

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**IN THE MATTER OF THE CONTINUED )  
COSTING AND PRICING OF )  
UNBUNDLED NETWORK ELEMENTS, )  
TRANSPORT AND TERMINATION )  
\_\_\_\_\_ )**

**DOCKET NO. UT 003013  
PHASE B**

**REBUTTAL TESTIMONY OF**

**LARRY B. BROTHERSON**

**ON BEHALF OF**

**QWEST CORPORATION**

**FEBRUARY 7, 2001**

1

## I. INTRODUCTION

2 **Q. ARE YOU THE SAME LARRY BROTHERSON WHO HAS FILED DIRECT**  
3 **TESTIMONY IN THIS PROCEEDING?**

4 A. Yes.

5 **Q. HAVE YOU REVIEWED THE TESTIMONY OF DR. BLACKMON, MR.**  
6 **ARGENBRIGHT AND MR KNOWLES THAT WAS FILED IN THIS CASE?**

7 A. Yes.

8 **Q. DO YOU HAVE RESPONSES TO THEIR TESTIMONY REGARDING ISSUES**  
9 **RELATING TO RECIPROCAL COMPENSATION?**

10 A. Yes, I will address each witnesses' testimony separately.

11 **Q. DO OTHER QWEST WITNESSES ADDRESS TESTIMONY FILED IN THIS**  
12 **DOCKET?**

13 A. Yes. Dr. William Taylor will respond to testimony concerning the economic and policy  
14 issues arising from the application of reciprocal compensation to Internet traffic.

15

## II. RECIPROCAL COMPENSATION

16 **Q. WITH RESPECT TO THE RESPONSIVE TESTIMONY FILED BY DR.**  
17 **BLACKMON, DO YOU AGREE OR DISAGREE WITH HIS COMMENTS**  
18 **REGARDING RECIPROCAL COMPENSATION?**

19 A. In many respects, I agree with Dr. Blackmon. We are in agreement that the reciprocal  
20 compensation rates established for terminating local voice calls do not accurately reflect the

1 costs of trunk-to-trunk switching of Internet-bound traffic or delivering Internet Service  
2 Provider (“ISP”) traffic from a CLEC switch to an ISP switch.

3 We disagree on a very fundamental principle -- whether or not Internet calls are local calls  
4 that terminate in the local calling area and are thus subject to reciprocal compensation. Dr.  
5 Blackmon starts with the premise that Internet calls terminate in the local calling area. He  
6 then discusses the unique aspects of Internet calls and various methods of billing local call  
7 termination rates for Internet traffic that are different from the rates for traditional voice  
8 calls. While I would not disagree with Dr. Blackmon’s analysis if, in fact, Internet calls  
9 were local, I disagree with the underlying premise that they are local. That is at the heart of  
10 the Qwest position.

11 **Q. DOES QWEST BELIEVE THAT INTERNET TRAFFIC TERMINATES IN THE**  
12 **LOCAL EXCHANGE?**

13 A. No. Dr. Blackmon states that the question before the WUTC is what compensation should  
14 be paid to the *terminating carrier*.

15 He also discusses compensating other carriers for the cost of terminating Internet-bound  
16 traffic. Internet calls do not terminate at the CLEC switch, or even the ISP switch in the  
17 state for that matter, but, rather, the traffic is routed on to other interstate locations on the  
18 worldwide web. In its ISP Order, the FCC specifically ruled that these calls do not  
19 terminate at the ISP, but rather, typically terminate at web sites located in other states or  
20 countries. For this reason, the FCC concluded that Internet calls are predominately  
21 interstate in nature.

22 In addition to the fact that a large percentage of Internet calls terminate at web sites located  
23 in other states and countries, most Internet calls that are placed in Washington are routed  
24 through remote hubs that are located outside the state. Upon receiving a call, an ISP must  
25 deliver it over the Internet backbone to a remote hub specified by the URL address that the  
26 originating end-user designates. The remote hubs – also referred to as Network Access

1 Points and Metropolitan Area Exchange locations – in the continental United States are  
2 located in Chicago, New York, Washington, D.C., Houston, Dallas, Los Angeles, San Jose,  
3 and San Francisco. For ISPs in Washington, the closest remote hubs are in California.  
4 Many Internet calls placed by end-users in Washington are routed to one of these remote  
5 hubs.

6 **Q. DOES AN INTERNET-BOUND CALL TERMINATE AT THE ISP PREMISES?**

7 A. No. With an Internet call, the calling party expects to “talk” over the worldwide web, not  
8 to a person at the ISP premises. A calling party typically wants to actually talk to the ISP  
9 only for administrative purposes, e.g., technical support, repair or billing problems. These  
10 administrative lines are listed separately to allow the calling party to speak to a human, not  
11 to “speak to a computer.”

12 **Q. PLEASE RESPOND TO MR. ARGENBRIGHT’S STATEMENT THAT THE D.C.**  
13 **CIRCUIT OVERTURNED THE FCC’S DECISION REGARDING THE**  
14 **INTERSTATE NATURE OF ISP TRAFFIC.**

15 A. First, my understanding is that the D.C. Circuit did not overturn the FCC’s ultimate  
16 conclusion that Internet-bound traffic is interstate. Rather, the court remanded that  
17 conclusion for further explanation and justification. While not legally binding, the FCC’s  
18 conclusion about the interstate nature of Internet traffic is nevertheless instructive.

19 **Q. MR. ARGENBRIGHT STATES THAT QWEST ASSERTS THAT ACCESS**  
20 **CHARGES SHOULD APPLY TO INTERNET-BOUND CALLS. IS THIS**  
21 **STATEMENT CORRECT?**

22 A. No. Mr. Argenbright mistakenly assumes that Qwest believes that access charges should  
23 apply to internet-bound calls. That is not the case. Qwest clearly recognizes that Enhanced  
24 Services traffic is currently exempt from access charges, but that absent the ESP  
25 exemption, calls to ISPs *would* be subject to access charges. In this proceeding, I make the

1 point that because of that exemption the CLEC can not charge access charges to ISPs. The  
2 fact that the CLEC's normal source of recovery is prohibited, however, should not result in  
3 the CLEC being able to require Qwest to pay the CLEC's costs through reciprocal  
4 compensation. The WUTC should not place the entire burden upon one local provider that  
5 has also incurred unrecoverable expenses cause by the ESP exemption.

6 **Q. DOES QWEST INCUR ADDITIONAL COSTS TO HANDLE INTERNET-BOUND**  
7 **TRAFFIC?**

8 A. Yes. As Dr. Blackmon correctly observes, Qwest incurs costs to provide sufficient  
9 infrastructure to accommodate the increase in the origination side of Internet calling. He  
10 also correctly observes that these costs would have occurred with or without CLEC  
11 competition. However, the CLECs should recover their portion of the costs to carry the  
12 increased traffic to the ISP from the ISPs, not from Qwest, in the same manner that Qwest  
13 recovers its costs from its customers. Dr. Blackmon states that it is good policy to set  
14 prices so that they cover costs, and I agree. CLECs should set their price to cover their  
15 costs.

16 **Q. WHAT IS THE MAGNITUDE OF THE INFRASTRUCTURE COSTS THAT**  
17 **QWEST HAS INCURRED IN WASHINGTON AS A RESULT OF THE DEMANDS**  
18 **PLACED ON THE NETWORK BY INTERNET TRAFFIC?**

19 A. Qwest does not specifically track the relationship between network investments and the  
20 increased network demands caused by Internet traffic. However, at the same time that use  
21 of the Internet has grown dramatically in recent years, Qwest's annual investments in  
22 network infrastructure in Washington have increased significantly. I do not contend that all  
23 of the increases in network investment have been in response to Internet traffic, but it is  
24 clear that use of the Internet has increased network usage and, in turn, required more  
25 infrastructure. For example, Qwest's investment in the Washington network for interoffice  
26 facilities grew substantially from 1997 to 2000. Similarly, investment for switching

1 facilities more than doubled from 1997 to 2000. (Please see Exhibit LBB-5C.) Again, I do  
2 not contend that all of this increased investment is the result of Internet traffic, but it should  
3 not be disputed that there is a relationship between this investment and the rise in  
4 Internet use in recent years.

5 **Q. IN THE EVENT THAT THE WUTC SHOULD DETERMINE THAT**  
6 **RECIPROCAL COMPENSATION IS APPROPRIATE FOR INTERNET-BOUND**  
7 **TRAFFIC, HOW SHOULD THE RECIPROCAL COMPENSATION RATE BE**  
8 **CALCULATED?**

9 A. I believe that the "ISP" reciprocal compensation rate that Dr. Blackmon suggests should be  
10 based on the cost of the CLEC or ILEC to provide the trunk-to-trunk switching to the ISP.  
11 The testimony of Mr. Blackmon supports the notion that the cost to carry data traffic to an  
12 ISP located near the switch over large PRI trunks is lower than the cost to carry voice  
13 traffic over the public switched telephone network to end users..

14 **III. TANDEM/END OFFICE RATES**

15 **Q. MESSRS. KNOWLES AND ARGENBRIGHT STATE THAT THE CLEC IS**  
16 **ENTITLED TO RECIPROCAL COMPENSATION THAT INCLUDES CALL**  
17 **TERMINATION RATES AND TANDEM RATES TO TERMINATE LOCAL**  
18 **CALLS IN A CLEC NETWORK. DO YOU AGREE?**

19 A. No. In fact, no such entitlement exists in state or federal law.

20 **Q. PLEASE EXPLAIN.**

21 A. First the matter of when tandem rates apply is not clear. The WUTC has awarded tandem  
22 rates in certain contracts in the past. However each case should be determined on its own  
23 merits, and tandem rates should not be granted without specifically reviewing a particular  
24 CLEC's serving area, customer base, and business plans. There are several issues relating  
25 to the appropriateness of the tandem rate that, to my knowledge, the Commission has not

1 previously considered and that may have to be evaluated. For example, if a CLEC chooses  
2 to provide service only to ISPs and not to other Washington customer (and Qwest has seen  
3 such arrangements in some states), will the Commission rule that the CLEC is *servicing* a  
4 geographic area similar to that which Qwest serves? Will the Commission allow tandem  
5 rates if only 30% of the Qwest end offices are covered by a CLEC switch, or will the  
6 Commission require 60% coverage, or perhaps some other percentage? If a CLEC limits  
7 its customers to only business customers without serving residential customers, will the  
8 Commission rule that the CLEC is covering the same territory as Qwest? Not all of these  
9 important questions can be anticipated and answered in the abstract without the benefit of  
10 fact-specific situations that are presented to the Commission. Thus, while Qwest does not  
11 dispute that in certain circumstances it may be proper to allow tandem rates, these decisions  
12 necessarily rest upon fact-intensive inquiries that must be conducted on a case-by-case  
13 basis.

14 **Q. IF THE COMMISSION DETERMINES THAT A CLEC SHOULD BE**  
15 **PERMITTED TO CHARGE TANDEM RATES IN CERTAIN CIRCUMSTANCES,**  
16 **SHOULD THOSE RATES APPLY TO ALL OF THE QWEST TRAFFIC THAT**  
17 **THE CLEC TERMINATES?**

18 A. No. Reciprocal compensation should not be based on tandem rates if there is a direct trunk  
19 between the Qwest end office and the CLEC switch. Qwest provides direct trunks to  
20 improve the efficiency of the network. In many cases, Qwest provides these trunks because  
21 high traffic volumes between a Qwest switch and a CLEC switch warrant a dedicated trunk  
22 group.

23  
24 **Q. WHY DOES QWEST BELIEVE IT SHOULD NOT BE REQUIRED TO PAY**  
25 **TANDEM SWITCHING RATES WHEN A CLEC HAS DIRECT TRUNKS TO A**  
26 **QWEST END OFFICE?**

1 A. Qwest believes it is inappropriate to pay tandem switching rates when a CLEC has a direct  
2 LIS trunk group to a Qwest end office. When a CLEC has a direct trunk group to a Qwest  
3 end office, Qwest charges the CLEC only the end office element, not the tandem switching  
4 rate. For the rate structure to be truly symmetrical, the CLEC should also be required to  
5 charge only the end office rate element to Qwest and should not be permitted to impose  
6 tandem rates for this traffic. A CLEC should be permitted to impose tandem rates for  
7 connections between a Qwest tandem and the CLEC's switch if this Commission  
8 determines that the CLEC's switch should be treated as a tandem. But, only end office rates  
9 should apply for traffic that is on LIS trunks that are directly connected to a Qwest end  
10 office. Qwest only charges end office rates for this type of traffic, and, to ensure symmetry  
11 and fairness, CLECs should only charge end office rates for this traffic. Assuming, for  
12 discussion purposes, that 50% of the traffic exchanged between a CLEC and Qwest was  
13 exchanged at the Qwest tandem, and 50% of the traffic was exchanged between the  
14 companies using direct trunking to the end office, Qwest would bill the CLEC end office  
15 rates only for 50% of the traffic exchanged and end office rates plus tandem switching for  
16 the 50% calls that were switched by the tandem. The CLEC should only receive the  
17 additional tandem rates for traffic exchanged at the Qwest tandem and should receive end  
18 office rates for traffic exchanged at the end office level. To do otherwise would mean that  
19 even when the minutes of traffic exchanged were equal in amount (in balance) the CLEC  
20 would always be entitled to more compensation for an equal amount of traffic.

21 **Q. DO YOU AGREE WITH DR. BLACKMON'S POSITION ON THIS ISSUE?**

22 A. Yes. Dr. Blackmon, correctly observes that direct trunking for large volumes of traffic  
23 promotes efficient and economical use of the network. I agree with him that in those  
24 instances where direct trunking exists, only the end office rate is appropriate, not the  
25 tandem rate.

26 **Q. WHAT DO THE FCC RULES SAY WITH RESPECT TO RECIPROCAL RATES?**



1 A. The FCC rule set forth at 47 C.F.R. §51.711(a) establishes the general principle that  
2 "[r]ates for the transport and termination of local telecommunications traffic shall be  
3 symmetrical . . . ." Under 51.711(b), a CLEC can be excepted from this general rule and  
4 permitted to charge rates higher than those of the ILEC if the CLEC demonstrates higher  
5 costs through a cost study based upon a "forward-looking economic cost based pricing  
6 methodology." In the absence of a cost study showing that the CLEC's costs are higher  
7 than the ILEC's, symmetrical rates must apply. If CLECs are permitted to charge tandem  
8 rates in circumstances where Qwest only charges the end office rate, the effect will be to  
9 improperly allow CLECs to charge asymmetrical rates without a showing that their costs  
10 are different from Qwest's. This result would violate the FCC rule and the general  
11 requirement of rate symmetry.

12 **IV. CONCLUSION**

13 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

14 A. My testimony describes why this Commission should rule that local companies are not be  
15 required to pay reciprocal compensation to other local companies for Internet-bound traffic.  
16 The FCC has made it clear that Internet traffic is interstate in nature. The recent growth in  
17 long distance voice calls over the Internet only confirms this. Requiring the payment of  
18 reciprocal compensation for interstate, Internet-bound traffic is contrary to sound  
19 economics and public policy. For the reasons that Dr. Taylor and I have described, the  
20 Commission should not require reciprocal compensation for Internet traffic. If the  
21 Commission eventually determines that tandem rates may apply to traffic handled by  
22 certain CLECs, the Commission should still adopt the position that Dr. Blackmon and I  
23 have described relating to the CLECs' ability to impose tandem rates only on traffic  
24 exchanged at the tandem.

25 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes.