

Verizon will have Bill Munsell on the call Friday to support our position. Attached are our documents.

Definition: VNXX is the assignment of a telephone number with an NXX code that is associated with an exchange that is different than the exchange where the customer is physically located. Like 800 service, VNXX enables the customer with a VNXX number to receive inter-exchange calls that are placed on a toll free basis by an end user.

Issues:

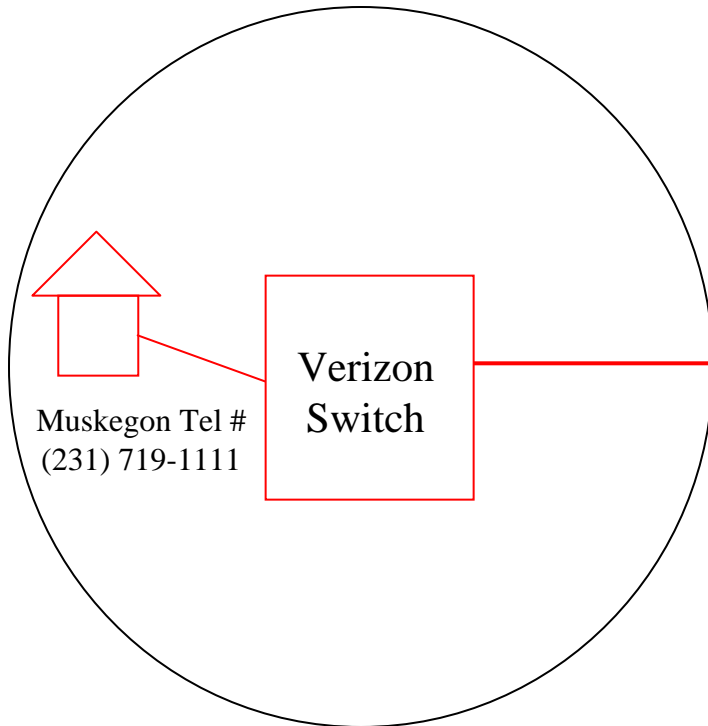
1. Should the determination of whether a call is intra-exchange or inter-exchange be determined without regard to the geographic end points of the call? 2. Should the inter-carrier compensation for VNXX calls be the same as for calls where the calling party pays (sent-paid calls), or should it be the same as for calls where the called party pays (800 calls)?

(See attached file: 12-09-05 Verizon MI VNXX.ppt)(See attached file: 12-09-05 Verizon MI Attachment 1.doc)

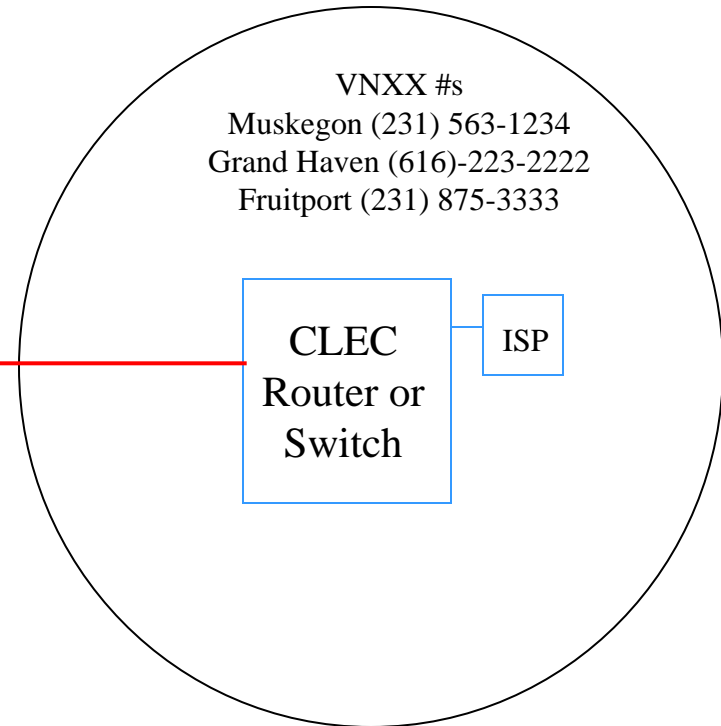
Thank you,
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Virtual NXX Arrangement

Muskegon LCA



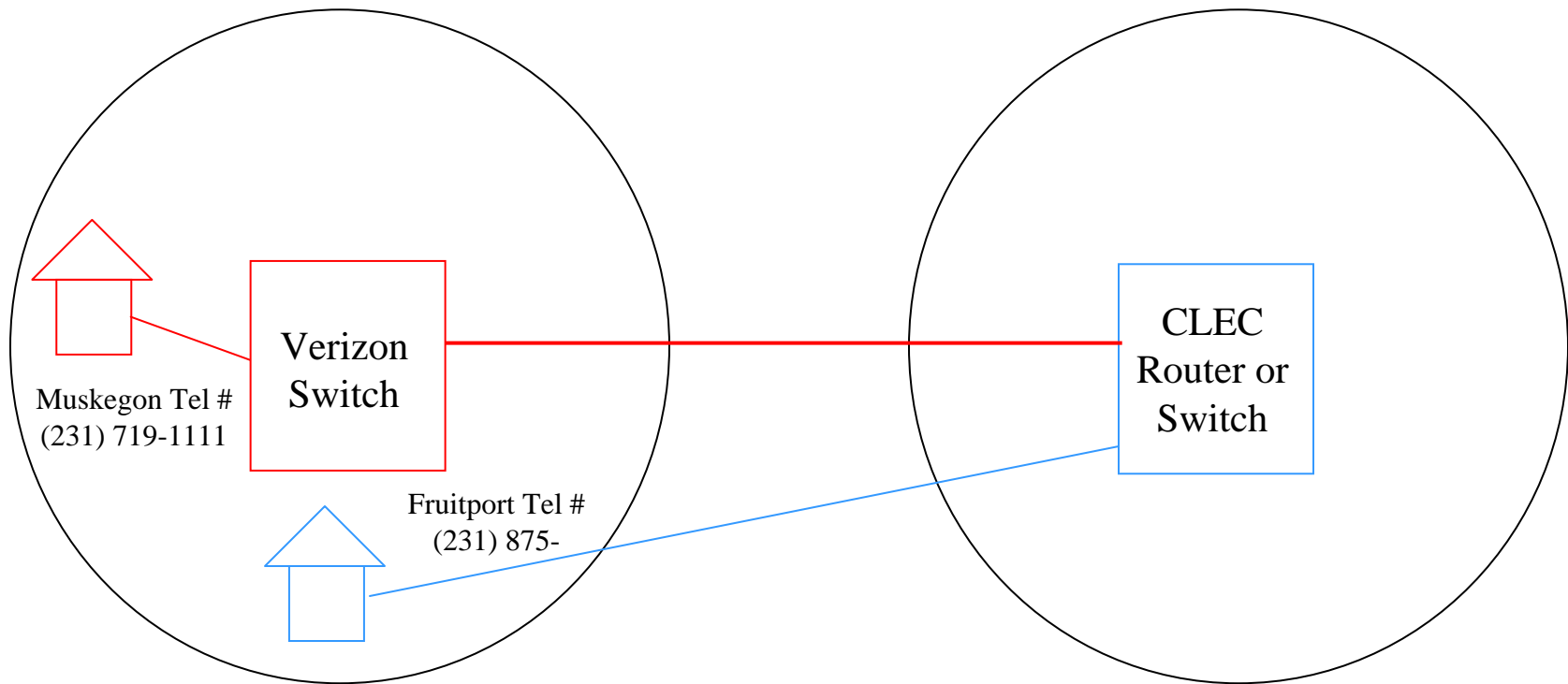
Grand Rapids LCA



Local Call

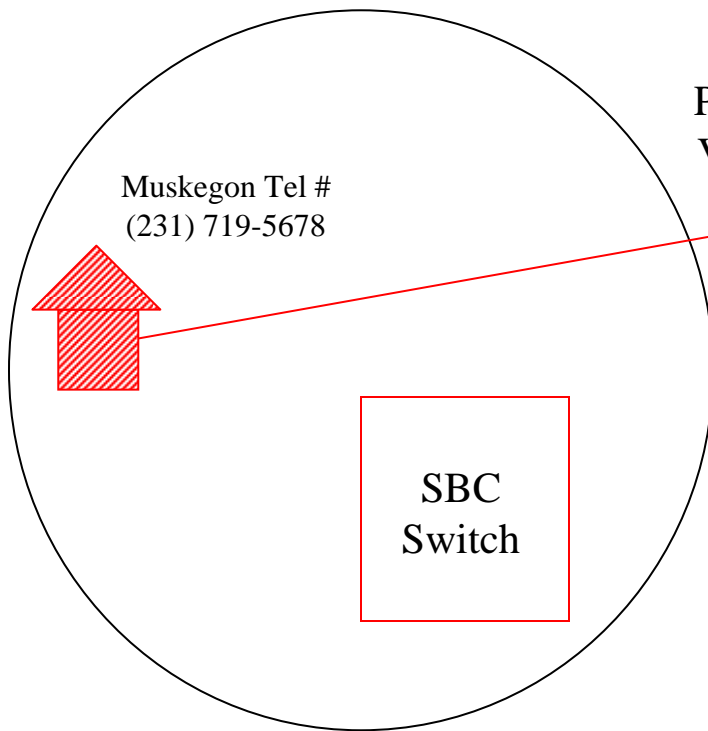
Muskegon LCA

Grand Rapids LCA



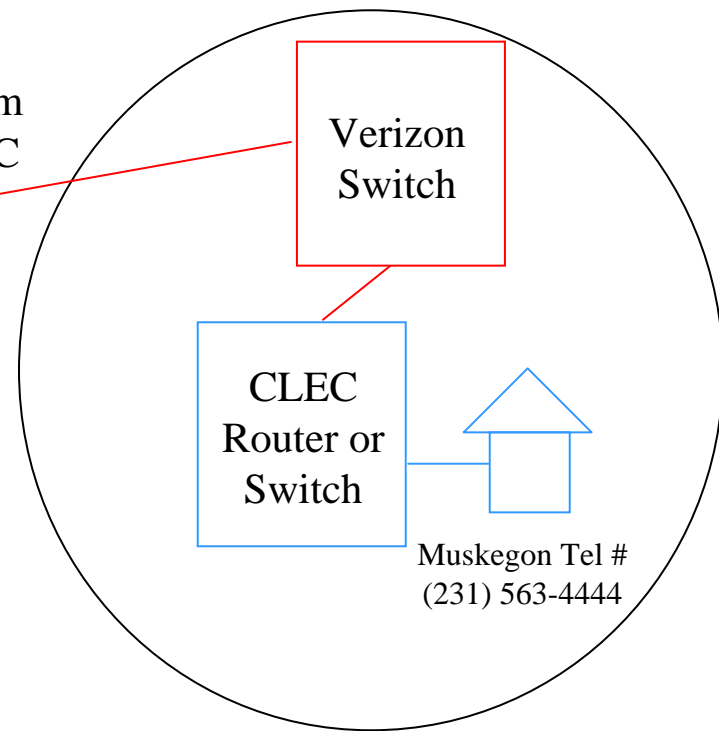
Traditional FX Arrangement

Grand Rapids LCA



Private Line
Purchased From
Verizon & SBC

Muskegon LCA



**VIRTUAL NXX TRAFFIC IS OVERWHELMINGLY ISP-BOUND TRAFFIC
AND IS NOT SUBJECT TO RECIPROCAL COMPENSATION OR THE
ISP REMAND ORDER COMPENSATION REGIME**

1. In a typical Virtual NXX arrangement, a CLEC establishes a single switch in a LATA and its ISP customers collocate in the same building where the CLEC's switch is housed. The CLEC then obtains telephone numbers (*i.e.*, NXX codes) for calling areas throughout the LATA. The CLEC then assigns one or more numbers from each of those NXX codes to its ISP customer. The ISP offers its customers — normally, an incumbent's end-user customers — “local” numbers for dial-up access to the Internet. Thus, a Verizon customer in Muskegon, for example, can dial a seven-digit number to call an ISP located in Grand Rapids, even though a call from Muskegon to Grand Rapids is a toll call. The basics of Virtual NXX are depicted in the following diagram.

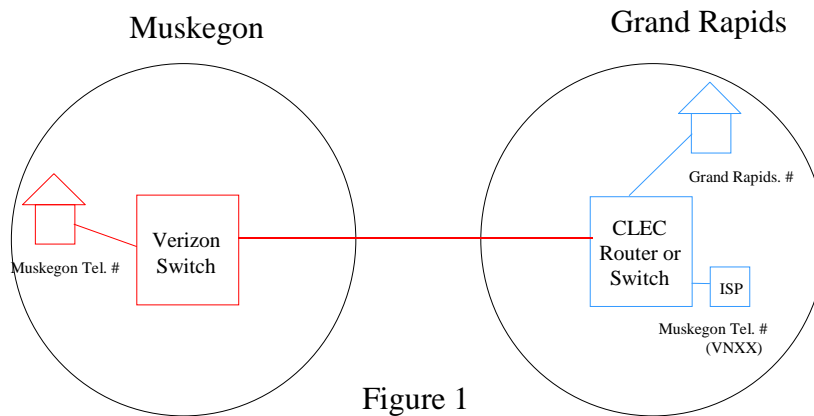


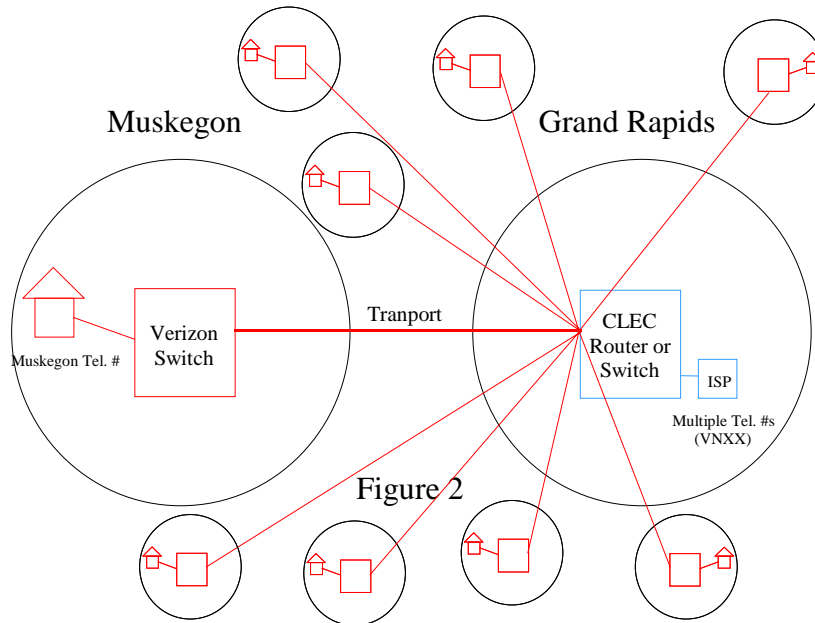
Figure 1

There is no dispute that, on a normal call from a Verizon customer in Muskegon to a customer located in Grand Rapids, Verizon would receive either toll charges from its Muskegon customer or originating access charges if that customer subscribed to an intraLATA toll provider other than Verizon and, moreover, would not pay reciprocal compensation to the CLEC. That is because, as noted above, a call from Muskegon to Grand Rapids is an interexchange call.

In the case of the Virtual NXX arrangement depicted above (the ISP in Grand Rapids assigned a Muskegon number), however, Verizon's customer dials a number that appears to be local and Verizon does not receive toll charges from its customer or access charges (from Verizon's customer's selected intraLATA toll provider). In contrast to Verizon, which does the work of transporting the call on its network, often through both end office and tandem switches, without compensation, the CLEC receives compensation without doing work. The CLEC often hands off the calls a very short distance to its ISP customer — which is often collocated in the same building housing the CLEC's router or switch — and charges its customer for both the facilities and the number assignment. Moreover, even though the CLEC is being paid by its customer so that Verizon's customer can make calls without paying Verizon, the CLEC refuses to share any of the revenue it receives, as it would if the CLEC provided its customer with a functionally equivalent 1-800 arrangement. Instead, because the call appears to be local, the CLEC claims that Verizon must pay reciprocal compensation or ISP intercarrier compensation.

Thus, the key feature of a Virtual NXX arrangement — and the reason it appeals to CLECs — is that incumbents bear virtually all the costs and the CLEC collects all the revenue, particularly the claimed right to receive intercarrier compensation. Figure 1, however, gives a misleading indication of the scope of Virtual NXX arrangements. Because the CLEC and the ISP shift to incumbents all the costs of a Virtual NXX arrangement, they have made extensive use of these arrangements. Indeed, the cost savings to ISPs and the arbitrage opportunities for CLECs are so great that CLECs utilize Virtual NXX arrangements even when they must provide a moderate amount of transport, such as when they provide an ISP located in one LATA with numbers associated with one or more neighboring LATAs or states. A more accurate depiction of the manner in which Virtual NXX is employed would show all of the other local calling areas

from which Verizon's customers can make a toll-free call to the CLECs' ISP located in Grand Rapids. Thus, the ability to make toll-free toll calls to Grand Rapids would exist not only for Verizon's customers in Muskegon, but also for all of Verizon's customers in the Grand Rapids LATA.



As this diagram shows, Verizon customers served by Verizon switches in each of the depicted local calling areas can place a “local” call to an ISP in Grand Rapids. That is because the CLEC normally gives its ISP not one Virtual NXX number, but many, if not dozens of, such numbers (but only a tiny fraction of the numbers from each of the 1,000 or 10,000 blocks of numbers the CLEC must obtain to provide this Virtual NXX service). The ISP, in turn, advertises those “local” numbers to its customers located in each of these local calling areas. The ISP’s customers thus obtain the same toll-free calling ability as if the ISP purchased a regional 1-800 service, but without the ISP or the CLEC bearing the costs of that service — or Verizon obtaining the revenue that would be due for its part in carrying 1-800 calls.

In contrast to Virtual NXX arrangements used for ISP-bound traffic, which can account for as much as 100 percent of a CLEC’s traffic and millions of dollars billed to ILECs, the

traditional FX service that ILECs offer normally accounts for fewer than 1 percent of calls received by an ILEC. A typical traditional FX arrangement is depicted in the following diagram.

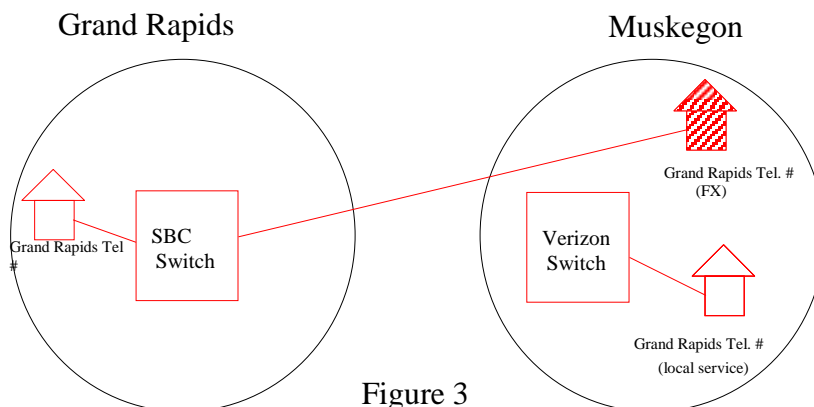
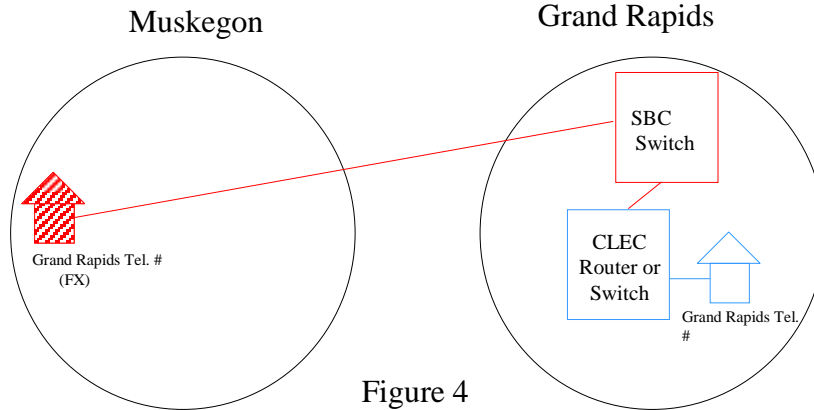


Figure 3

As shown here, unlike typical local customers, which are connected to and receive dial tone from a switch located in their local calling area, the Verizon FX customer (the shaded house) is connected to and receives dial tone from a switch in a distant (or foreign) exchange.¹ The FX customer pays Verizon a flat-rated toll charge for the private line used to connect the customer to the foreign switch. The Verizon FX customer, therefore, can place and receive “toll-free” calls as though he were located in Grand Rapids, but that is only because the FX customer has pre-paid Verizon a flat-rated toll charge for the private line in place of the toll charges that normally would apply to both for outbound and inbound calls.

Because the FX customer bears the cost of this private line — and because obtaining an FX arrangement that covered multiple calling areas would require the purchase of multiple private lines — traditional FX does not allow for the shifting of costs to another carrier. This is shown in the following diagram.

¹ The Verizon FX customer likely has a second line, not depicted here, for basic local service in Muskegon and obtains dial tone on that line from the Verizon switch in Muskegon.



Thus, when the CLEC customer in Grand Rapids places a “local” call to the Verizon FX customer, it is still Verizon and its customer that, respectively, perform and bear the cost of the interexchange transport associated with the FX service. Therefore, while Figure 2, above, depicts the manner in which Virtual NXX is most commonly utilized, there is no comparable, real-world picture for traditional FX — that is, end users do not obtain FX lines that connect to every (or even many) of the local calling areas in a LATA, let alone to multiple calling areas in neighboring LATAs or states.