing) point for traffic inbound to Exchange Services provided by the LEC or CLC which bear a certain NPA-NXX designation. The Routing Point is employed to calculate mileage measurements for the distance-sensitive transport element charges of Switched Access Services. The Routing Point need not be the same as the Rating Point, nor must it be located within the rate center area, but must be in the same LATA as the NPA-NXX.

II. "Switched Access Service" means an offering of facilities for the purpose of the origination or termination of traffic from or to Exchange Service customers in a given area pursuant to a Switched Access tariff. Switched Access Services include: Feature Group A, Feature Group B, Feature Group D, Toll Free Service, and 900 access. Switched Access does not include traffic exchanged between LECs and CLCs for purpose of local exchange interconnection.

JJ. "Tandem Office Switches" or "Access Tandems" are Class 4 switches which are used to connect and switch trunk circuits between and among network switching entities.

KK. "Toll Free Service" means service provided with any dialing sequence that invokes toll-free (i.e. 800-like) service processing. Toll Free Service includes calls to the Toll Free Service 800/888 NPA SAC codes.

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LL. "Transit Rate" is the rate that applies to Transit Traffic.

MM. "Transit Traffic" is traffic originated by one Party over a local interconnection trunk group and ultimately terminated to a third-party LEC, CLC, or wireless service provider, where the other Party performs the tandem switching function.

NN. "Wire Center" denotes a building or space within a building which serves as an aggregation point on a given carrier's network, where transmission facilities and circuits are connected or switched. Wire center can also denote a building in which one or more network switching entities, used for the provision of Exchange Services and access services, are located. However, for purposes of EIS, Wire Center shall mean those points eligible for such connections as specified in the FCC Docket No. 91-141, and rules adopted pursuant thereto.

III. TECHNICAL PROVISIONS

A. This Agreement covers the initial local interconnection between the Parties.

B. Connection At All GTE Tandems Within Each LATA: MFS will establish Local Interconnection Trunk groups to each and every GTE tandem for which MFS has local exchange customers within the Local Calling Area of the GTE customers served by that tandem. For all other GTE tandems within any LATA in which MFS originates traffic, MFS will establish or use existing feature group trunks to each such tandem.

C. MFS and GTE agree to interconnect their networks through facilities between the MFS switch location(s) and GTE tandem switch location(s) shown below. Logical trunk groups will be established referencing the appropriate MFS Point of Responsibility ("POR") and GTE POR. For local interconnection trunk groups, each party agrees to accept inbound traffic from the other party on the interconnecting facility at its own POR and to complete that traffic to the terminating end user (or, in the case of transit traffic, to the destination carrier) for the compensation specified in section V.B. below.

MFS Switch (Location)	MFS POR	POI	GTE POR	GTE Switch (Location)
KRLDWADWDS0	KRLDWADWDS0	KRLDWAXX*	EVRTWAXA03T	EVRTWAXA03T

For each additional GTE access tandem where MFS and GTE interconnect for the exchange of local and intraLATA toll and meet point Switched Access traffic, MFS and GTE agree that there will be a single POI at a mutually agreed point. If

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the parties fail to agree, MFS may designate any MFS collocation at any GTE office housing a switch which subtends the access tandem as the POI. For each such additional interconnection, the GTE POR shall be at the access tandem location and the MFS POR shall be at the initial MFS switch (or, if the MFS switch is not in the same LATA, then at the MFS node within the LATA which MFS designates as its POR.)

- GTE will initially provide the facility between the Everett access tandem and the MFS collocation at the GTE Kirkland office. MFS will initially provide the facility between the MFS Kirkland switch and the MFS collocation at the GTE Kirkland office. For any additional POIs agreed to or designated under this section, each party will initially provide facilities from its own Point of Responsibility ("POR") to the POI, unless otherwise agreed. All interconnecting facilities between Points of Responsibility ("PORs") will be compensated pursuant to Section V.C.1, below.

D. Sizing and Structure of Interconnection Facilities. The Parties will mutually agree on the appropriate sizing for facilities based on the standards set forth in Section XII, below. The interconnection facilities provided by each Party shall be superframe with Alternate Mark Inversion Line Code and Superframe Format Framing ("AMI") at either the DS-1 or DS-3 level, according to mutual forecasts and sound engineering practice, as mutually agreed to by the Parties during planning - forecasting meetings.

The parties agree to attempt initial connection of facilities at the DS-3 level (i.e., 28 DS-1 trunk groups), with all trunk groups connected. The parties recognize that facility constraints may require initial connection of fewer than 28 (but at least 14) DS-1 trunk groups, and each will work toward connection of the full DS-3. To the extent possible, the facility between the MFS POR and the GTE POR will be initially constructed as a full DS-3, even if some DS-1s are not immediately connected. Unless otherwise agreed, separate trunks will be established at the DS-1 level, and initially installed as follows:

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Meet Point Trunks (CCS signaling)	2 DS-1s
Meet Point Trunks (MF signaling)	1 DS-1
Local Interconnection (Direct connect to specified GTE end office)	Up to 5 DS-1s (Parties to agree on end offices)
Local Interconnection (Tandem switched to any subtending office)	All remaining DS-1s
TOTAL	28 DS-1s

E. Two-Way Trunks. Interconnection will be provided via two-way trunks. Separate two-way trunks will be established to exchange 1) local and intraLATA toll and 2) meet point Switched Access traffic.

F. Signaling Protocol. The Parties will interconnect their networks using SS7 signaling as defined in GR-317 and GR-394, including ISDN User Part ("ISUP") for trunk signaling and Transaction Capabilities Application Part ("TCAP") for CCS-based features.

G. Interconnection Facilities. Unless expressly agreed to otherwise, the Parties will use fiber transmission facilities to physically interconnect their networks.

IV. MEET-POINT TRUNKING ARRANGEMENTS

A. Two-way trunks may be established to enable MFS and GTE to jointly provide Feature Group B and D ("FGB" and "FGD") Switched Access Services via a GTE access tandem switch.

B. MFS may use meet point trunks to send and receive FGB and FGD calls from Switched Access customers connected to GTE's access tandem.

C. MFS will interconnect two-way trunk groups at each and every GTE access tandem under which MFS's NXXs home using DS-1 or DS-3 facilities separate from the facilities used for Local Interconnection Trunk Groups.

D. In the case of Switched Access Services provided through GTE's access tandem, GTE will not offer blocking capability for interexchange carrier traffic delivered to GTE's tandem for completion on MFS's network. GTE and MFS understand and agree that meet point trunking arrangements are available and functional only to/from Switched Access customers who directly connect with the tandem(s) that

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MFS sub-tends in each LATA. In no event will GTE be required to route such traffic through more than one tandem for connection to/from Switched Access customers. GTE shall have no responsibility to ensure that any Switched Access customer will accept traffic MFS directs to the Switched Access customer. However, GTE will provide reasonable assistance to MFS in order to allow MFS to establish contact with providers of toll services switched through GTE's access tandems.

E. Common channel signaling shall be utilized in conjunction with meet point trunks, unless otherwise agreed to by the Parties.

F. The Parties will provide CCS to one another in conjunction with all two-way trunk groups subject to the rates, terms and conditions specified in the Parties' respective access tariffs (if applicable). MFS may establish CCS interconnections either directly or through a third-party, provided such third-party is interconnected with GTE. The Parties will cooperate in the exchange of TCAP messages to facilitate full inter-operability of CCS-based features between their respective networks, including all CLASS features and functions, to the extent each carrier offers such features and functions to its own end users.[1] MFS will provide all CCS signaling including Charge Number, originating line information ("OLI"), etc. For terminating FGD, GTE will pass CPN if it receives CPN from FGD carriers. All privacy indicators will be honored. Where available, network signaling information such as Transit Network Selection ("TNS") parameter (CCS platform) and CIC/OZZ information (non-CCS environment) will be provided by MFS wherever such information is needed for call routing or billing. The Parties will follow all OBF adopted standards pertaining to TNS and CIC/OZZ codes.

G. All originating Toll Free Service calls for which GTE performs the Service Switching Point ("SSP") function (e.g. performs the database query) shall be delivered by MFS using GR-394 format over the meet point trunk group. Carrier Code "0110" and Circuit Code of "08" shall be used for all such calls.

H. All originating Toll Free Service calls for which MFS performs the SSP function, if delivered to GTE, shall be delivered by MFS using GR-394 format over the meet point trunk group for calls destined to IXCs, or shall be delivered by MFS using GR-317 format over the Local Interconnection Trunk Group for calls destined to end offices that directly subtend GTE access tandems.

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[1] This Agreement does not relate to the purchase and sale of any such end user features or functions.

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I. Originating Feature Group B calls delivered to GTE's tandem shall use GR-317 signaling format unless the associated FGB carrier employs GR-394 signaling for its FGB traffic at the serving GTE access tandem.

J. MFS and GTE shall use their best efforts to negotiate the terms and conditions for meet point billing, including, but not limited to, the meet point billing options, bill period, and exchange of usage and billing data, and to sign such an agreement within 30 days of the effective date of this agreement. For any meet point billing traffic exchanged by the Parties prior to execution and approval of the meet point billing agreement ("prior traffic"), the Parties agree that the terms of the meet point billing agreement shall apply to such prior traffic. The Parties will compensate each other for such prior traffic in accordance with the terms of the meet point billing agreement.

V. LOCAL INTERCONNECTION TRUNK ARRANGEMENT

A. Description.

The Parties shall reciprocally terminate local exchange traffic and intraLATA toll calls between each other's networks, as follows:

1. The Parties shall make available to each other two-way trunks for the reciprocal exchange of local exchange traffic and intraLATA toll traffic ("Local Interconnection Trunks/Trunk Groups").

2. The Parties will provide CCS to one another in conjunction with all two-way trunk groups subject to the rates, terms and conditions specified in the Parties' respective access tariffs (if applicable). MFS may establish CCS interconnections either directly or through a third party, provided such third party is interconnected with GTE. The Parties will cooperate in the exchange of TCAP messages to facilitate full interoperability of CCS-based features between their respective networks, including all CLASS features and functions, to the extent each carrier offers such features and functions to its own end users.[2] All CCS signaling parameters will be provided including CPN. All privacy indicators will be honored.

3. MFS may opt at any time to terminate to GTE some or all local exchange traffic and intraLATA toll traffic originating on its network, together with Switched Access traffic, via Feature Group D or Feature Group B

[2] This Agreement does not relate to the purchase and sale of any such end user features or functions.

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Switched Access Services, subject to the rates, terms and conditions specified in GTE's standard intrastate access tariffs.

4. Neither Party shall terminate Switched Access traffic over Local Interconnection Trunks.

5. MFS shall only deliver traffic over the Local Interconnection Trunk Group(s) to a GTE access tandem for those publicly-dialable NPA NXX codes served by end offices that subtend the access tandem or to those wireless service providers connected to the access tandem. MFS may not route traffic to a GTE access tandem destined for an NXX which subtends another tandem.

6. a) GTE shall route all traffic destined for MFS NXXs subtending a GTE access tandem in accordance with the Local Exchange Routing Guide. GTE may continue to deliver all other traffic to be terminated to MFS at any of the POIs set forth in Section III.C.

   b) Once the Local Interconnection Trunk Groups contemplated by this Agreement have been installed, neither Party shall deliver calls destined to terminate at the other Party's end office via another LEC's or CLC's end office or tandem, except in the case of GTE end offices that subtend the tandem of another LEC.

7. Where MFS delivers over the Local Interconnection Trunk group miscellaneous non-local calls (i.e. time, weather, Mass Calling Codes) destined for GTE, it shall deliver such traffic in accordance with the serving arrangements defined in the LERG.

8. N11 codes (i.e. 411, 611, 911) shall not be sent between MFS's and GTE's network over the Local Interconnection Trunk Groups.

9. There are certain types of calls that require exchange of billing records between the Parties. These types of calls include: Toll Free Service calls, 900 calls, and intrastate alternate billed calls (e.g. calling card, bill-to-third, and collect). The exchange of billing records for calls of this type that are interLATA will be handled through the existing CMDS processes. The payments of revenues for these types of calls will be handled through Calling Card and Third Number Settlement ("CATS").

   For calls of this type that are intraLATA, the Parties shall determine if a separate agreement is necessary for either Party to bill or collect these calls. If such agreement is required, the Parties shall use their best efforts

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to negotiate and execute a separate agreement, within 30 days from the effective date of this Agreement, for the exchange of billing records between the Parties, the settlement of revenues between the Parties and the payment of applicable charges.

10. Unless otherwise agreed, the parties will use the Washington Exchange Carrier Association (WECA) Data Distribution Center (DDC) for the identification and billing of terminating toll minutes of use. The parties agree to use the DDC standards manual for record exchange and agree that although current procedures call for the party providing the record (the party who originates the call) to pay the per message DDC operation charge, both parties will work to change this arrangement to one where the party which terminates the call and receives the record pays the per message DDC operation charge.

11. For the purpose of providing end-to-end ISDN capabilities between the customers of MFS and GTE, MFS will provide GTE an initial forecast of 64 Kbps Clear Channel Capability ("64K CCC") trunk quantities, consistent with the forecasting agreements between the Parties. Upon receipt of this forecast, the Parties will begin joint planning for the engineering, procurement, and installation of the segregated 64K CCC Local Interconnection Trunk Groups, and the associated B8ZS ESF facilities, for the sole purpose of transmitting 64K CCC data calls between MFS and GTE. Where additional equipment is required, such equipment would be obtained, engineered, and installed on the same basis and with the same intervals as any similar growth job for IXC, CLC, or GTE internal customer demand for 64K CCC trunks.

12. In addition, the Parties agree to mutually negotiate the exchange of traffic of other CLCs between MFS and GTE over Local Interconnection Trunk Groups. These negotiations will include, but are not limited to, the issues of network capacity, forecasting, and compensation terms (including calculation and verification of PLU). Such negotiations shall be conducted by the Parties in good faith and consent to the termination of such traffic shall not be unreasonably withheld. However, either Party may exchange with the other Party traffic of CLCs who resell the first Party's local exchange service (whether or not such CLCs utilize NXX codes assigned to the first Party or to the CLC itself) over the Local Interconnection Trunk Groups without the need for any further agreement. In the event such CLC traffic is exchanged, both Parties will be responsible for compensation to each other pursuant to Section V.B, below.

B. Compensation for Call Termination

Notwithstanding the following, the Parties agree to amend this Agreement with regard to compensation for the termination of local calls (as described in this section) in accordance with any further Commission decision(s) regarding compensation for local and/or toll call termination between LECs and CLCs.

1. The following compensation rates shall apply for traffic carried from MFS to GTE via local interconnection trunks:

   a. Local Rate: $0.0145 per minute. Applicable to all local and Extended Area Service traffic.

   b. Toll Rate: Applicable to intraLATA toll calls based on intrastate Switched Access rates in GTE's tariff WN U-16.

   c. Transit Rate: When MFS uses a GTE access tandem to originate a call to a third party LEC, another CLC, a wireless service provider or another MFS end office, MFS shall compensate GTE at the rate of $.003 per minute. If GTE enters into an interconnection agreement with another CLC that provides for a transit rate lower than the rate set forth in GTE's tariff, that transit rate will be substituted for the rate set in this paragraph upon the effective date of that agreement. If MFS receives a call through GTE's access tandem that originates from another CLC, LEC, or wireless provider, MFS will not charge GTE any rate elements for this call, regardless of whether the call is local or toll. MFS will establish appropriate billing relationships directly with the other CLC, LEC, or wireless provider. MFS will not route calls over local interconnection trunks through GTE's access tandems to any other CLC, LEC or wireless provider with which GTE has not entered into an interconnection agreement (including, but not limited to, Type 1, Type 2A and Type 2B interconnection agreements). If such calls are nonetheless so routed, GTE will not complete such calls.

2. The following compensation rates shall apply for traffic carried from GTE to MFS via local interconnection trunks:

   a. Local Rate: $0.0145 per minute. Applicable to all local and Extended Area Service traffic.

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b. Toll Rate: Applicable to intraLATA toll calls, based on MFS's intrastate Switched Access rates to be filed with the WUTC.

c. Transit Rate: GTE shall pay a transit rate equal to the rate set in Paragraph V.B.1.c when GTE uses a MFS switch to originate a call to a third party LEC, another CLC, a wireless service provider or another GTE access tandem.

3. The compensation rates described above in paragraphs 1 & 2 of this section are also applicable for calls from one Party to the other Party where a third party access tandem is used.

4. For intraLATA Toll Free Service calls (e.g., 800/888 calls) where such service is provided by one of the Parties, the compensation set forth in Sections V.B.1.b and V.B.2.b, above, shall be charged by the Party originating the call rather than the Party terminating the call. In addition, the Parties shall negotiate and agree upon charges to compensate the originating Party for performing the Automatic Message Accounting ("AMA") function and transferring AMA records to the other Party. The Party which performs the database dip shall charge the provider of the toll free service.

5. Measurement of minutes of use over Local Interconnection Trunk groups shall be in actual conversation seconds. The total conversation seconds over each individual Local Interconnection Trunk Group will be totaled for the entire monthly bill-round and then rounded to the next whole minute.

6. Each Party will provide to the other, within 20 calendar days after the end of each quarter (commencing with the first full quarter after the effective date of this Agreement), a usage report with the following information regarding traffic delivered over the Local Interconnection Trunk arrangements:

a. Total traffic volume described in terms of minutes and messages and by call type (local, toll and other) delivered to each other over the Local Interconnection Trunk Groups, and

b. PLU.

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c. The parties will bill each other on a monthly basis and will agree upon the appropriate PLU to apply during the initial three month period.

7. Late payment charges for interconnection charges will be assessed as described in each party's applicable tariffs.

C. Compensation for Use of Facilities for Local Interconnection

1. The monthly cost of the facilities used for interconnection between the Points of Responsibility ("PORs") for each company shall be determined and allocated as follows: The lowest applicable tariffed rate for special transport and transport termination (at the DS-1, DS-3, any "OC" [optical carrier] or transmission rate, whichever is lowest) for each providing carrier shall be used for the facilities provided by that carrier. Neither carrier shall charge for any cross-connection for interconnection trunks at the POI or at either POR, nor shall either carrier charge install or non-recurring charges for interconnection facilities. The charges due each party shall be allocated between the parties as follows, based upon trunk groups in use (i.e. unused trunk groups on the facility are treated as local interconnection trunks for the allocation process):

a. The fraction of total cost for each underlying facility represented by the fraction of in-use trunks used as meet point trunks (as described in Section IV) shall be the responsibility of the Party providing these trunks, and the parties agree that the meet point billing agreement contemplated in Section IV.J. will provide for each Party to bill and receive its appropriate share of the local transport element and for each Party to bill one half of the total applicable local transport termination charges.

b. The fraction of total cost represented by the fraction of in-use trunks used as local interconnection trunks and unused trunks (as described in this Section V) shall be divided between the parties pro-rata based upon the total traffic volume (minutes) of local and toll calls delivered by each Party, as described in Section V.B.6.a.

c. EXAMPLE: 28 DS-1 trunk groups in the interconnection facility. 14 used for local/toll interconnection; 7 used for meet point trunking; 7 unused. Billing would be at the lowest applicable DS-3 rate for each party. One fourth of the charges would be assigned to each Party directly (meet point) and three fourths of the charges would be allocated based on interconnection traffic flows.

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2. The parties will work together to reduce the cost of the underlying facilities to the degree reasonably possible.

3. The parties agree to explore the possibility of adding diversity to their interconnection arrangements, including installation of SONET facilities, and may mutually agree to such improvements (along with any appropriate cost allocations) without further modification of this agreement.

D. Maintenance of Service

A maintenance of service charge applies whenever either Party requests the dispatch of the other Party's personnel for the purpose of performing maintenance activity on the interconnection trunks, and any of the following conditions exist:

1. No trouble is found in the interconnection trunks; or

2. The trouble condition results from equipment, facilities or systems not provided by the Party whose personnel were dispatched; or

3. Trouble clearance did not otherwise require a dispatch, and upon dispatch requested for repair verification, the interconnection trunk does not exceed Maintenance Limits.

If a Maintenance of Service initial charge has been applied and trouble is subsequently found in the facilities of the Party whose personnel were dispatched, the charge will be canceled.

Billing for Maintenance of Service shall be categorized and billed pursuant to the terms of GTE's tariff WN U-16 and MFS's tariff.

E. End User Repair Call Referrals

1. In answering repair calls, neither Party shall make disparaging remarks about each other, nor shall they use these repair calls as the basis for internal referrals or to solicit customers to market services. Either Party may respond with factual information in answering customer questions.

2. MFS and GTE will provide their respective repair numbers to one another.

F. Busy Line Verification and Interrupt.

1. Description

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a. Each Party shall establish procedures whereby its operator bureau will coordinate with the operator bureau of the other Party in order to provide Busy Line Verification ("BLV") and Busy Line Verification and Interrupt ("BLVI") services on calls between their respective end users. MFS will use its best efforts to implement this service in 1996. Until MFS implements this service, GTE's operators will inform GTE's customers that the number requested cannot be verified.

b. BLV and BLVI inquiries between operator bureaus shall be routed over separate trunks.

2. Compensation

Each Party shall charge the other Party for BLV and BLVI at the rates contained in their respective tariffs.

VI. CONFIDENTIALITY OF DIRECTORY ASSISTANCE AND WHITE PAGES LISTINGS

GTE will accord MFS's directory listings information the same level of confidentiality which GTE accords its own directory listing information, and GTE shall ensure that access to MFS's customer proprietary confidential directory information will be limited solely to those employees who immediately supervise or are directly involved in the processing and publishing of listings and directory delivery. GTE will not use MFS directory listings for the marketing of telecommunications services.

VII. RESPONSIBILITIES OF THE PARTIES

A. MFS and GTE agree to exchange such reports and/or data as provided in this Agreement in Sections V.B.6 to facilitate the proper billing of traffic. Either Party may request an audit of such usage reports on no fewer than 10 business days' written notice and any audit shall be accomplished during normal business hours at the office of the Party being audited (Parsippany, NJ; Cedar Knolls, NJ; San Ramon, CA; Dallas, TX; or Suburban Chicago, IL for MFS; Durham, North Carolina, Tampa, Florida, Fort Wayne, Indiana, or Irving, TX for GTE). Such audit must be performed by a mutually agreed-to independent auditor paid for by the Party requesting the audit and may include review of the data described in Sections V.B.4 and V.B.5, above. Such audits shall be requested within six months of having received the PLU factor and usage reports from the other Party.

B. MFS and GTE will review engineering requirements on a quarterly basis and establish forecasts for trunk and facilities utilization (in accordance with Section

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XI of this Agreement). GTE and MFS will work together to begin providing these forecasts by the effective date of this Agreement. New trunk groups will be implemented as dictated by engineering requirements for either GTE or MFS.

C. MFS and GTE shall share responsibility for all Control Office functions for Local Interconnection Trunks and Trunk Groups, and all meet point trunks and trunk groups and both Parties shall share the overall coordination, installation, and maintenance responsibilities for these trunks and trunk groups.

D. MFS and GTE shall:

1. Provide trained personnel with adequate and compatible test equipment to work with each other's technicians.

2. Notify each other when there is any change affecting the service requested, including the due date.

3. Coordinate and schedule testing activities of their own personnel, and others as applicable, to ensure its interconnection trunks/trunk groups are installed per the interconnection order, meet agreed-upon acceptance test requirements, and are placed in service by the due date.

4. Perform sectionalization to determine if a trouble is located in its facility or its portion of the interconnection trunks prior to referring the trouble to each other.

5. Advise each other's Control Office if there is an equipment failure which may affect the interconnection trunks.

6. Provide each other with a trouble reporting number that is readily accessible and available 24 hours/7 days a week.

7. Provide to each other test-line numbers and access to test lines.

E. Bilateral Procedure

The Parties shall jointly review and implement a bilateral procedure regarding technical and operational interfaces. The Parties will use their best good-faith efforts to finalize such procedure within 90 days of the effective date of this Agreement.

F. MFS and GTE will provide their respective billing contact numbers to one another.

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VIII. TERM

MFS and GTE agree to interconnect with each other pursuant to the terms defined in this Agreement until it is superseded by a interconnection agreement negotiated between the Parties pursuant to Section 251 of the Telecommunications Act of 1996. Notwithstanding the foregoing, this Agreement shall, if not superseded by an interconnection agreement, expire two years after the effective date of the Agreement. In the event that the Agreement expires after two years, the interconnection arrangements in this Agreement shall remain in place until the Parties are able to negotiate and implement a new interconnection agreement. Negotiations on such a new agreement shall commence no later than 45 days prior to the expiration of this Agreement.

IX. EFFECTIVE DATE

This agreement shall become effective on the date it is signed by authorized representatives of both Parties.

XI. TRUNK FORECASTING

A. The Parties shall work towards the development of joint forecasting responsibilities for traffic utilization over trunk groups. Orders for trunks that exceed forecasted quantities for forecasted locations will be accommodated as facilities and or equipment are available. Intercompany forecast information must be provided by the Parties to each other twice a year. The semi-annual forecasts shall include:

1. Yearly forecasted trunk quantities (which include measurements that reflect actual tandem Local Interconnection Trunks and meet point trunks) for a minimum of three (current and plus-1 and plus-2) years;

2. The use of Common Language Location Identifier (CLLI) and Common Language Circuit Identifiers (CLLI-MSG), which are described in Bellcore documents BR 795-100-100 and BR 795-400-100;

3. A description of major network projects anticipated for the following six months.

B. If differences in semi-annual forecasts of the Parties vary by more than twenty-four (24) trunks, the companies shall meet to attempt to reconcile the forecast to within twenty-four (24) trunks. If the Parties, after escalation to an executive level, are unable to reach such reconciliation, either Party may invoke the default option of one-way trunking.

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C. If a trunk group is under 75 percent of CCS capacity on a monthly average basis for each month of any six month period, either Party may issue an order to resize the trunk group, which shall be left with not less than 25 percent excess capacity. In all cases, grade of service objectives identified in Section XII following shall be maintained.

D. Each Party shall provide a specified point of contact for planning, forecasting and trunk servicing purposes.

XII. GRADE OF SERVICE

A blocking standard of one half of one percent (.005) during the average busy hour for final trunk groups between a MFS end office and a GTE access tandem carrying meet point traffic shall be maintained. All other final trunk groups are to be engineered with a blocking standard of one percent (.01).

XIII. TRUNK SERVICING

A. Orders between the Parties to establish, add, change or disconnect trunks shall be processed by use of an Interconnection Service Request ("ISR").

B. As discussed in this Agreement, both Parties will jointly manage the capacity of Local Interconnection Trunk Groups to the Parties' Tandem and End Offices. The Parties recognize their joint responsibility for efficient local interconnection trunk routing to tandem and end offices, and agree to use the following criteria to determine when direct end office local interconnection trunks should be established:

1. Primary high usage trunk groups will be established between end offices when the trunk group load exceeds 500 Centum Call Seconds. Parties may agree to establish high usage trunks at a lower threshold level.

2. Primary high usage trunk groups will be engineered using an Economic Centum Call Seconds of 10 with rounding occurring at +12 trunks.

3. Modular trunking will be used with the module size of 24 trunks.

C. Orders that comprise a major project shall be submitted at the same time, and their implementation shall be jointly planned and coordinated.

D. MFS will be responsible for engineering its network on its side of the POI. GTE will be responsible for engineering the POI and its network on its side of the POI.

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XIV. TROUBLE REPORTS

MFS and GTE will cooperatively plan and implement coordinated repair procedures for the meet point and Local Interconnection Trunks and facilities to ensure trouble reports are resolved in a timely and appropriate manner.

XV. NETWORK MANAGEMENT

A. Protective Controls

Either Party may use protective network traffic management controls such as 7-digit and 10-digit code gaps on traffic toward each other's network, when required to protect the public switched network from congestion due to facility failures, switch congestion or failure or focused overload. MFS and GTE will immediately notify each other of any protective control action planned or executed.

B. Expansive Controls

Where the capability exists originating or terminating traffic reroutes may be implemented by either Party to temporarily relieve network congestion due to facility failures or abnormal calling patterns. Reroutes will not be used to circumvent normal trunk servicing. Expansive controls will only be used when mutually agreed to by the Parties.

C. Mass Calling

MFS and GTE shall cooperate and share pre-planning information regarding cross-network call-ins expected to generate large or focused temporary increases in call volumes, to prevent or mitigate the impact of these events on the public switched network.

D. Separate Trunk Groups for High Usage Customers

MFS and GTE shall cooperate to establish separate trunk groups for the completion of calls to telephone numbers assigned to high usage customers such as Internet service providers.

XVI. FORCE MAJEURE

Neither Party shall be responsible for delays or failures in performance resulting from acts or occurrences beyond the reasonable control of such Party, regardless of whether such delays or failures in performance were foreseen or foreseeable as of the date of this Agreement, including, without limitation: fire, explosion, acts of God, war, revolution,

civil commotion, or acts of public enemies; any law, order, regulation, or ordinance of any government or legal body; or delays caused by the other Party or any other circumstances beyond the Party's reasonable control. In such event, the Party affected shall, upon giving prompt notice to the other Party, be excused from such performance on a day-to-day basis to the extent of such interference (and the other Party shall likewise be excused from performance of its obligations on a day-for-day basis to the extent such Party's obligations relate to the performance so interfered with). The affected Party shall use its best efforts to avoid or remove the cause of non-performance and both Parties shall proceed to perform with dispatch once the causes are removed or cease.

XVII. COMMISSION DECISION

This Agreement shall at all times be subject to such changes or modifications by the Commission as said Commission may, from time to time, direct in the exercise of its jurisdiction. If any such modification renders the Agreement inoperable or creates any ambiguity or requirement for further amendment to the Agreement, the Parties will negotiate in good faith to agree upon any necessary amendments to the Agreement.

XVIII. LIMITATION OF LIABILITY

Except as otherwise provided herein, neither Party shall be liable to the other in connection with the provision or use of services offered under this Agreement for indirect, incidental, consequential, special damages, including (without limitation) damages for lost profits, regardless of the form of action, whether in contract, indemnity, warranty, strict liability, or tort. In connection with this limitation of liability, the Parties recognize that the either Party may, from time to time, provide advice, make recommendations or supply other analysis related to the equipment or services described in this Agreement and while the providing Party shall use diligent efforts in this regard, receiving Party acknowledges and agrees that this limitation of liability shall apply to provision of such advice, recommendation and analysis.

XIX. INDEMNITY

Each Party shall indemnify and hold the other harmless from any liabilities, claims or demands (including the costs, expenses and reasonable attorney's fees on account thereof) that may be made by third parties for:

a) personal injuries, including death, or

b) damage to tangible property

resulting from the sole negligence and/or sole wilful misconduct of that Party, its employees or agents in the performance of this Agreement. Each Party shall defend the

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other at the other's request against any such liability, claim or demand. Each Party shall notify the other promptly of written claims or demands against such Party of which the other Party is solely responsible hereunder.

XX. ASSIGNMENT

This Agreement may be assigned by either Party upon sixty (60) days advance written notice to the other Party and upon obtaining the written consent of the other Party, which consent will not be unreasonably withheld. Consent shall not be required in the event that the assignment is to an entity that purchases or otherwise acquires a controlling interest in or purchases the customer base or the assets of the assigning Party.

XXI. DEFAULT

If either Party believes the other is in breach of the agreement or otherwise in violation of law, it shall first give thirty (30) days' notice of such breach or violation and an opportunity for the allegedly defaulting Party to cure. Thereafter, or immediately if the default effectively prevents or substantially impairs the interconnection of the parties' networks, the Parties shall employ the dispute resolution process outlined below..

XXII. NONDISCLOSURE

A. All information, including but not limited to specifications, microfilm, photocopies, magnetic disks, magnetic tapes, drawings, sketches, models, samples, tools, technical information, data, employee records, maps, financial reports, and market data, (I) furnished by one Party to the other Party dealing with customer specific, facility specific, or usage specific information, other than customer information communicated for the purpose of publication of directory database inclusion, or (ii) in written, graphic, electromagnetic, or other tangible form and marked at the time of delivery as "Confidential" or "Proprietary", or (iii) communicated orally and declared to the receiving Party, at the time of delivery and by written notice given to the receiving Party within ten (10) days after delivery, to be "Confidential" or "Proprietary" (collectively referred to as "Proprietary Information"), shall remain the property of the disclosing Party.

B. Upon request by the disclosing Party, the receiving Party shall return all tangible copies of Proprietary Information, whether written, graphic or otherwise, except that the receiving Party may retain one copy for archival purposes.

C. Each Party shall keep all of the other Party's Proprietary Information confidential and shall use the other Party's Proprietary Information only for performing the covenants contained in the Agreement. Neither Party shall use the other Party's

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Proprietary Information for any other purpose except upon such terms and conditions as may be agreed upon between the Parties in writing.

D. Unless otherwise agreed, the obligations of confidentiality and non-use set forth in this Agreement do not apply to such Proprietary Information as:

(I) was at the time of receipt already known to the receiving Party free of any obligation to keep it confidential evidenced by written records prepared prior to delivery by the disclosing Party; or

(ii) is or becomes publicly known through no wrongful act of the receiving Party; or

(iii) is rightfully received from a third person having no direct or indirect secrecy or confidentiality obligation to the disclosing Party with respect to such information; or

(iv) is independently developed by an employee, agent, or contractor of the receiving Party which individual is not involved in any manner with the provision of services pursuant to the Agreement and does not have any direct or indirect access to the Proprietary Information; or

(v) is disclosed to a third person by the disclosing Party without similar restrictions on such third person's rights; or

(vi) is approved for release by written authorization of the disclosing Party; or

(vii) is required to be made public by the receiving Party pursuant to applicable law or regulation provided that the receiving Party shall give sufficient notice of the requirement to the disclosing Party to enable the disclosing Party to seek protective orders.

E. Effective Date Of This Section. Notwithstanding any other provision of this Agreement, the Proprietary Information provisions of this Agreement shall apply to all information furnished by either Party to the other in furtherance of the purpose of this Agreement, even if furnished before the date of this Agreement.

F. The nondisclosure obligations of this Agreement shall survive the expiration of this Agreement for a period of two years.

XXIII. DISPUTE RESOLUTION

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The Parties agree that in the event of a default or violation hereunder, or for any dispute arising under this Agreement or related agreements the Parties may have in connection with this Agreement, the Parties shall first confer to discuss the dispute and seek resolution prior to taking any action before any court or regulator, or before authorizing any public statement about or authorizing disclosure of the nature of the dispute to any third party. Such conference shall occur at least at the Vice President level for each Party. In the case of GTE, its Vice President, or equivalent officer, shall participate in the meet and confer meeting, and MFS's Vice President, Regulatory Affairs, or equivalent officer, shall participate. Thereafter, either party may seek regulatory or legal relief as it deems appropriate.

XXIV. UNIQUE CIRCUMSTANCES

MFS and GTE acknowledge that the terms of this Agreement are appropriate for initial tandem-level interconnections between the Parties, given the particular networks deployed by each and the need for swift deployment of interconnection trunks. This Agreement shall not, therefore, be considered precedential with regard to interconnection between any other parties.

XXV. EXECUTION IN DUPLICATE

This Agreement may be executed in duplicate copies, and, upon said execution, shall be treated as an executed document.

XXVI. NOTICES

Any notices required by or concerning this Agreement shall be sent to the Parties at the addresses shown below, by both facsimile and by U.S. Mail:

GTE
Wayne Irwin
Director, Carrier Markets
One GTE Place, CA500CM
Thousand Oaks, CA 91362
(805) 372-8845 (Phone)
(805) 373-6248 (FAX)

GTE
Richard Potter
Legal Department
P.O. Box 1003
Everett, WA 98206-1003

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CAM

MFS Intelenet, Inc.
Eric A. Artman
Director of Regulatory Affairs
185 Berry St., Suite 5100
San Francisco, CA 94107
(415) 882-2311 (Phone)
(415) 957-3758 (Fax)

MFS Communications Company
~~Alex J. Harris~~ GARY OLL
Vice President, Regulatory Affairs
33 Whitehall St., 15th Floor
New York, NY 10004
(212) 843-3051
(212) 843-3060

Each Party shall inform the other of any changes in the above addresses or telephone numbers.

Any such notice shall be effective at the end of the first business day following transmission of the facsimile notice.

C00575

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their respective duly authorized representatives.

Timothy J. McCallion
Vice President, Regulatory and
Governmental Affairs -- West

on behalf of

GTE

Christopher Ungson
Assistant Vice President
Local Services Development

on behalf of

MFS Communications Company

C00576

CRU

EXHIBIT
G

RECEIVED
5 - 1998
EXTERNAL AFFAIRS

J MIGGANS
B. MENARD
R. VOGELZANG
M. [illegible]
A. Lowery
C. [illegible]
J. Hoffman
11/9/98

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. P-100, SUB 133

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Local Exchange and Exchange Access Telecommunications Competition	)))	ORDER REGARDING TIMING OF ARBITRATIONS

BY THE COMMISSION: On September 2, 1998, Intermedia Communications, Inc. (Intermedia) filed a Notice of Potential Arbitration wherein Intermedia stated that "[b]y memorandum agreement dated August 5, 1998, BellSouth and Intermedia agreed to extend the arbitration window for their current negotiations to September 18 through October 13, 1998."

On October 12, 1998, the Chair issued an Order asking the parties to clarify by what authority they were extending the arbitration window, since the Telecommunications Act of 1996 (TA96) is silent on the authority to extend the time.

On October 19, 1998, Intermedia and BellSouth filed a Joint Response. The parties stated that "numerous parties have agreed to modify commencement dates for negotiations." Thus, instead of varying the time periods set out in TA96, "the parties by agreement change the date on which those periods start." The purpose, they said, is to allow good faith negotiations to continue. The parties went on to state that they have now modified the commencement date to June 13, 1998, creating a new arbitration window from October 26, 1998 through November 20, 1998, leaving the Commission potentially until March 15, 1999, to resolve any issues that might be brought for arbitration. This was apparently intended to supplant the "existing" but now expired September 18th through October 13th arbitration window, which itself was an agreed-upon extension.

WHEREUPON, the Commission reaches the following

CONCLUSIONS

While the Commission applauds any legitimate efforts the parties might undertake to reach satisfactory agreements between themselves and avoid the burden and expense of arbitration proceedings, the Commission believes that the method that the parties have chosen is not consistent with TA96 or Commission requirements. The Commission advises Intermedia that since its first negotiation cycle has expired and no timely request for arbitration has been made, it may reinitiate the process by making another

interconnection request and filing notice of same with the Commission, the arbitration window for which would be 135 to 160 days from the date of the request.

Section 252(b)(1) of TA96 states in relevant part:

> During the period from the 135th to the 160th day (inclusive) after the date on which the incumbent receives a request for negotiation under this section, the carrier or any other party to the negotiation may petition a State commission to arbitrate any open issues.

On April 15, 1996, in Docket No. P-100, Sub 133, the Commission issued an Order Requiring Notification of Interconnection Requests and Setting Out Procedure Regarding Prefiled Testimony Prior to Arbitration. Ordering Paragraph No. 1 of that Order requires that the party requesting negotiation for the purposes of interconnection must make such request of the other party in writing and provide a copy of this request to the Commission within five days of having made the request showing clearly the date on which the request was made." (Emphasis added).

The plain language of Section 252(b)(1) is that the "window of opportunity" for requesting arbitration is to follow from the occurrence of a certain act—i.e., the incumbent having received a request for negotiation. This starts the clock running for the first cycle. The parties cannot simply decide that this certain act did not occur and say that the request was submitted at another time. This is especially true inasmuch as the Commission has required that those requesting interconnection negotiations must inform the Commission of when the original request was made. Although it does not appear that Intermedia has done so in this case, the requirement still stands. Thus, having set the arbitration window for September 18th through October 13th (itself of dubious propriety), the parties cannot later shift the arbitration window to October 26th through November 20th through the device of shifting the request-for-negotiation date.

Parties are, of course, to be encouraged to settle their differences through negotiation. For example, if they are unable to reach agreement within the time frame set out in TA96 but wish to continue negotiations, they can reinitiate negotiations after the first cycle has expired and so start the clock again. If they can reach an agreement within the next cycle and before the "window of opportunity" for arbitration, then this is well and good, and nothing prohibits them from doing so. The only constraint goes to timing for arbitration. If arbitration is needed for the second or any subsequent cycle, the requesting party will have to wait until that "window of opportunity" rolls around. This is not necessarily bad, because it allows more time for negotiation.

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For the reasons set out above, the Commission therefore concludes that Intermedia and BellSouth cannot by mutual agreement change the date on which a request for negotiation has been previously made, thereby altering the arbitration time window.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th date of November, 1998.

NORTH CAROLINA UTILITIES COMMISSION

Geneva S. Thigpen

Geneva S. Thigpen, Chief Clerk

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Commissioner Judy Hunt did not participate in this decision.

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EXHIBIT H

Merrill Lynch

In-depth Report

Telecommu

27 October 1998

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Telecom Services — Local

The Mysterious World of ISP-Related Reciprocal Compensation

Reason for Report: Review and quantification of an overhanging and controversial regulatory issue.

Industry

Fundamental Highlights:

- **This 5 part report explores the arcane world of local telephone arbitrage called *ISP-related reciprocal compensation.* It attempts to quantify its financial impacts on CLECs, RBOCs and ILECs and predicts its phase out by '01. It also describes reciprocal comp. and presents the views of its beneficiaries (CLECs, LD co's and ISPs) and its opponents (RBOCs and other ILECs).**
- **It's a mysterious world where getting straight answers is tough. AT&T, MCI and WorldCom gave us puzzlingly small numbers. Most CLECs said "It's no big deal to us but check out XYZ CLEC." RBOCs claim they pay big amounts — $600M in '98, over $1B in '99 and, at current 100% y/y growth, could reach $2B in '00.**
- **We expect the FCC to rule by October 31 on GTE's ADSL tariff filing wherein GTE asks for inter-LATA, interstate classification for its special access ADSL service. If the FCC leans toward GTE's view, traffic destined to ISPs and, from there, to the internet likely would become ineligible for reciprocal comp.**

Though a work-in-progress, our early conclusions are:

- ***Half of ISP-related reciprocal comp revenues will disappear in '00, the other half in '01.* As RBOC/CLEC interim interconnection contracts are re-negotiated over the next 12-24 mos., we expect significantly lower per minute comp. rates and/or the FCC rules this traffic is not local and thus not subject to reciprocal comp.**
- **To reflect this phase out, *we have lowered our revenue and EBITDA forecasts for the CLECs we follow*, translating to 2-3% reductions in our DCF-based price objectives for ICG, Intermedia, e-spire and Electric Lightwave. There is no change for Teligent and USN as our forecasts included zero ISP-related reciprocal comp.**
- ***How much are the CLECs benefiting?* No independent sources of data on reciprocal comp exist. Thus, we had to rely upon CLEC supplied data which indicated that CLECs will receive ISP-related reciprocal comp. revenues of $146M in '98 representing 9% of total revenues and, assuming a 70% EBITDA margin, 27% of '98 EBITDA. If current 100% growth rates hold up and ILECs' legal protests are unanswered, reciprocal comp receipts will translate to 20% of CLEC EBITDA in '99 and 23% in '00. The good news is our CLEC forecasts have assumed only 15% annual growth from '98 and thus, in our models, CLEC revenue from ISP-related reciprocal comp rises to only $168M in '99 or 5% of forecasted CLEC revenues yet it comprises a large 17% of EBITDA.**
- ***How much pain are the ILECs feeling?* Using their ests., RBOCs are incurring costs equivalent to 2% and 3% of est. EPS for '98 and '99, respectively. But, if left unabated, the ILECs would forego a significant 5% of EPS by 2000.**
- ***Why such different estimates of the size of reciprocal comp.? ILECs say it's $600M in '98 and CLEC information adds to only $146M.* We suspect the large discrepancy of $450M can be explained by the absence of data from AT&T, MCI WorldCom and Sprint – some or all of which could be recipients of substantial amounts of reciprocal comp. payments.**

Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

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Overview

The issues surrounding reciprocal compensation have received a great deal of investor attention as of late – both definitional as well as questions dealing with the contribution of this revenue stream to CLECs' (competitive local exchange carriers) financial performance. This report will attempt to provide an explanation of reciprocal compensation and to quantify its financial impacts.

We expect internet-related reciprocal compensation to diminish materially over the next 12-24 months as existing local network interconnection agreements with ILECs (incumbent local exchange carriers) expire and per minute compensation rates are renegotiated at significantly lower levels.

The possibility also exists that the FCC will rule that traffic related to internet-access is inter-LATA (i.e., not local) in nature and thus not subject to reciprocal compensation. If the FCC does indeed implement a change in the jurisdictional classification of internet-related traffic and as CLEC interconnection agreements come up for renegotiation, the net impact would be to virtually eliminate the benefit of reciprocal compensation currently enjoyed by CLECs and long distance companies.

Two cases currently pending with regulators could be very important in this respect. One is GTE's ADSL tariff filing, for which an FCC ruling on whether ADSL service is an interexchange access service or a local service could come as early as October 31. The other case relates to a dispute currently before the North Carolina Utilities Commission that concerns Bell South's refusal to pay reciprocal compensation to a CLEC (US LEC). Bell South contends that US LEC and an ISP with some common ownership have structured a business relationship solely for the purpose of playing a reciprocal compensation arbitrage game.

The FCC is in an interesting bind. If they rule that traffic destined to the internet is local traffic (and thus subject to reciprocal compensation rules), then its ruling from many years ago that ESPs (enhanced service providers) carrying internet traffic are exempt from interstate access charges becomes moot and such traffic would begin incurring reciprocal compensation costs. On the other hand, if the FCC rules that internet-destined traffic is interstate, the arbitrage game on reciprocal comp would be over – meaning ILECs/RBOCs would no longer pay the CLECs for ISP-destined traffic.

Part 1: Quantifying The Financial Impact Of Reciprocal Compensation:

Our Base Case Reciprocal Compensation Forecast Assumes 15% Growth In 1999 Off A 1998 Estimate Supplied By Individual CLECs

Impact on CLECs in 1998 and 1999: Our Base Case Reciprocal Compensation Forecast Assumes 15% Growth In 1999 Off Of A 1998 Estimate Of $146 Million Derived Directly From Estimates Supplied By The CLECs: We have attempted to quantify the contribution of reciprocal compensation to the revenues and operating cash flows (earnings before interest, taxes, depreciation and amortization or EBITDA) of the CLECs with the results detailed in Tables 1 and 2 below. For 1998, these estimates are based on information gathered directly from CLECs. For 1999, our forecasts assume 15% growth in reciprocal compensation received by CLECs.

These estimates indicate that although not all CLECs benefit from reciprocal compensation, many do, with the average impact on the CLEC group at 9% of estimated revenues and 27% of estimated EBITDA for 1998 and 5% of revenues and 17% of EBITDA for 1999. Based on CLEC-supplied data, the largest beneficiaries of reciprocal compensation in absolute dollars for 1998 will be US LEC at an estimated $51 million, ICG at $28 million and Intermedia at $21 million. We project that in 1999 US LEC will be the largest beneficiary (in absolute dollars) of reciprocal compensation at $59 million, followed by ICG at $32 million and Intermedia at $24 million.

We Have Revised Our CLEC Forecasts To Reflect A 2 Year Phase Out Of Reciprocal Compensation

Impacts on CLECs in 2000 (and Beyond) and on DCF-Based Price Objectives. Our CLEC Forecasts Have Been Revised To Incorporate A 2 Year "Phase Out" Of Reciprocal Compensation Beginning In 2000: We now expect the early impact from the renegotiation of CLEC/ILEC interconnection agreements and/or an FCC or Court determination that such traffic is interstate will lower per minute reciprocal compensation rates by 50% beginning in 2000. We have incorporated the negative impacts from the renegotiation process into our 2000 forecasts for the CLECs we follow, with an average decrease in revenue and EBITDA of 2% and 7%, respectively. Our forecasts now assume by 2001, CLECs receive very little reciprocal compensation revenue from ISP (internet service provider)-related traffic.

As a result, we have reduced our revenue and EBITDA forecasts in our 10 year DCF models and thus lowered our private market value based price objectives for ICG and Intermedia by $1 to $36 and $48, respectively. We have not changed our price objectives for the other CLECs we follow. For e.spire and Electric Lightwave, the reduction in reciprocal compensation did not have a material impact (i.e., less than $1 per share) on our private market value based price objectives. In the case of Teligent and USN, our forecast models included zero benefit from ISP-related reciprocal compensation revenues and thus we make no change in private market value estimates.

Merrill Lynch

Table 1: Reciprocal Compensation Revenues Received By CLECs (As reflected in our current and prior forecasts)

	1998E*			1999E			2000E^					
							Prior Forecast			Current Forecast		
		Reciprocal Comp.			Reciprocal Comp.			Reciprocal Comp.			Reciprocal Comp.	
(In millions)	Total Corp. Rev.	Amount	% Total	Total Corp. Rev.	Amount	% Total	Total Corp. Rev.	Amount	% Total	Total Corp. Rev.	Amount	% Total
e.spire	$150.4	$10.5	6.6%	$350.3	$12.1	3.5%	$605.0	$13.9	2.3%	$598.0	$7.0	1.2%
Electric Light	84.4	11.8	12.5%	173.6	13.5	7.8%	305.0	15.5	5.1%	297.0	7.8	2.6%
GST	160.7	-	0.0%	216.9	-	0.0%	270.0	-	0.0%	270.0	-	0.0%
Hyperion	30.0	4.2	14.0%	60.0	4.8	8.1%	100.0	5.5	5.5%	97.0	2.8	2.9%
ICG	564.1	27.7	4.9%	787.2	31.9	4.1%	1,117.0	36.7	3.3%	1,099.0	18.3	1.7%
Intermedia	740.5	21.0	2.8%	1,075.0	24.2	2.3%	1,480.0	27.8	1.9%	1,466.0	13.9	0.9%
McLeod	224.0	NA	NA	302.4	NA	NA	360.0	NA	NA	360.0	NA	NA
NEXTLINK	130.0	-	0.0%	294.5	-	0.0%	600.0	-	0.0%	600.0	-	0.0%
RCN	237.7	1.3	0.5%	367.9	1.6	0.4%	651.0	1.7	0.3%	660.0	0.9	0.1%
Teleport	782.5	16.8	2.2%	1,195.3	19.3	1.6%	1,510.0	22.2	1.5%	1,498.0	11.1	0.7%
Telligent	2.0	-	0.0%	23.1	-	0.0%	91.0	-	0.0%	91.0	-	0.0%
US LEC	75.0	51.2	68.3%	130.0	58.9	45.3%	190.0	67.7	35.6%	156.0	33.8	21.7%
USN	203.2	-	0.0%	390.2	-	0.0%	543.0	-	0.0%	543.0	-	0.0%
WinStar	220.0	1.7	0.8%	575.0	1.9	0.5%	836.0	2.2	0.4%	534.0	1.1	0.2%
Grand Total	3,603.8	$148.2	8.7%	5,741.4	$168.1	5.4%	8,287.0	$193.2	4.9%	8,170.0	$98.8	2.5%
Y/Y Growth					*15%*			*15%*			*(42%)*	

* 1998 estimates based on information supplied by CLEC company representatives. We have made no changes to our 1998 forecasts.

^ 1999 forecast assumes 15% annual growth in reciprocal compensation. We have made no changes to our 1999 forecasts.

^ 2000 estimates assume a 50% reduction in per minute reciprocal compensation rates in 2000 and elimination in 2001.

'N/C' - no change

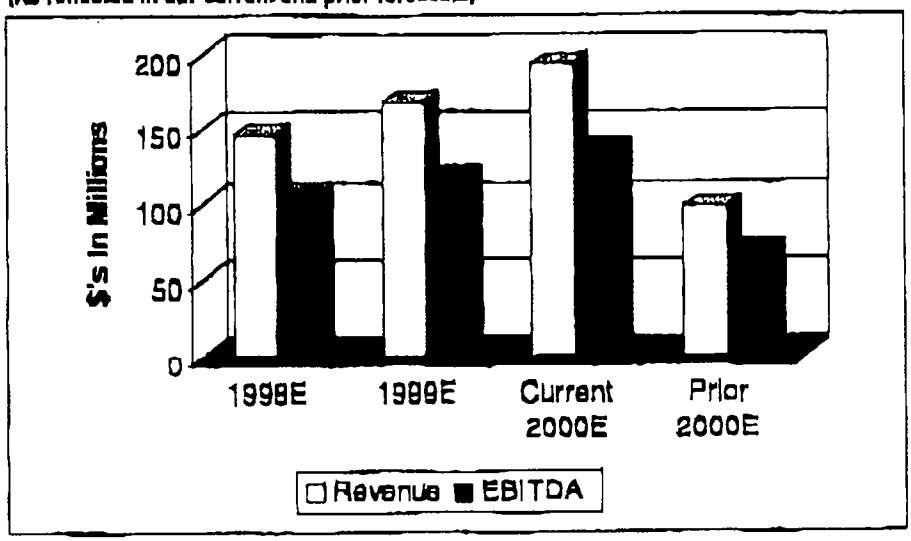
Source: Merrill Lynch estimates

Table 2: EBITDA* Derived From Reciprocal Compensation Revenues Received By CLECs (As reflected in our current and prior forecasts)

	1998E#			1999E#			2000E^					
							Prior Forecast			Current Forecast		
		Reciprocal Comp.			Reciprocal Comp.			Reciprocal Comp.			Reciprocal Comp.	
(in millions)	Total Corp. EBITDA	Contrib. To EBITDA	% Total	Total Corp. EBITDA	Contrib. To EBITDA	% Total	Total Corp. EBITDA	Contrib. To EBITDA	% Total	Total Corp. EBITDA	Contrib. To EBITDA	% Total
e.spire	($37.4)	$7.4	NM	($1.4)	38.5	NM	$60.0	$9.9	19.8%	$45.0	$4.9	10.9%
Electric Light	(50.0)	8.2	NM	(43.5)	9.5	NM	(13.0)	10.9	NM	(19.0)	5.5	NM
GST	(40.0)	-	0.0%	(20.0)	-	0.0%	1.0	-	0.0%	1.0	-	0.0%
Hyperion	(12.0)	2.9	NM	(12.0)	3.4	NM	8.0	3.9	48.8%	6.0	2.0	33.3%
ICG	(53.4)	19.4	NM	93.1	22.3	24.0%	176.0	25.7	14.6%	163.0	12.8	7.9%
Intermedia	56.6	14.7	26.0%	174.3	16.9	9.7%	266.0	19.4	7.3%	256.0	9.7	3.8%
McLeod	30.0	NA	NA	60.0	NA	NA	40.0	NA	NA	40.0	NA	NA
NEXTLINK	(100.0)	-	0.0%	(35.3)	-	0.0%	(10.0)	-	0.0%	(10.0)	-	0.0%
RCN	(42.8)	0.9	NM	(50.4)	1	NM	22.0	1.2	5.5%	21.0	0.6	2.9%
Teleport	123.7	11.8	9.5%	266.2	13.5	5.3%	309.0	15.5	5.0%	301.0	7.8	2.6%
Teligent	(160.0)	-	0.0%	(128.0)	-	0.0%	(134.0)	-	0.0%	(134.0)	-	0.0%
US LEC	24.0	35.9	150.0%	40.0	41.2	103.1%	80.0	47.4	59.3%	56.0	23.7	42.3%
USN	(134.9)	-	0.0%	(108.3)	-	0.0%	(38.0)	-	0.0%	(38.0)	-	0.0%
WinStar	(100.0)	1.2	NM	10.0	1.4	13.5%	80.0	1.6	2.0%	79.0	0.8	1.0%
Grand Total	($484.7)	$102.4	26.5%	$233.7	$117.7	17.8%	$937.0	$138.5	13.8%	$787.0	$67.8	8.7%
Y/Y Growth					*14.9%*			*15.1%*			*(42.4%)*	

* 70% EBITDA margin applied to data presented in Table 1 above.
# We have made no changes to our EBITDA estimates for 1998 or 1999.
^ 2000 forecasts now assume a 50% reduction in per minute reciprocal compensation rates and total elimination in 2001.
"NC" - no change
Source: Merrill Lynch estimates

Chart 1: Reciprocal Compensation Received By CLECs – Revised Forecast (As reflected in our current and prior forecasts)



Source: CLEC company representatives and Merrill Lynch estimates

Impact On The RBOCs And GTE: Our estimates of the reciprocal compensation obligations for the RBOCs (see Table 3 below) were based on information gathered directly from RBOC company representatives. For GTE, however, we relied on our own estimates as we were unable to elicit a forecast from the company. The data indicate that Bell Atlantic, of all the RBOCs and GTE, has the largest reciprocal compensation obligation at $250 million or 3% of our EPS estimate for 1998. For 1999, this obligation for Bell Atlantic is expected to rise to $350 million or just under a 5% drag on 1999 estimated EPS. For the group as a whole, the impact is somewhat less at a 2% drag on 1998 EPS and a 3% drag on 1999 EPS. Since we are assuming a 2-year phase-out of ISP-related reciprocal comp beginning in 2000, we estimate that the drag on ILEC EPS will drip to 1.8% in 2000.

Table 3: RBOC View Of Reciprocal Compensation

	Recip. Comp. Obligation				Negative EPS Impact							
($ in millions)	1998E*	1998E*#	2000E@	2000E^	1998E	% Total	1999E	% Total	2000E@	% Total	2000E^	% Total
Bell Atlantic	$250	$350	$490	$200	$0.10	3.4%	$0.14	4.7%	$0.19	5.7%	$0.08	2.8%
SBC	140	280	560	160	$0.05	2.5%	$0.09	3.9%	$0.19	6.7%	$0.05	2.3%
Ameritech	75	150	300	85	$0.04	1.7%	$0.08	3.2%	$0.17	5.8%	$0.05	2.0%
BellSouth	80	100	200	60	$0.03	0.8%	$0.06	1.7%	$0.12	3.0%	$0.04	1.1%
GTE	45	90	180	50	$0.03	0.9%	$0.06	1.6%	$0.12	2.9%	$0.03	0.9%
US WEST	40	80	160	45	$0.05	1.6%	$0.09	2.8%	$0.20	6.5%	$0.05	1.8%
Total	$600	$1,050	$1,890	$600	Ave:	1.8%		3.0%		4.9%		1.8%

* Based on information supplied by company representatives except for GTE, which we estimated.
# Assumes 100% annual growth except for Bell Atlantic.
@ RBOC view. Assumes continuation of y/y growth trends estimated for 1999.
^ ML view. Assumes a 50% reduction in per minute reciprocal compensation rates.
Source: Merrill Lynch estimates and company representatives

We Found A Large Discrepancy In Our Analysis

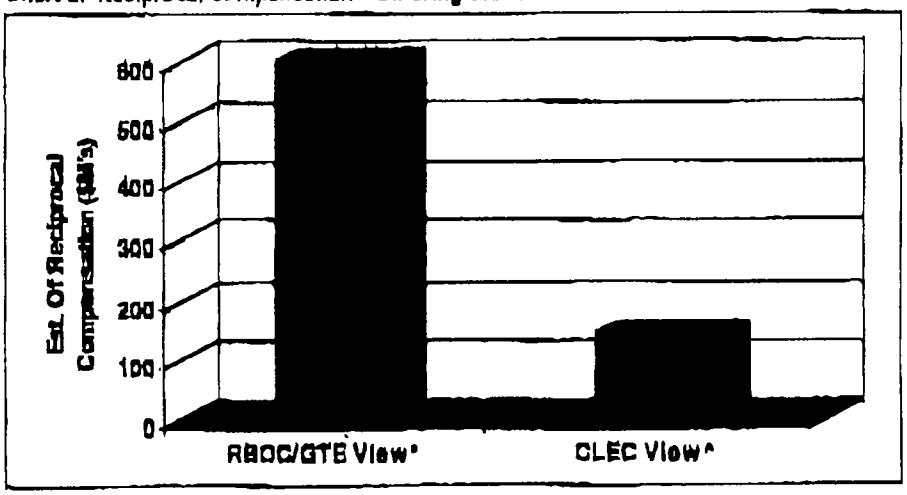
Why Such A Large Discrepancy In The Magnitude Of Reciprocal Compensation Depending On Who One Consults? As shown in Table 4 and Chart 2 below, there is a significant difference between the amount of reciprocal compensation the incumbent local phone companies claim they are being invoiced for and the amount the CLECs say they are receiving.

Table 4: Opposing Views Of Reciprocal Compensation

($ in millions)	1998E
RBOC/GTE View*	600
CLEC View#	146
Variance	454
Variance As A % Of The RBOC View	76%

* See Table 3
# See Table 1
Source: Merrill Lynch estimates and company representatives

Chart 2: Reciprocal Compensation - Differing Views Of 1998E



* See Table 3
^ See Table 1
Source: Company representatives and Merrill Lynch estimates.

We Suspect That The Big 3 Long Distance Companies Are Large Beneficiaries Of Reciprocal Compensation, Thus Explaining The Large Discrepancy In Our Analysis

We suspect several factors explain at least some of the discrepancies in our reciprocal compensation analysis. The first and most likely explanation, we believe, is that the large LD companies, AT&T (pre-Teleport) along with MCI WorldCom and Sprint, are recipients of large amounts of reciprocal compensation. The RBOCs assert in letters and filings to the FCC that close to 80% of their reciprocal compensation payments are going to the Big 3 long distance companies and affiliated CLECs.

Other, less probable explanations for the discrepancies include:

1. Some of the reciprocal compensation benefit received by CLECs and LD companies is accounted for as a reduction in network costs instead of as reported revenue. In other words, some CLECs or long distance companies may be booking as a cost of goods sold the difference between its ISP-related reciprocal comp *receipts* (for data, internet traffic) and its reciprocal compensation *payments* to other local phone companies (for voice traffic).
2. Omission of recipients of significant reciprocal compensation revenues from our bottoms-up analysis. Possible examples include ISPs that also serve as CLECs for internet-access services as well as smaller and non-public CLECs that receive reciprocal compensation fees. In other words, ISPs such as AOL might be licensed as CLECs in some locations and earning reciprocal compensation as an intermediary between its ISP and the end-user's local phone company.

Part 2: An Alternative Scenario – What If RBOC Reciprocal Compensation Obligations Continue To Grow, Unchecked, At Current Rates?

What If The Growth Of Reciprocal Compensation Remains Unchecked By The Renegotiation Process Or FCC Action? Although our forecast models for the CLEC group assume a 15% annual growth rate in reciprocal compensation revenues from 1998, we looked at the possible impact on all parties of the continued growth of ISP-related reciprocal compensation using the following assumptions with the results detailed in Table 5 below:

1. ISP-related reciprocal compensation traffic for 1999 and 2000 continues to grow at the 100% annual rate forecasted by most of the RBOCs for 1999;
2. Per minute compensation rates ARE NOT reduced via the renegotiation process; and,
3. The FCC DOES NOT act to reclassify internet-related traffic from local to inter-LATA.

Table 5: Reciprocal Compensation: Unrestrained Growth Scenario#

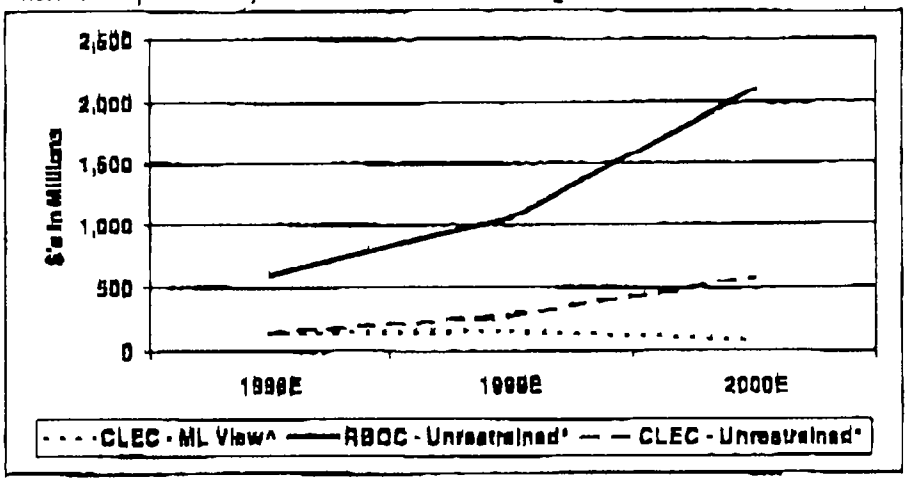
($'s in millions)	Reciprocal Comp. Obligation 1998E	1999E	2000E	Negative EPS Impact 1998E	% Total	1999E	% Total	2000E	% Total
RBOC View Of Reciprocal Compensation- Invoices Received From CLECs & Large LD Companies									
Bell Atlantic*	$250	$350	$700	$0.10	3.4%	$0.14	4.7%	$0.27	8.0%
SBC*	140	280	560	$0.05	2.5%	$0.09	3.9%	$0.19	6.7%
Ameritech*	75	150	300	$0.04	1.7%	$0.08	3.2%	$0.17	6.8%
BellSouth*	50	100	200	$0.03	0.9%	$0.06	1.7%	$0.12	3.0%
GTE	45	90	180	$0.03	0.9%	$0.05	1.5%	$0.12	2.8%
US WEST*	40	80	160	$0.05	1.6%	$0.10	2.8%	$0.20	5.5%
Total	$600	$1,050	$2,100	Ave:	1.9%		3.0%		5.3%

CLEC View Of Reciprocal Compensation – Invoices Sent To ILECs	Reciprocal Comp. Revenue 1998E	1999E	2000E	EBITDA Impact** 1998E	% Total	1999E	% Total	2000E	% Total
e.spire*	$10	$20	$40	$7	NM	$14	NM	$28	40.0%
Electric Lightwave*	12	24	48	8	NM	17	NM	34	NM
GST*	0	0	0	0	0.0%	0	0.0%	0	0.0%
Hyperion*	4	8	16	3	NM	6	NM	11	73.1%
ICG*	28	56	112	19	NM	39	30.9%	78	32.6%
Intermedia*	21	42	84	15	22.6%	29	14.9%	59	18.4%
McLeod	NA	NA	NA	NA	NA	NA	NA	NA	NA
NEXTLINK*	0	0	0	0	0.0%	0	0.0%	0	0.0%
RCN*	1	2	4	1	NM	1	NM	3	12.3%
Teleport*	17	34	68	12	9.5%	24	9.0%	48	14.0%
Teligent*	0	0	0	0	0.0%	0	0.0%	0	0.0%
US LEC*	51	102	204	36	150.0%	71	101.7%	143	81.7%
USN*	0	0	0	0	0.0%	0	0.0%	0	0.0%
WinStar*	2	4	8	1	NM	3	24.6%	6	6.7%
Total	$146	$292	$584	$102	28.0%	$204	20.1%	$408	22.1%
Variance Between RBOC & CLEC									
Variance Amount	$454	$758	$1,516						
Percent Variance Vs. RBOC Estimate	73%	72%	72%						

Scenario assumes 100% annual growth in reciprocal compensation from 1998E levels except where noted. In addition, we assumed no reductions in per minute compensation rates in 2000.
* Estimates for 1998 and 1999 based on information supplied by company representatives.
** 1998E based on Table 1. For 1999E and 2000E, assumes 100% annual growth from a 1998 base.
*** Assumes a 70% EBITDA margin.
Source: Company representatives and Merrill Lynch estimates

As detailed above in Table 5 and Chart 3 below, if the growth of reciprocal compensation remains unchecked, the RBOC obligation will grow to $2.1 billion by 2000 or over 5% of EPS for the average RBOC. For the CLECs in this scenario, reciprocal compensation revenues grow to $580 million by 2000 and contribute 23%, on average, of total corporate EBITDA based on our assumption of a 70% EBITDA margin for this traffic.

Chart 9: Reciprocal Compensation Revenues - Differing Views



* Unrestrained growth scenario. See Table 5 above.
^ML estimate of reciprocal compensation revenue for the CLEC group. See Table 1 above.
Source: Company representatives and Merrill Lynch estimates.

Part 3: What Is Reciprocal Compensation?

The 1996 Telecom Act Requires LECs To Negotiate Reciprocal Compensation Agreements With Each Other

Reciprocal compensation is defined as a contractual arrangement between two LECs (local exchange carriers) agreeing to compensate each other for the termination of local telecom traffic on each other's networks. The obligation to establish these payment arrangements was set forth in Sections 251(b)(5) and 252(d)(2)(a) of the 1996 Telecom Act. In Section 251(b)(5), the Act "charged" both CLECs and ILECs with *"the duty to establish reciprocal compensation arrangements for the transport and termination of telecommunications"*. This obligation was further described in section 252, which dealt with the procedures for negotiating interconnection agreements between ILECs and CLECs. In subsection (d)(2a), the Act stated:

> *"[F]or the purposes of compliance by an incumbent local exchange carrier with section 251(b)(5), a State commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless (I) such terms and conditions provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination of each carrier's network facilities of calls that originate on the network facilities of the other carrier; and (II) such terms and conditions determine such costs on the basis of a reasonable approximation of the additional costs of terminating such calls.*

How are these compensation arrangements structured? Compensation for the termination of local traffic is typically an integral part of the negotiated and arbitrated interconnection agreement between an ILEC and a CLEC. These compensation arrangements are typically structured in one of two ways:

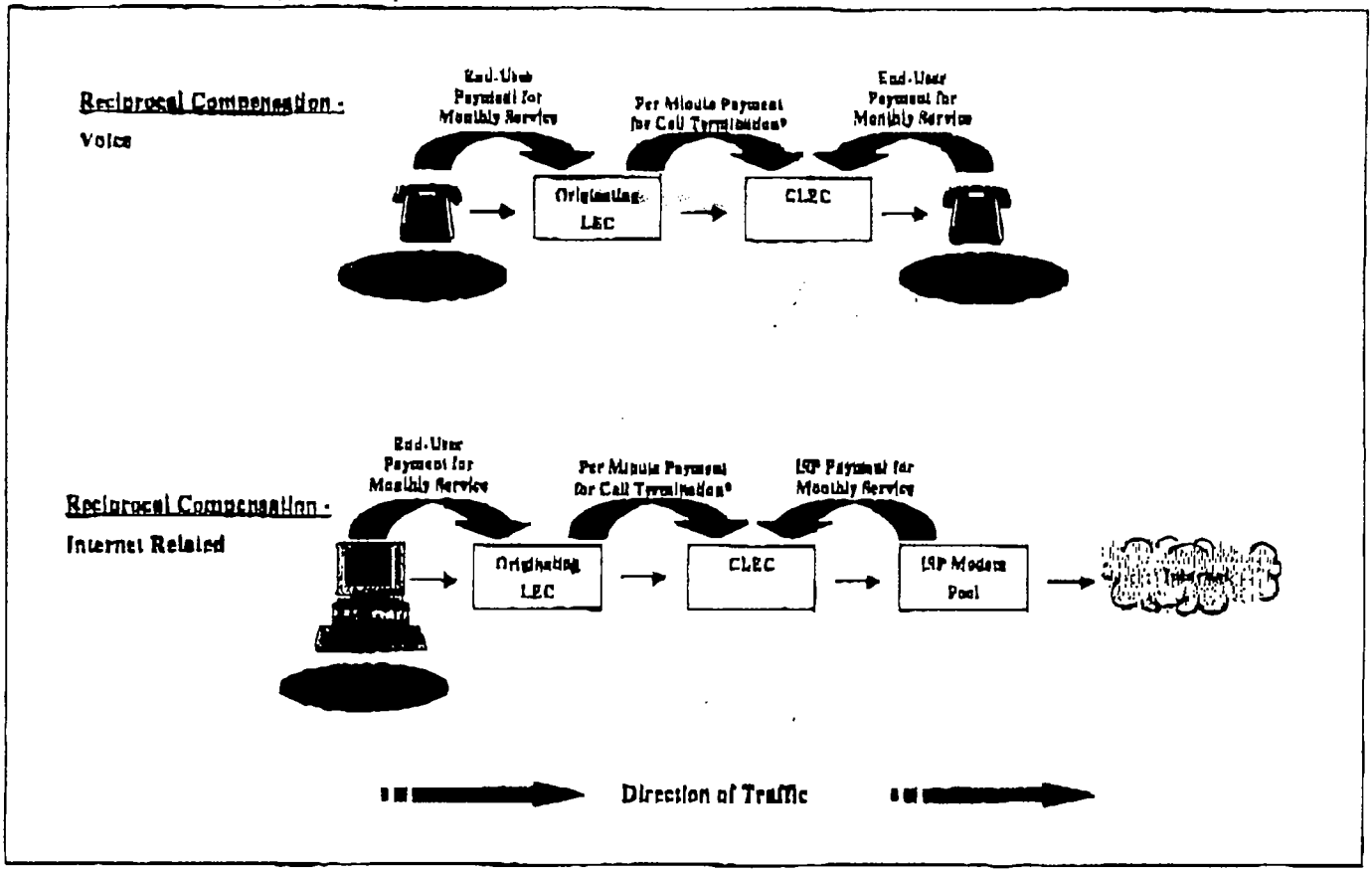
Bill & Keep: Originating Carrier Does Not Pay For Call Completion

Bill and Keep: Under this structure, each carrier agrees to accept and terminate all calls sent from the other carrier with no compensation to the terminating carrier. This structure works optimally when the traffic between carriers is in balance (e.g., each interconnected LEC sends and receives roughly an equal volume of local traffic for termination). When balanced traffic exists, the costs of generating billing records and compensating the other party may exceed the level of net compensation received by each party – hence bill and keep is the most efficient approach for both parties.

Reciprocal Compensation: Originating Carrier Pays Terminating Carrier For Call Completion

Reciprocal Compensation: Reciprocal compensation (see Chart 4 below for a graphical depiction) agreements are those in which the originating LEC reimburses the terminating LEC (or CLEC) for the costs associated with the transport and termination on the terminating carrier's network. The reimbursement level is negotiated on a contract by contract basis based on the incremental per minute cost to transport and terminate the call.

Chart 4: Schematic of Reciprocal Compensation: Voice Vs. Internet Related



*Per minute payments are zero under bill and keep agreements.
Source: Merrill Lynch

What is the controversy surrounding reciprocal compensation?

Should Reciprocal Compensation Payments Include Internet Related Traffic?

Although a number of existing interconnection agreements negotiated between CLECs and ILECs call for the payment of reciprocal compensation, only a modest amount of the monies owed to CLECs by ILECs have been paid so far. At issue is the ILEC assertion that to pay reciprocal compensation for traffic destined to ISPs would be inconsistent with The 1996 Telecom Act. This argument is based on the following two key points:

- The vast majority of CLEC reciprocal compensation claims — possibly as high as 80-90% of the claims — are for the termination of traffic related to dial-up internet access and not for voice services. As graphically depicted in Chart 3 above, these calls are originated by ILEC customers to connect to modem pools maintained by ISPs. Other than the ISPs' modem pools, there are no end users or "called parties" served by the CLEC at the terminating end. In effect, CLECs are serving as intermediaries, interconnecting the ISP modem pools with the public switched telephone network (PSTN) and the ISP's modem pool is just a temporary stopping off point for traffic destined to distant web-sites. As a network intermediary for internet-related traffic, CLECs incur the costs of ILEC central office co-location; a modest level of billing, network monitoring and maintenance activities; and, sometimes, some local inter-office transport charges.

- A number of CLECs have availed themselves of the arbitrage opportunity created by the reciprocal compensation obligations contained within the 1996 Act. In fact, a number of CLECs have aggressively sought out ISP switched local access business relationships in order to participate in a traffic stream (via reciprocal compensation) that is heavily unbalanced in the ***in-bound*** direction – from the ILEC to the CLEC — for termination at ISP access modem pools. Thus, those CLECs with ISP relationships are then well positioned to become net recipients of reciprocal compensation fees.

ILECs Argue That CLEC Pursuit Of Reciprocal Compensation Revenue Has Come At The Expense of Local Market Competition & Investment In Local Network Infrastructure

A unique arbitrage opportunity... with consequences? The ILECs have argued that the obligation to enter into reciprocal compensation arrangements with CLECs imposed by The 1996 Telecom Act has created an *unintended arbitrage opportunity*. This arbitrage opportunity involves the aggressive pursuit by CLECs of unbalanced internet-related traffic. This unbalanced mix of traffic allows the CLEC to benefit from a high margined revenue stream that does not require much investment or work in the way of network facilities and support activities. CLECs typically interconnect ISP modem pools to the PSTN via ILEC central office co-location and interoffice transport facilities, supported by a modest level of billing, network monitoring and maintenance activities.

ISPs are also beneficiaries of this arbitrage, albeit indirectly, as we suspect that CLECs pass some of the reciprocal compensation-derived profits onto ISPs in the form of lower prices for local access facilities.

The "real" problem, the ILECs argue, is that this arbitrage opportunity has resulted in four unintended consequences that are detrimental to the public interest and intent of The 1996 Act:

1. **Wealth transfers:** A reciprocal compensation-derived wealth transfer from ILECs and ILEC customers to the CLECs and ISPs;
2. **Development of competition delayed:** Slower development of competition in the local voice market as a result of the focus by CLECs on reciprocal compensation opportunities;
3. **Disincentive to compete for end-user customers:** The existence of reciprocal compensation obligations creates a disincentive for CLECs to compete for end-user customers. The disincentives for CLECs arise from the risk of winning customer phone lines that are subsequently used for dial-up internet access services and thus potentially generating significant reciprocal compensation obligations for the CLEC. Stated bluntly, if a dial-up end user chooses a CLEC as its local phone company, that CLEC incurs big reciprocal compensation ***obligations*** and forgoes what could have been big reciprocal compensation ***receipts*** if the CLEC serves only the ISP;
4. **Disincentive to invest in local infrastructure:** With a focus on generating reciprocal compensation revenue instead of competing for end user customers, CLECs would have little incentive to invest in local network infrastructure – especially construction of last mile facilities to customers – other than the modest network investment for ILEC central office co-location and, in some cases, interoffice transport facilities needed to support internet-access services.

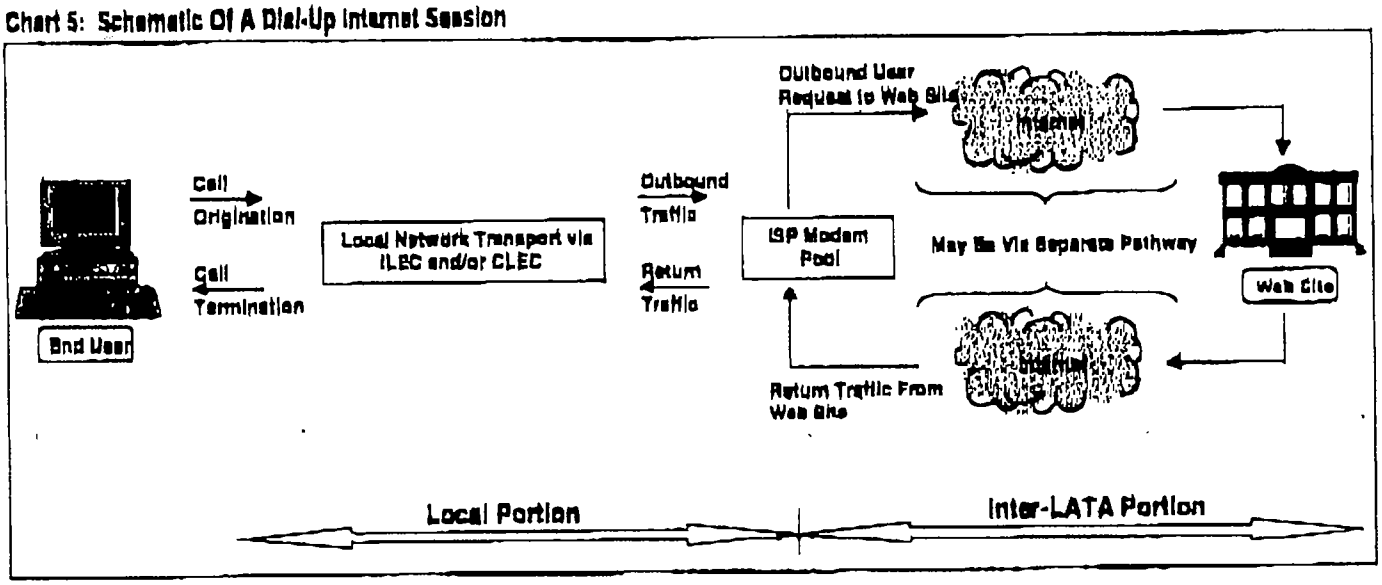
ILECs Also Argue That Internet Traffic Is Inter-LATA In Nature

In addition, ILECs make the argument that internet-related traffic is inter-LATA or long distance in nature and thus not subject to reciprocal compensation payments to CLECs. To better understand this argument, it may be helpful to first consider a simplified schematic of internet-related traffic. As depicted in Chart 5 below, we have attempted to disaggregate an internet "call" into five component parts:

Internet Traffic Is Composed Of Five Parts

1. Call initiation by the end user;
2. Data request is sent via local transport facilities to an ISP modem pool;
3. Data request transmitted to a distant web site via the internet over long haul network facilities;
4. Web site responds to data request. Data is then transmitted back to the ISP modem pool via the internet over long haul network facilities; and,
5. Local transport of data back to end user via local transport facilities.

Chart 5: Schematic Of A Dial-Up Internet Session



Source: Merrill Lynch

Key To The ILEC Argument Is Most Web Sites Are A Long Distance Call Away

The key element of the ILEC argument is that internet traffic is similar to long distance traffic as destination web sites can be located virtually anywhere in the world and, indeed, the vast majority of requests to web sites traverse LATA boundaries. Additionally, the very nature of internet traffic involves the disassembling of a data stream into individual "packets". These packets are then, in turn, transmitted individually over the internet via long haul facilities for reassembly at the terminating location.

Looking For A "Reversal Of Fortune": ILECs Also Want LD Access Payments For Internet-Related Traffic

Thus, the ILECs argue, the inter-LATA nature of this traffic not only relieves the ILEC's reciprocal compensation obligation (since reciprocal compensation is only paid on local traffic passing from one LEC to another) but also creates a long distance access obligation for the CLEC. The financial impact would be material as the current $0.004-$0.006/minute reciprocal compensation payment obligation from ILECs to CLECs would be eliminated and instead a reverse payment of $0.025/minute for long distance access would be made ***from CLECs or ISPs to ILECs***. If adopted, this change would result in a net swing of +$0.03/minute in favor of the ILECs. This reversal of fortune, if adopted by regulators, would be especially important for the ILECs given that internet-related traffic is the fastest growing traffic stream in the telecommunications market today.

CLECs argue, however, that the pursuit of reciprocal compensation fees is explicitly permitted in The 1996 Act and that many interim interconnection agreements signed by ILECs legally bind the ILEC to pay reciprocal compensation for local traffic regardless of the purpose. To date three Federal Courts (the last decision was handed down on July 22), 19 state PUCs and the FCC have all sided with the CLEC position in that the courts see their role as enforcing contractual obligations inherent in the interim reciprocal compensation and interconnection agreements. We point out, however, that the FCC is currently reviewing the jurisdictional nature of internet-related traffic. The FCC may indeed rule shortly whether this traffic is local or inter-LATA in nature and, if inter-LATA, no longer subject to reciprocal compensation obligations once current interim interconnect agreements expire.

Part 4: What Does The Future Hold For Reciprocal Compensation?

Look For Lower Compensation Rates & Possible FCC Action

Overall, we anticipate that over the next 12-24 months, the levels of reciprocal compensation received by CLECs will *diminish sharply* due to one or both of the following factors:

- **Significantly lower reciprocal compensation rates:** As the majority of interim local network interconnection agreements between CLECs and ILECs expire over the next 12-24 months, we anticipate that renegotiations of these contracts will result in either the specific exclusion of internet-access related traffic from reciprocal compensation calculations or significant reductions in per minute compensation rates from the current average rate of $0.004-$0.006/minute to levels of $0.002/minute or less. We think CLECs will be willing to accept these lower per minute compensation rates during the re-negotiation process rather than run the risk that in subsequent arbitration hearings, state PUCs rule that internet-related traffic should be excluded entirely from reciprocal compensation.
- **The FCC may act:** We think that there is a high probability that the FCC alters its stance on internet-related traffic and "jurisdictionally" redefines this traffic as inter-LATA rather than local and thus no longer appropriate for payment under existing reciprocal compensation arrangements. If the FCC were to rule that internet-related traffic is inter-LATA in nature, the decision would have the following implications for ILECs, CLECs and ISPs:
  1. **Existing contracts remain in force:** Any interim interconnection agreement that specifies a reciprocal compensation arrangement that hasn't expired will remain in force.
  2. **Expect delays in renegotiating new interconnection agreements:** As a result of this potential material change in the regulatory environment, we anticipate that there may be delays in renegotiating new interconnection agreements as "old" agreements expire. We point out, however, that in the interim period, the old agreements would remain in place until either: a) a new agreement is negotiated, or b) the State PUC were to arbitrate an agreement in the event of an impasse in negotiations.
  3. **ESP exemption still would prevent the collection of LD access charges by ILECs:** Currently, LD access charges do not apply to internet-related traffic as a result of the ESP exemption established by the FCC to encourage the development of what, at the time, was a nascent sector of the telecom industry. (An ESP or enhanced services provider is defined as an ISP, data processing or value-added computer services entity.) As a result, even with a jurisdictional change by the FCC, internet-related traffic would still not qualify for LD access charges. However, we think it is likely that the FCC will: a) within 2 years, rule that phone-to-phone inter-LATA voice traffic transmitted via the internet (IP telephony) would no longer be exempt from LD access charges on the argument that voice services even over the internet are not "enhanced services"; and b) within 4 years, rule that internet-related data traffic would also no longer be exempt from LD access charges on the argument that the internet will be so well-developed that its development no longer needs to be subsidized by long distance users.

FCC Action May Be Prompted By GTE Tariff Filing

Pending GTE ADSL tariff may force the FCC's hand: On May 15, GTE filed a tariff application (transmittal 1148) for a new service – GTE DSL Solutions-ADSL Service. This service is described in the filing as:

> *"...an interstate data special access service that provides a high speed access connection between an end user subscriber and an Internet Service Provider by utilizing a combination of the subscriber's existing local exchange physical plant (i.e., copper facility), a specialized DSL-equipped wire center, and transport to the network interface, for example the frame relay switch, where the ISP will connect to GTE's network. The DSL service offering will enable the simultaneous transmission of voice dialed calls and high speed data access over a single path, thereby reducing the need for subscribers to obtain additional lines for their internet capabilities".*

In response to the key jurisdictional issue raised by this proposed tariff – ***is internet-access an interstate service (and thus NOT subject to reciprocal compensation obligations)*** – the FCC opened docket 98-79 to consider the issue. Pleadings on this docket were completed on September 21 with a final ruling by the commission expected later this year.

Part 5: Additional Company Specific Data: How Important Is Reciprocal Compensation To Individual CLECs?

CLEC Perspective On Reciprocal Compensation: A Bottoms-Up View

The following analysis of the importance of reciprocal compensation to CLEC financial performance is based on discussions with various CLEC managements as well as our own forecasting efforts.

Table 6: Contribution Of Reciprocal Compensation To CLEC Financial Performance
(As reflected in our current forecasts)

	1998E							1999E					
			Reciprocal Compensation							Reciprocal Compensation			
($'s in millions)	Total Rev's	Total EBITDA	2QA	Full Year	% Total Revenue	Contrib. To EBITDA	% Of Total	Total Rev's	Total EBITDA	Full Year @	% Total Revenue	Contrib. To EBITDA	% Of Total
e.spire	159.4	(37.4)	2.5	10.5	6.6%	7.4	NM	350.3	(1.4)	12.1	3.5%	8.5	NM
Electric Light	94.4	(50.0)	2.8	11.8	12.5%	8.2	NM	171.6	(43.6)	13.5	7.8%	9.5	NM
GST	160.7	(40.0)	-	-	0.0%	-	0.0%	216.9	(20.0)	-	0.0%	-	0.0%
Hyperion	30.0	(12.0)	1.0	4.3	14.0%	2.9	NM	60.0	(12.0)	4.8	8.1%	3.4	NM
ICG	564.1	(53.4)	6.6	27.7	4.9%	19.4	NM	787.2	93.1	31.9	4.1%	22.3	24.0%
Intermedia	740.6	66.6	6.0	21.0	2.8%	14.7	26.0%	1,075.0	174.3	24.2	2.3%	16.9	9.7%
McLeod	224.0	30.0	NA	NA	NA	NA	NA	302.4	60.0	NA	NA	NA	NA
NEXTLINK	130.0	(100.0)	-	-	0.0%	-	0.0%	294.6	(35.3)	-	0.0%	-	0.0%
RCN	237.7	(42.8)	0.3	1.3	0.5%	0.9	NM	367.9	(50.4)	1.6	0.4%	1.0	NM
Telapex	762.5	123.7	4.0	16.8	2.2%	11.8	9.5%	1,195.3	255.2	19.3	1.6%	13.5	5.3%
Teligent	2.0	(160.0)	-	-	0.0%	-	0.0%	23.1	(128.0)	-	0.0%	-	0.0%
US LEC	75.0	24.0	12.2	51.2	68.3%	35.9	150.0%	130.0	40.0	58.9	45.3%	41.2	103.1%
USN	203.2	(134.8)	-	-	0.0%	-	0.0%	390.2	(108.3)	-	0.0%	-	0.0%
WinStar	220.0	(100.0)	0.4	1.7	0.8%	1.2	NM	325.0	10.0	1.9	0.5%	1.4	13.5%
Total	3,803.5	(488.7)	34.8	149.2	3.7%	102.4	28.5%	5,741.4	233.7	168.1	5.4%	117.7	17.3%

@ Assumes 15% growth vs. 1998.
*Assumes EBITDA margin of 70%
Source: Company reports and Merrill Lynch estimates

Reciprocal Compensation Is A Key Contributor of Revenue & EBITDA For a Majority Of The CLEC Group

As detailed in Table 6 above, reciprocal compensation comprises an important source of both revenue and EBITDA to a majority of publicly traded CLECs. For the CLEC group (see Table 1 for individual company estimates), we project that full year 1998 reciprocal compensation will represent 9% of revenues and 27% of EBITDA. However, the importance of reciprocal compensation becomes evident when analyzing its contribution to those CLECs that directly benefit. Our analysis very conservatively assumes that the level of reciprocal compensation reported by the CLECs for 2Q98 grows, on average, 23% for 2H98 and 15% for full year 1999. According to our estimates and company supplied information, four members of the CLEC group – GST, NEXTLINK, Teligent and USN – derive no revenues from reciprocal compensation and we were unable to ascertain the level of benefit for McLeod. For the CLEC group, as shown in Table 6 above, we estimate that the average benefit to full year revenue for 1998 and 1999 totals 9% and 5%, respectively. More importantly, we estimate that given the relatively low level of related costs (i.e., billing and network monitoring) associated with this revenue stream, reciprocal compensation-related EBITDA margins should be very high – we estimate 70%. As a result, reciprocal compensation has and will continue to play an important profit role for CLECs. ***We estimate that reciprocal compensation will contribute 27% of full year 1998 CLEC EBITDA and 17% of full year 1999 CLEC EBITDA.*** We note, however, that while many CLECs are *accruing* reciprocal compensation revenues, some ILECs have refused to make payments to the CLECs.

Over the next few years, we expect reciprocal compensation to play a rapidly diminishing role in CLEC financial performance as interim interconnection agreements expire and new ones are renegotiated over the next 12-24 months. We estimate that these renegotiations could result in a 50% decline in our current forecast for 2000E reciprocal compensation. Offsetting that, however, we expect continued gains in switched voice (local and long distance market share) as well as data services to rapidly outweigh the relative importance of reciprocal compensation over the next few years. In addition, as more CLECs move to positive EBITDA over the intermediate term, the relative contribution of reciprocal compensation to profits will also rapidly diminish. For example, although reciprocal compensation related EBITDA constitutes 10% of Intermedia's 1999 estimated EBITDA, we estimate that rapid year-over-year EBITDA growth in other lines of business combined with an estimated 50% drop in 2000E reciprocal compensation revenues will lower the latter's contribution to EBITDA of reciprocal compensation in 2000 to 4% (see Tables 6 above and 10 below).

Which CLECs Have The Largest Relative Exposure To Reciprocal Compensation?

Revenue exposure: As shown in Table 6 above, based on company supplied information, we estimate the revenue contribution from reciprocal compensation at 9% of estimated full year 1998 revenue. For 1999, we estimate that the revenue contribution from reciprocal compensation will drop to 5% of total corporate revenue, assuming a 15% annual growth rate in traffic. The one notable exception is US LEC, a relatively "new" CLEC based in the Southeast, employing a strategy of deploying local switches and relying almost exclusively on leased ILEC T-1 circuits for last mile connectivity to customers. We estimate that reciprocal compensation will contribute two-thirds of total corporate revenue for US LEC in 1998 with the contribution dropping to 45% for full year 1999. Other CLECs with relatively large exposure to reciprocal compensation include Hyperion, Electric Lightwave, e.spire and ICG as detailed in Table 7 below:

Table 7: CLEC Revenue Dependence On Reciprocal Compensation , Rank Ordered (Based on our current and prior forecasts)

	% Of Total Corporate Revenues			
	1998E	1999E	2000E Old Estimate	2000E New Estimate
US LEC	68.3%	45.3%	36.8%	21.8%
Hyperion	14.0%	8.1%	6.0%	3.1%
Electric Lightwave	12.3%	7.8%	5.3%	2.7%
e.spire	8.6%	3.5%	2.4%	1.2%
ICG	4.8%	4.1%	3.0%	1.5%
Intermedia	2.8%	2.3%	1.9%	0.9%
Teleport	2.2%	1.6%	1.5%	0.7%
WinStar	0.8%	0.5%	0.4%	0.2%
RCN	0.5%	0.4%	0.2%	0.1%
GST	0.0%	0.0%	0.0%	0.0%
NEXTLINK	0.0%	0.0%	0.0%	0.0%
Teligent	0.0%	0.0%	0.0%	0.0%
USN	0.0%	0.0%	0.0%	0.0%
McLeod	NA	NA	NA	NA
CLEC Average	8.7%	5.4%	4.4%	2.5%

Source: Company representatives for 1998E and Merrill Lynch estimates for 1999E and 2000E

EBITDA exposure: As detailed in Table 6 above and Tables 8 and 9 below, many CLECs are expected to derive a significant boost to estimated full year 1999 EBITDA from reciprocal compensation. The largest beneficiaries are, once again, US LEC and ICG in addition to WinStar, Intermedia and Teleport.

Table 8: CLEC EBITDA Dependance On Reciprocal Compensation, Rank Ordered* (Based on our current and prior forecasts)

	% Of Total Corporate EBITDA			
	1998E	1999E	Old 2000E	New 2000E
US LEC	150.0%	101.1%	60.0%	30.0%
Intermedia	26.0%	9.7%	7.2%	3.6%
Teleport	9.5%	5.3%	5.2%	2.7%
GST	0.0%	0.0%	0.0%	0.0%
NEXTLINK	0.0%	0.0%	0.0%	0.0%
Teligent	0.0%	0.0%	0.0%	0.0%
USN	0.0%	0.0%	0.0%	0.0%
e.spire	NM	NM	18.2%	9.6%
Electric Lightwave	NM	NM	NM	NM
Hyperion	NM	NM	50.0%	25.0%
ICG	NM	24.0%	13.8%	6.9%
McLeod	NA	NA	NA	NA
RCN	NM	NM	9.0%	4.5%
WinStar	NM	11.5%	2.6%	1.3%
Average	28.8%	17.3%	13.9%	7.0%

*70% EBITDA margin assumed for reciprocal compensation revenues
"NM": not meaningful due to negative EBITDA estimated for the period
Source: Merrill Lynch estimates

Table 9: CLEC EBITDA Dependence On Reciprocal Compensation Based Upon 1998 Estimates, Rank Ordered in Dollars (Based on our current and prior forecasts)

($'s in million's)	EBITDA Contribution
US LEC	$41.2
ICG	22.3
Intermedia	16.9
Teleport	13.5
Electric Lightwave	9.5
e.spire	8.5
Hyperion	3.4
WinStar	1.4
RCN	1.0
Total	$117.7

*Excludes the impact from Teleport.
Source: Merrill Lynch estimates

As noted above, we have revised our 2000 financial forecasts for those CLECs that we follow to reflect the negative impact from the decline in reciprocal compensation revenues. As shown in Table 10 below, when we adjust our existing models for a 50% reduction in our baseline forecast for 2000 reciprocal compensation revenues, we find revenue and EBITDA forecast reductions of 2% and 7%, respectively.

Table 10: Year 2000 Forecasts As Revised To Account For Reduction In Reciprocal Compensation Revenues

	Revenue				EBITDA			
($ in millions)	Prior Revenue Forecast	Est. Reduction in Recip. Comp. Revenue*	Revised Revenue Forecast	% Variance From Prior Forecast	Prior EBITDA Forecast	Est. Reduction in Recip. Comp. EBITDA#	Revised EBITDA Forecast	% Variance From Prior Forecast
e.spire	$605	$7	$598	-1.2%	$50	$5	$45	-10.0%
Electric Lightwave	305	8	297	-2.6%	(13)	6	(19)	NM
GST	270	-	270	0.0%	1	-	1	0.0%
Hyperion	100	3	97	-3.0%	8	2	6	-25.0%
ICG	1,117	18	1,099	-1.6%	176	13	163	-7.4%
Intermedia	1,480	14	1,466	-1.0%	266	10	256	-3.8%
McLeod	360	NA	360	NA	40	NA	40	NA
NEXTLINK	500	-	500	0.0%	(10)	-	(10)	0.0%
RCN	661	1	660	-0.2%	22	1	21	-4.5%
Teleport	1,510	11	1,499	-0.7%	309	8	301	-2.6%
Teligent	91	-	91	0.0%	(134)	-	(134)	0.0%
US LEC	190	34	156	-17.9%	80	24	56	-30.0%
USN	543	-	543	0.0%	(38)	-	(38)	0.0%
WinStar	535	1	534	-0.1%	80	1	79	-1.3%
Total	$8,287	$97	$8,190	-2.2	$837	$70	$787	-7.1

*Assumes a 50% decrease vs. 2000 estimated reciprocal compensation revenues detailed in Tables 1 and 2 above.
#70% EBITDA margin assumed for reciprocal compensation
Source: Merrill Lynch estimates

Reduction To Private Market Value Based Price Objectives: Given the likelihood of diminished benefit from reciprocal compensation due to re-negotiation of ILEC/CLEC interconnection agreements, we have lowered both our revenue and EBITDA forecasts for the CLECs we follow. We note, however, that although the impact to our 2000 EBITDA forecast is material for many of the companies in our coverage, that negative impact is mitigated by the rapid growth of the other services over the balance of our 10 year forecast model.

As a result, as shown in Table 11 below, we have lowered our private market value based price objectives for ICG by $1 or 3% from $37 to $36 and Intermedia by $1 or 2% from $49 to $48. We maintain our current price objectives for other members of the CLEC group as the diminished reciprocal compensation revenues had no significant impact to our private market value estimates.

Table 11: Estimated Impacts To Per Share Private Market Value Due To 50% Reduction In Year 2000 Reciprocal Compensation Revenues

Company	Current Private Market Value Based Price Objective*	Estimated Impact To Per Share Private Market Value	Revised Private Market Value Based Price Objective*	% Change Vs. Prior Price Objective
e.spire^	$31	($0.50)	$31	(2%)
Electric Lightwave^	$17	($0.50)	$17	(3%)
ICG	$37	($1.00)	$36	(3%)
Intermedia	$49	($1.00)	$48	(2%)
RCN	$38	($0.00)	$38	No change
Teligent	$37	($0.00)	$37	No change
USN	$12	($0.00)	$12	No change

*Private market values based on our 10 year discounted cash flow models
^No change to private market value based price objective due to rounding
Source: Merrill Lynch estimates

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Merrill Lynch is currently acting as a financial advisor and has rendered a fairness opinion to Bell Atlantic Corp in connection with its proposed merger with GTE Corp which was announced on July 28, 1998. Bell Atlantic Corp has agreed to pay a fee to Merrill Lynch for its financial advisory services.

The proposed transaction is subject to shareholder approval by both GTE Corp. and Bell Atlantic Corp.

This research report is not intended to (1) provide voting advice, (2) serve as an endorsement of the proposed transaction, or (3) result in the procurement, withholding, or revocation of a proxy.