

MEMORANDUM

TO: VNXX Committee

FROM: Agris Pavlovskis

DATE: December 7, 2005

RE: Virtual NXX

Attached is MECA's definition of VNXX, a statement of its issues, MECA's appraisal of the impact on consumers regarding MECA's issues and its proposal to the Commission. Also attached is a summary of different state commissions' determinations regarding VNXX and reciprocal compensation.

AP/ma

Vermont

The Vermont Public Service Board commented that for VNXX calls “the determination of whether traffic is local or toll is based upon the physical termination points, not the rate center assigned to the VNXX number.” Order, *Petition of Global NAPs, Inc. for Arbitration Pursuant to § 252 (b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Verizon New England, D/b/a Verizon Vermont*. 2002 Vt. PUC LEXIS 272 (Vt. PSB Dec. 26, 2002)

In a second decision, the Vermont Board concluded that “VNXX calls do not actually physically terminate within the local calling area.” Therefore, “Reciprocal Compensation does not apply to VNXX traffic that physically terminates outside the local calling area.” Order, *Re Adelpia Business Solutions, Inc.* 2003 Vt. PUC LEXIS 181 (Vt. PSB July 16, 2003).

Pennsylvania

The Pennsylvania Public Utility Commission stated that “calls to VNXX telephone numbers that are not in the same local calling area as the caller should not be subject to reciprocal compensation.” Order, *Petition of Global NAPs South, Inc. for Arbitration Pursuant to 47 U.S.C. § 252 (b) of Interconnection Rates, Terms, and Conditions with Verizon Pennsylvania Inc.* Docket No. A-310771F700 (Pa PUC April 21, 2003) at 45.

California

The California Public Utilities Commission (“CPUC”) concluded that “VNXX traffic is interexchange traffic, by nature of its termination outside of the originating calling area, that is not subject to the FCC’s reciprocal compensation rules.” *Re Verizon California, Inc.*, 2002 Cal PUC LEXIS 1047, *8 (CPUC Dec. 4, 2003). Further, the CPUC also concluded that a CLEC must compensate an ILEC for using its network to provide VNXX service. *Id.* at *11.

VIRTUAL NXX COMMITTEE

MICHIGAN EXCHANGE CARRIERS ASSOCIATION, INC.

DEFINITION OF VIRTUAL NXX

NeuStar, as NANPA (North American Numbering Plan Administration) administrator assigns NXX blocks of local telephone numbers, typically in groups of a thousand or ten thousand numbers, to telecommunications carriers. When a carrier requests local numbering resources, they specifically request NeuStar to assign an NXX block within a specific Local Exchange Service geographic area.

Virtual NXX (“VNXX”) is the assignment of one or more local telephone numbers to customers for use outside the specific Local Exchange Service geographic area. Since the telephone numbers are part of a block assigned to a specific geographic Local Exchange calling area, callers in that local calling area (a calling party) can dial these numbers as local calls. However, the call cannot be terminated within that geographic local calling area associated with the VNXX because the called carrier (and called customer) is actually located in a distant calling area. Therefore, for the call to be completed, the calling party has to use interexchange facilities to reach the called party.

MECA’S ISSUES

Reciprocal Compensation

Since the carrier to which the VNXX is assigned chooses not to locate in the geographic local calling area where the call originates, there is no actual exchange of “local” traffic. The call actually terminates in a foreign local calling area outside the local calling area of the originating call. Thus, this is interexchange traffic, and there is no reciprocal exchange of local traffic. Therefore, local reciprocal compensation is not applicable to VNXX. VNXX’s assigned to CMRS carriers are not at issue because they are under a different reciprocal compensation scheme.

Transport

When a carrier uses numbers to provide a VNXX service, the VNXX carrier is offering a benefit to its customer: the called party in the distant exchange. The discussion of VNXX services arose because the called party’s carrier is trying to get the calling party’s carrier to provide the transport from the VNXX Local Exchange area to the distant exchange.

Since the called party's carrier makes the choice to locate in a distant exchange, the called party's carrier:

1. generates additional costs,
2. gains any benefits and
3. should be paying for the interexchange transport.

If the carrier wanted numbering resources that were dialable from all end users in a wide geographic area spanning multiple Local Exchanges, NeuStar would assign numbers from 800, 900 or 976 blocks. The 800-prefix was introduced in about 1968 to provide WATS (Wide Area Telecommunications Service) to address this specific need: allowing calling parties from a wide area to call a distant party without the calling party paying to transport the call.

Consumer Impact

The resolution of the reciprocal compensation and transport issues per MECA's recommendations would not adversely affect consumers utilizing VNXX based services or the providers of those services. Rates paid by consumers (end user or ISPs) of VNXX based services are currently market based. Claims for local reciprocal compensation are recent attempts to arbitrage the reciprocal compensation system by some CLECs in order to enrich stockholders of those CLECs.

On the other hand, consumers of the originating carrier, where the VNXX is assigned geographically, are at risk due to this attempt at arbitrage. Their geographical based carrier will need to pay for local call termination when in reality this is interexchange traffic. Increased costs to the originating carrier inevitably are passed on to its customers in terms of service offerings or higher rates.

MECA'S PROPOSAL TO THE COMMISSION

MECA proposes that this committee recommend to the Commission that it should adopt a policy that excludes VNXX from local reciprocal compensation, and that the carrier assigned the VNXX be responsible for the transport beyond the local calling area of the originating calls. Based on the MTA, the Commission needs to re-address past orders and bring its VNXX policy in line with the legislature's intent. No additional legislation is required because the Commission already has authority to implement MECA's proposals.