BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the	**)**	
	)	
Continued Costing and Pricing of Unbundled	**)**	**Docket No. UT-003013**
Network Elements, Transport and	**)**	**Part B**
Termination	**)**	

CROSS-RESPONSE TESTIMONY OF

MARK E. ARGENBRIGHT

ON BEHALF OF

WORLDCOM, INC.

February 07, 2001

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mark E. Argenbright. My business address is 6 Concourse Parkway, Suite 3200, Atlanta, GA 30328.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION WITH YOUR EMPLOYER.

A. I am employed by WorldCom, Inc. ("WCom") in the Law and Public Policy group and hold the position of Sr. Staff Specialist, State Regulatory Policy. In my current position I assist in the development and coordination of WCom's regulatory and public policy initiatives for the company's domestic operations. These responsibilities require that I work closely with our state regulatory groups across the various states, including Washington.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will review the responsive testimony provided by Dr. B. Glenn Blackmon with regard to the impacts of pricing decisions on reciprocal compensation. I will also address Dr. Blackmon's recommendations for a reciprocal compensation rate structure and how such rates should be applied. Finally, I will discuss the problems associated with Dr. Blackmon's position on the application of reciprocal compensation rates when direct trunking arrangements are utilized between a CLEC and the ILEC.

Q. DR. BLACKMON DISCUSSES THE IMPORTANCE OF SETTING CORRECT

PRICES FOR RECIPROCAL COMPENSATION. DO YOU AGREE WITH DR. BLACKMON'S OBSERVATIONS?

A. Yes. As I stated in my earlier testimony, the only way the WUTC can ensure that competitors have proper incentives and protect against arbitrage is to continue to base the level of inter-carrier compensation on the ILECs' forward looking economic costs. As Dr. Blackmon observed, when prices are set correctly, "[t]he originating carrier will pay the terminating carrier an amount just equal to the cost that the originating carrier would have incurred had the call stayed on its own network..

WorldCom also agrees that to the extent that the ILECs are paying rates for termination of ISP traffic that are too high due to the duration of those calls relative to other types calls, that problem should be addressed by setting prices that better reflect the cost of terminating calls of longer duration rather than by discontinuing payment for those calls.

Q. HOW DOES DR. BLACKMON'S VIEW ON THE IMPORTANCE OF PRICING RELATE TO THE RECIPROCAL COMPENSATION MECHANISM?

A. Dr. Blackmon rightfully believes that to get prices for reciprocal compensation correct, thereby establishing the proper market incentives, such prices must be based on cost. WorldCom supports this position as a fundamental requirement for any review of or changes to the existing compensation mechanism. Dr. Blackmon's testimony references the WUTC's rejection of US West's proposal to charge 3.28 cents per minute for call termination in 1995. Just as then, the Commission should strive for accuracy in any

review of the current reciprocal compensation mechanism and reject any distortions of ILEC TELRIC costs.

Further, once pricing is established based on cost, those prices should not only apply to the rate for reciprocal compensation but to the rate for comparable Unbundled Network Elements (e.g., Unbundled Local Switching) and the rate for intrastate terminating switched access. This too is consistent with Dr. Blackmon's testimony where he observes that "The WUTC has gone beyond recognizing the great importance of having local interconnection prices set properly; it has also recognized the importance of this issue with respect to termination of toll calls."

Q. CAN YOU ADDRESS THE PROPOSAL TO UTILIZE LOAD FACTORS OF THE TERMINATING SWITCH IN THE ANALYSIS OF COSTS?

A. Yes. The use of load factors in setting prices would be problematic for a variety of reasons. First, while it may be possible to calculate the load factor for a particular switch, *at a particular point in time*, in order to take the next step and utilize the load factor to establish prices, you would need to assume that demand is not only measurable but steady over time. This assumption is not valid in a competitive environment because switch load factors can and will vary periodically (perhaps daily), as customers leave the ILEC switch and go to competitors and vice versa. Routine engineering decisions and larger traffic management initiatives can also change load factors as each company strives to achieve optimal efficiency in its *entire* network.

Further, WorldCom questions whether it is possible to discern the costs attributable to a particular switch in Washington as ILECs typically purchase multiple switches at one time for deployment throughout their region. WorldCom is concerned about the validity of using such regional costs in the context of a switch by switch (each with its unique geographic location and configuration) analysis.

Finally, it would be an administrative burden to manage (from a billing and auditing perspective) the multitude of rates that would result from such an analysis.

Q. WITH REGARD TO THE APPLICABILITY OF RECIPROCAL COMPENSATION PAYMENTS FOR INTERNET-BOUND TRAFFIC, DO YOU SUPPORT DR. BLACKMON'S RECOMMENDATIONS?

A. Yes. Dr. Blackmon's rejection of Verizon's proposal to establish a different price for Internet-bound traffic than for all other traffic is appropriate. As Dr. Blackmon asserts, "The nature of the call, i.e., whether its is Internet-bound or not, does not determine its cost." Dr. Blackmon also rejects Qwest's proposal that Internet-bound traffic be subject to mandatory bill and keep, correctly recognizing that the bill and keep mechanism is only appropriate when traffic is roughly in balance.

Dr. Blackmon also accurately addresses the positive policy implications of applying reciprocal compensation to Internet-bound traffic. Dr. Blackmon states, "It is good

policy to set prices so that they cover costs and to have originating carriers in an interconnected network compensate their competitors for the cost of terminating their traffic. Moreover, explicit cost-based reciprocal compensation will permit competitors to specialize in their service offerings. The WUTC should not, as Qwest proposes, establish policies that effectively punish companies for catering to a market segment that receives more calls than it makes or vice versa."

WorldCom supports Dr. Blackmon's recommendations in this regard and urges the Commission to continue its practice of compensating local exchange carriers for the use of their networks in the termination of Internet-bound traffic that originates on the network of another carrier through the application of reciprocal compensation.

Q. DO YOU AGREE WITH DR. BLACKMON'S SUPPORT OF THE QWEST PROPOSAL THAT TANDEM SWITCHING RATES SHOULD NOT APPLY WHEN DIRECT TRUNKING ARRANGEMENTS ARE IN PLACE BETWEEN THE QWEST AND CLEC NETWORKS?

A. No. As I indicated in my earlier testimony the presence of direct trunks between an ILEC end office and the point of interconnection with the CLEC network does not impact the applicability of the tandem switching element. If the CLEC switch serves a geographic area comparable to the ILEC tandem, application of the tandem rate (i.e., tandem switching, transport and end office switching) is appropriate.

While the presence of such direct trunks relieves the volume of traffic on the ILEC tandem, it does not relieve any level of traffic from the CLEC switch. Further, such direct trunking arrangements allow for the delivery of traffic ***originated*** from a relatively limited geographic area (i.e., the service area of the particular end office) to the CLEC network but has no correlation to the geographic area to which the CLEC network will ***terminate*** the traffic.

As support for his position Dr. Blackmon notes in his testimony that "However, where there are large volumes of traffic ***terminating*** at a single end office, Qwest would use direct end office trunking to deliver that traffic." [emphasis added] The problem is that the traffic activity that gives rise to the installation of the direct trunks being discussed is Qwest's ***origination*** of traffic. The location of Qwest's originating traffic has no bearing on where the traffic will terminate on the CLEC network. In fact it is the nature of the CLEC network (i.e., serving a large geographic area with a single switch) that makes such direct trunking attractive to Qwest. Were Qwest to look at terminating this same traffic on its own network over the geographic area covered by the CLEC network and to various and diverse locations on that network, installation of a multitude of direct trunks may well not be justified.

By way of example, if the Qwest identifies an amount of traffic originating from its Seattle Main end office destined for the WorldCom local ***network,*** it may well order direct trunking from the Seattle Main end office to the WorldCom point of

interconnection in Seattle. Once these trunk are installed, the very same traffic that previously went through the Qwest tandem switch en route to the WorldCom ***network*** will now simply go directly to the WorldCom ***network*** bypassing the Qwest tandem. This traffic will still be delivered by WorldCom to customers located on the WorldCom network which serves a geographic area comparable to the ILEC tandem network. Therefore the traffic that previously originated from Qwest end users served by Seattle Main and traversed the Qwest tandem before being handed to the WorldCom network for termination to customers that may be in geographically diverse locations such as Halls Lake, Bothell, Auburn and Issaquah will now skip the Qwest tandem for termination on the very same WorldCom network that was utilized by the Qwest traffic prior to the installation of the direct trunks. Simply the WorldCom network performs a tandem function in both situations and should be compensated accordingly.

Q. DOES THIS CONCLUDE YOU TESTIMONY?

A, Yes it does.