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July 18, 2001

Mr. Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

00164-AM #2

RECEIVED

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PUBLIC SERVICE
COMMISSION

RE: Adoption Letter Between Verizon South Inc. and
State Discount Telephone, LLC

Dear Mr. Dorman:

Enclosed for joint filing by the parties with the Kentucky Public Service Commission (Commission) are two copies of an executed Adoption Letter recently executed between Verizon South Inc. (formerly GTE South Incorporated) and State Discount Telephone, LLC, adopting the terms of the Resale Agreement between EZ Talk Communications, LLC. That agreement was approved by the Commission in Case No. 98-415 on September 18, 1998.

Also enclosed is an electronic copy of the Adoption Letter in Microsoft Word 97 format on a 3.5 floppy diskette.

This Adoption Letter is being provided to the Commission for its review and approval. Please bring this filing to the attention of the Commission, and if there are any questions, please contact me at your convenience.

Yours truly,

A handwritten signature in black ink that reads "Larry D. Callison".

Larry D. Callison

Enclosures

c: Ms. Misty Fruge' - State Discount Telephone, LLC

Steven J. Pitterle
Director - Negotiations
Network Services



Network Services
600 Hidden Ridge HQE03B67
P.O. Box 152092
Irving, Texas 75038

Phone 972/718-1333
Fax 972/718-1279
steve.pitterle@verizon.com

June 19, 2001

Ms. Misty Fruge'
Vice-President
State Discount Telephone, LLC
2023 Sam Houston Ave. #2
Huntsville, TX 77340

Re: Requested Adoption Under Section 252(i) of the TA96

Dear Ms. Fruge':

Verizon South Inc., f/k/a GTE South Incorporated ("Verizon"), has received your letter stating that, under Section 252(i) of the Telecommunications Act of 1996 (the "Act"), State Discount Telephone, LLC ("State Discount") wishes to adopt the terms of the Interconnection Agreement between EZ Talk Communications, L.L.C. ("EZ Talk") and Verizon that was approved by the Kentucky Public Service Commission (the "Commission") as an effective agreement in the Commonwealth of Kentucky, as such agreement exists on the date hereof after giving effect to operation of law (the "Terms"). I understand State Discount has a copy of the Terms. Please note the following with respect to State Discount's adoption of the Terms.

1. By State Discount's countersignature on this letter, State Discount hereby represents and agrees to the following three points:
 - (A) State Discount adopts (and agrees to be bound by) the Terms of the EZ Talk/Verizon agreement for interconnection as it is in effect on the date hereof after giving effect to operation of law, and in applying the Terms, agrees that State Discount shall be substituted in place of EZ Talk Communications, L.L.C. and EZ Talk in the Terms wherever appropriate.
 - (B) Notice to State Discount and Verizon as may be required under the Terms shall be provided as follows:

To: State Discount Telephone, LLC
Attention: Ms. Misty Fruge'
Vice-President
2023 Sam Houston Ave. #2

Huntsville, TX 77340
Telephone number: 936-295-9600
FAX number: 936-435-9601

To Verizon:

Director-Contract Performance & Administration
Verizon Wholesale Markets
600 Hidden Ridge
HQEWMNOTICES
Irving, TX 75038
Telephone Number: 972-718-5988
Facsimile Number: 972-719-1519
Internet Address: wmnotices@verizon.com

with a copy to:

Vice President and Associate General Counsel
Verizon Wholesale Markets
1320 N. Court House Road
8th Floor
Arlington, VA 22201
Facsimile: 703/974-0744

- (C) State Discount represents and warrants that it is a certified provider of local telecommunications service in the Commonwealth of Kentucky, and that its adoption of the Terms will cover services in the Commonwealth of Kentucky only.
2. State Discount's adoption of the EZ Talk Terms shall become effective upon the date of filing of this adoption letter with the Commission (which filing Verizon will promptly make upon receipt of an original of this letter countersigned by State Discount) and remain in effect no longer than the date the EZ Talk/Verizon agreement terminates. The EZ Talk/Verizon agreement is currently scheduled to terminate on October 2, 2001. Thus, the Terms adopted by State Discount also shall terminate on that date.
 3. As the Terms are being adopted by you pursuant to your statutory rights under section 252(i), Verizon does not provide the Terms to you as either a voluntary or negotiated agreement. The filing and performance by Verizon of the Terms does not in any way constitute a waiver by Verizon of any position as to the Terms or a portion thereof, nor does it constitute a waiver by Verizon of all rights and remedies it may have to seek review of the Terms, or to seek review in any way of any provisions included in these Terms as a result of State Discount's 252(i) election.

4. On January 25, 1999, the Supreme Court of the United States (“Court”) issued its decision on the appeals of the Eighth Circuit’s decision in *Iowa Utilities Board*. Specifically, the Supreme Court modified several of the FCC’s and the Eighth Circuit’s rulings regarding unbundled network elements and pricing requirements under the Act. *AT&T Corp. v. Iowa Utilities Board*, 119 S. Ct. 721 (1999). Certain provisions of the Terms may be void or unenforceable as a result of the Court’s decision of January 25, 1999, the United States Eighth Circuit Court of Appeals’ decision in Docket No. 96-3321 regarding the FCC’s pricing rules, and the current appeal before the U.S. Supreme Court regarding the FCC’s new UNE rules. Moreover, nothing herein shall be construed as or is intended to be a concession or admission by Verizon that any provision in the Terms complies with the rights and duties imposed by the Act, the decisions of the FCC and the Commissions, the decisions of the courts, or other law, and Verizon expressly reserves its full right to assert and pursue claims arising from or related to the Terms.
5. Verizon reserves the right to deny State Discount’s adoption and/or application of the Terms, in whole or in part, at any time:
 - (a) when the costs of providing the Terms to State Discount are greater than the costs of providing them to EZ Talk;
 - (b) if the provision of the Terms to State Discount is not technically feasible; and/or
 - (c) to the extent that Verizon otherwise is not required to make the Terms available to State Discount under applicable law.
6. For avoidance of doubt, please note that adoption of the Terms will not result in reciprocal compensation payments for Internet traffic. Verizon has always taken the position that reciprocal compensation was not due to be paid for Internet traffic under section 251(b)(5) of the Act. Verizon’s position that reciprocal compensation is not to be paid for Internet traffic was confirmed by the FCC in the Order on Remand and Report and Order adopted on April 18, 2001 (“*FCC Remand Order*”), which held that Internet traffic constitutes “information access” outside the scope of the reciprocal compensation obligations set forth in section 251(b)(5) of the Act.¹ Accordingly, any compensation to be paid for Internet traffic will be handled pursuant to the terms of the *FCC Remand Order*, not pursuant to adoption of the Terms.² Moreover, in light of the *FCC Remand Order*, even if the Terms include provisions invoking an intercarrier compensation mechanism for Internet traffic, any reasonable amount of time permitted for adopting such provisions has expired under the FCC’s rules implementing section 252(i) of the Act.³

¹ Order on Remand and Report and Order, In the Matters of: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 and Intercarrier Compensation for ISP-Bound Traffic, CC Docket No. 99-68 (rel. April 27, 2001) ¶44.

² For your convenience, an industry letter distributed by Verizon explaining its plans to implement the *FCC Remand Order* can be viewed at Verizon’s Customer Support Website at URL www.verizon.com/wise (select Verizon East Customer Support, Resources, Industry Letters, CLEC).

³ See, e.g., 47 C.F.R. Section 51.809(c).

7. Should State Discount attempt to apply the Terms in a manner that conflicts with paragraphs 3-6 above, Verizon reserves its rights to seek appropriate legal and/or equitable relief.

Please arrange for a duly authorized representative of State Discount to sign this letter in the space provided below and return it to the undersigned.

Sincerely,

VERIZON SOUTH INC.

Steven J. Pitterle
Director – Negotiations
Network Services

Reviewed and countersigned as to points A, B, and C of paragraph 1:

STATE DISCOUNT TELEPHONE, LLC

(SIGNATURE)

(PRINT NAME)

c: R. Ragsdale – Verizon