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April 18, 2019

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: *Ex parte* presentation in WC Docket No. 18-155

Dear Ms. Dortch:

On April 16, 2019, Fritz Hendricks, CEO of Inteliquent, Inc. (“Inteliquent”), and Scott Sawyer (by phone), General Counsel of Inteliquent, and the undersigned, counsel to Inteliquent, met with Lisa Hone, Gil Strobel, Erik Raven-Hansen, Belinda Nixon, Susan Bahr, Al Lewis (by phone), Allison Baker, and David Zesiger of the Wireline Competition Bureau, and Eric Burger (by phone), Eric Ralph, Tavi Carare, Richard Kwiatkowski, and Shane Taylor of the Office of Economics and Analytics. The Inteliquent representatives discussed proposed solutions to access arbitrage, as reflected in detail in the attached presentation provided to meeting attendees.

Please direct any questions to the undersigned.

Sincerely,

Matthew S. DelNero
Thomas G. Parisi
Counsel to Inteliquent

cc: meeting attendees

Solutions to Access Arbitrage

Presentation by Inteliquent, Inc. (WC Docket No. 18-155)

April 16, 2019



Executive Summary

The Issue: Mileage Pumping and Call Blocking schemes are the new form of Access Arbitrage. These schemes impose \$60mm+ per year of unnecessary cost on the public

- × Access Arbitrage schemes, now taking the form of mileage pumping and call blocking, are ***designed to exploit FCC rules at the expense of the public***
- × These schemes impose an annual cost to the industry in excess of ***\$60+ million every year***
- × The schemes inflate network costs by (1) overstating mileage charges and (2) misrepresenting actual call destinations. These behaviors ***unequivocally undermine the FCC's long-standing commitment to affordable pricing***
- × Mileage pumping LECs ***bill for ~10x as many miles*** per call as typical carriers
- × We estimate ***70% of mileage pumping LEC volume*** is sent to a major metro areas and ***never goes to a rural destination***

Our proposed solution is designed to curb access arbitrage

Proposed Solution Goals

We believe the solution should focus on the achievement of three goals

The Goals

1

Reduce Mileage Pumping by leveraging proven RBOC benchmarking approach for which there is ample precedent

2

Prevent Call Blocking and new arbitrage methods by clearly delineating the operational and financial duties of market participants such as IXC's, tandems, LECs and EOs

3

Modernize the definition of "Access Stimulation"

Proposed Solution

Three key changes can facilitate the desired and resilient outcome

The Solutions

1

Mileage Pumping: Cap (1) the amount of mileage to 10 miles and (2) the number of terminations an access stimulating LEC can charge to no more than two; set the cap based on applicable RBOC benchmarks

2

Call Blocking: Clarify that that IXC call delivery to the terminating tandem is sufficient for call completion, to eliminate the financial incentive for Access Stimulators to block and reroute calls to controlled affiliates

3

Revised Definition of “Access Stimulation”:

- Eliminate revenue share as the first trigger – revenue share can be (*and is*) easily worked around
- Consider changing trigger to a ratio of terminating to originating MOU from 3:1 to 6:1

Mileage Pumping

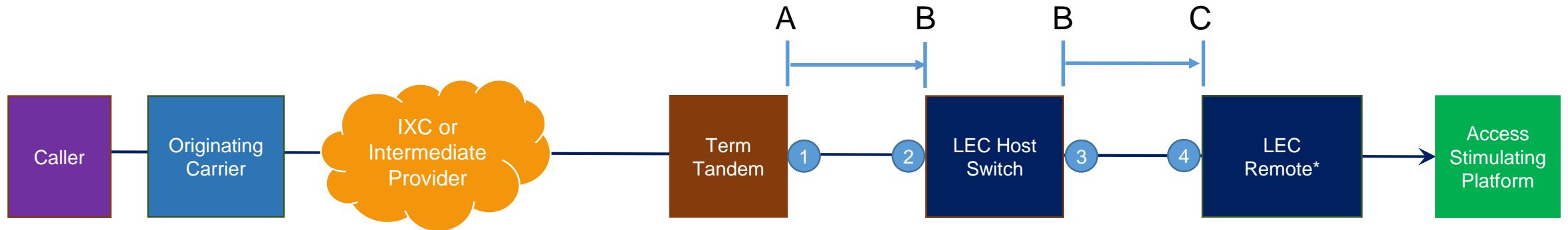
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What is Mileage Pumping?

Mileage pumping is the new access arbitrage and involves selecting EOs with high mileage charges between Tandem A and the End User point of interconnection C. On average, mileage pumping results in Access Stimulators charging 10x the rate charged at high-volume RBOC EOs



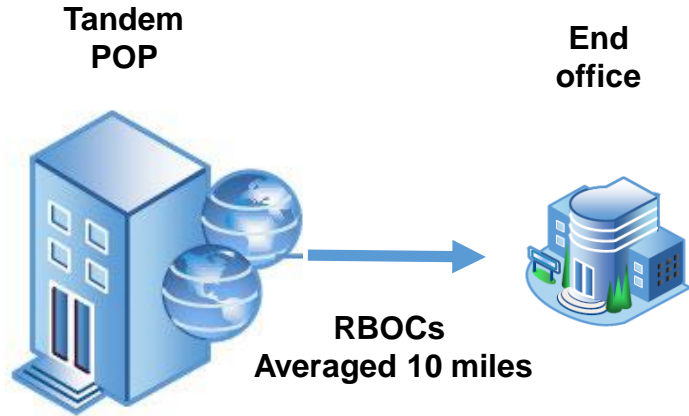
How does mileage pumping work?:

- Access stimulation platform is served by a remote terminal that is located an average of 98 miles from the Tandem
- Per MOU mileage charge between tandem and LEC host switch (Leg A-to-B)
- Per MOU mileage charge between LEC host switch and LEC remote terminal (Leg B-to-C)
- 4 termination charges at point 1, 2, 3, and 4 ● Termination Charges
- Note: high-volume RBOCs do not use remote configurations to serve high-volume traffic destinations because it increases the number of times a call is switched and processed for no tangible benefit

* = in some cases, LEC does not use a remote switch

Inteliquent Traffic Study: Average Mileage Charges

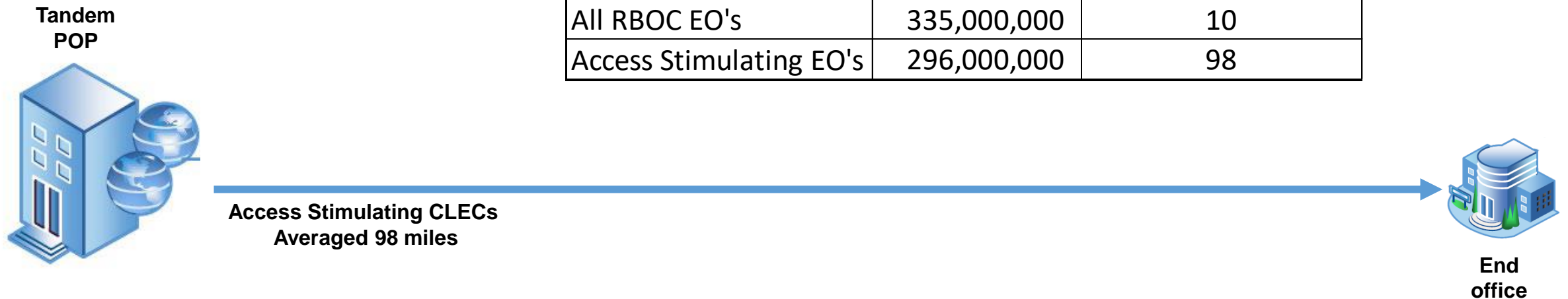
Inteliquent compared the traffic volume and mileage charges of the largest Access Stimulating EO's against high-volume RBOC EO's across the U.S.



Scope of study:

- Study covered 631,000,000 MOU
- 18,000 Tandem & End Office routes spanning metro and rural destinations
- 40 CLEC End Offices categorized as Access Stimulators
- 30 days of traffic

Destinations	MOU Volume	Average Mileage Charge
All RBOC EO's	335,000,000	10
Access Stimulating EO's	296,000,000	98



Inteliquent Traffic Study: MOU Results

Access Stimulating End Offices account for massive traffic volumes and represent 4-6x the MOU of the nation's highest volume RBOC End Offices (NY, Chicago, San Fran, LA, Dallas)

High Volume Category	RBOC EO Volume	Access Stimulation EO Volume	Ratio
Top 10 EO Destinations	47,000,000	276,000,000	6 to 1
Top 25 EO Destinations	77,000,000	296,000,000	4 to 1

- The top 10 Access Stimulating EOs carry 93% of the MOU volume – 6x the nation's largest highest volume RBOC EOs that serve millions of end users
- Three tandems carry more than 90% of the traffic volume (Aureon, SDN, and HD Tandem)
- Traffic is constantly moving between Access Stimulating LECs (whoever pays the most wins), making it hard to engineer capacity to the EOs (IXC builds out network and traffic moves over night)
- **Call blocking at the End User platform redirects over 70% of the calls from the regulated path to an unregulated Access Stimulator affiliate**
- **Study shows redirected calls never terminate back to the rural LEC end office upon which the rate is based**

Inteliquent Traffic Study: Mileage Charges versus Benchmark

Top Access Stimulating EOs charge 98 miles while high-volume EOs charge for only ~3 miles

Access Stimulation Eos	Average Mileage
Top 10	98
Top 25	95

- Average charge per MOU by an access stimulating LEC is 98 miles and 4 termination charges per MOU

RBOC End Offices	Average Mileage
Top 10	2
Top 25	3
Top 250	5
All high-volume RBOC EOs	<6
All Verizon	9
All AT&T	17
All Centurylink	28
All RBOC	15

- Benchmark high volume RBOCs charge < 6 miles and no more than 2 termination charges per MOU
- A Benchmark of All RBOCs charge ~15 miles
- The benchmark can range from 2 to 15 miles; Access Stimulator charges are 10x to 50x RBOC levels
- **Conclusion: 10 miles represents a fair balance between benchmark of high-volume RBOC EOs (<6 mi.) and average across all RBOCs (15 mi.)**

Inteliquent Traffic Study: Mileage Pumping Cost Impact

Based on 30 days of IQNT traffic and CenturyLink* mileage and termination charges, the Access Stimulators charge IQNT \$800k more per month (\$10mm per year) than Benchmark RBOC rates

Baseline: 296m MOU terminated to Access Stimulating CLECs	Average Mileage	Cost to Terminate	Cost above Benchmark
Access stimulationg CLECs	98	\$ 955,488	N/A
RBOC Benchmark - Top 25	3	\$ 97,680	\$ (857,808)
RBOC Benchmark - All	15	\$ 213,120	\$ (742,368)
RBOC Benchmark - Balanced	10	\$ 159,840	\$ (795,648)

- *CenturyLink mileage and termination rates are used in calculation “Cost to Terminate” since 99% of all Access Stimulation occurs in the CenturyLink service area (stimulation is not done by CenturyLink)
- 70% of calls (\$670k out of \$955k) were blocked by the Access Stimulating platform provider, which caused the LCR to reroute the call to a controlled affiliate. In turn, the call bypassed Aureon, SDN and/or CLEC which were the originally intended recipients of the higher rural reimbursement rates

Inteliquent Traffic Study Consistent with Data Already in the Record

AT&T data already in the record is in line with the Inteliquent traffic study

- AT&T's Feb. 5, 2019 *ex parte* letter:
 - AT&T explained that “twice as many minutes were being routed per month to Redfield, South Dakota (with its population of approximately 2,300 people and its 1 end office) as is routed to all of Verizon’s facilities in New York City (with its population of approximately 8,500,000 people and its 90 end offices).” (p. 3)
 - AT&T estimates that these arbitrage schemes consistently inflate artificial traffic, and total more than 8.2 billion minutes-of-use (MOU), with an estimated industry cost of at least \$80 million annually.” (p. 4)
- AT&T's April 9, 2019 *ex parte* letter:
 - “[T]here is no legitimate reason for access stimulators to locate their end office switches and conference/chat equipment in remote, rural areas—that has occurred only because those locations most effectively enable the access stimulator to exploit the Commission’s ICC rules.” (p. 12)
 - AT&T details how one CLEC, Northern Valley, inflates mileage charges by locating its platforms 192 miles from the tandem
 - “A potential flaw in Prong 1 is that it does not address a core cause of access stimulation: the existence of tariffed tandem and transport rates that far exceed the actual economic cost of routing large volumes of access stimulation traffic. As a consequence, access stimulators will retain the incentive to adjust their schemes to try to exploit this arbitrage opportunity.” (p. 13)

Solution: Cap Mileage at High Volume RBOC Benchmark

Benchmarking mileage to the high volume RBOC eliminates the arbitrage opportunity- it does not matter where the bridge is located at this point

Proposed rule: If the terminating LEC's activities meet the definition of "access stimulation," then that LEC:

1. May not charge the IXC more than 10 miles of transport and two termination charges – all other costs to deliver traffic from tandem to the end user are the responsibility of the LEC;
2. Must carry the traffic from the egress side of the Tandem assigned in the LERG to the serving host or remote office; and
3. The tandem point of interconnection must be located in the same city as the price cap carrier point of interconnection

Note:

- IXC would pay for tandem charge, tandem cannot charge mileage between the Tandem and the End Office
- Access stimulation rules should apply to all LECs

Benefits of Adopting Benchmarked Mileage Cap



The proposed solution avoids geographic discrimination and new regulations

- Contains access arbitrage, by benchmarking to high-volume RBOC destinations
- FCC has a history of successfully establishing benchmark rates and charges
- Avoids the risk of regulatory disputes related to a new cost-shifting paradigm
- Reduces consumer costs without eliminating the benefits reported by rural CLECs and advocacy groups
- Rule does not “discriminate” based on carrier type or geography
- EO is responsible for delivering the traffic to the tandem: eliminating the risk of tandem mileage pumping

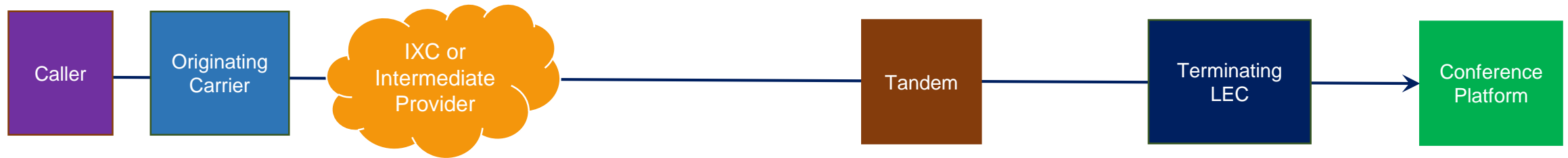
How Call Blocking Creates a New Scheme

Presentation by Inteliquent, Inc. (WC Docket No. 18-155)

April 16, 2019

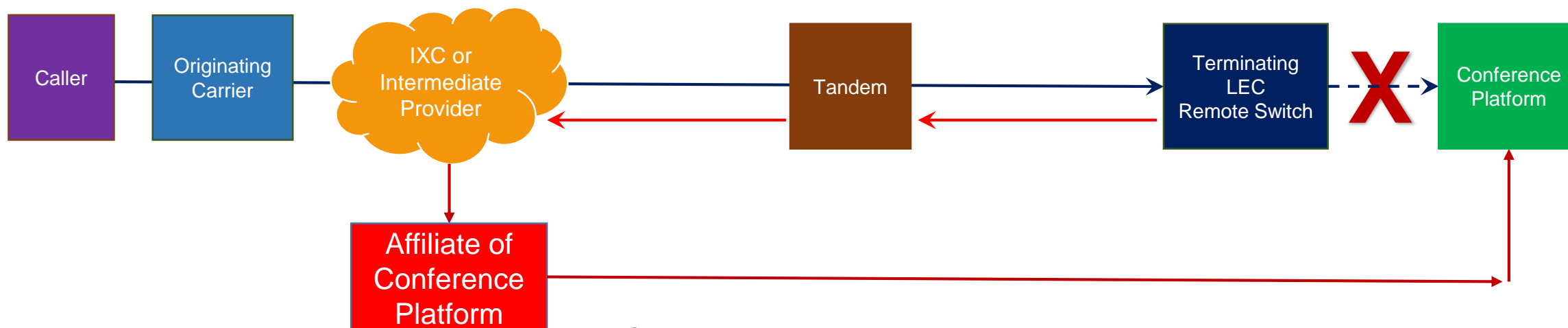


Scenario 1: Regulated pathway (simplified)



- IXC delivers traffic to tandem
- Rates and charges go into the tandem rate base, and lower overall effective tandem cost
- Mileage pumping, the new form of access arbitrage increase the cost to the IXC
- Call is terminated to the Conference Platform
- IXC pays Tandem and EO charges

Scenario 2: “Private” pathway as sole pathway to end user



- Conference platform blocks call on regulated path
- IXC LCR routes call to avoid rural call completion violations
- Unregulated affiliate is the only means to complete a call
- No revenue share trigger
- Rates and charges on Unregulated affiliate path inflated by mileage pumping, termination charges, and tandem fees
- Proceeds that would have reduced the rate of return CEA route have been shifted to unregulated affiliate

Call Blocking is Part of the Record and Creates Harm

The Commission Should Not Overlook the Record on Call Blocking in WC Docket 18-155

- AT&T Feb. 5, 2019 ex parte: AT&T explains that an access stimulating CLEC, “seemingly overnight... increased its traffic by 20,000,000 minutes of use per month (the equivalent traffic of all of New York City) and provided no business-to-business forecast notice to either the intermediate carrier it sub-tends or AT&T directly.” When AT&T inquired about this significant change, “[t]he access stimulating CLEC suggested that rather than seeking to augment existing facilities in the current call flow, AT&T should use a higher cost, non-carrier provider of termination service (HD Tandem) to route the stimulated access traffic to the CLEC.”
- SDN Comments: “SDN has experienced a tremendous number of terminating calls, sometimes thousands per day, that, from SDN’s perspective, are being rejected by a CLEC engaged in access stimulation in connection with a ‘free’ conference calling customer.”
- INS/Aureon Comments: “Aureon has experienced this very sort of arbitrage, whereby calls routed by Aureon to a LEC are blocked, but when calls are routed to the LEC through HD Tandem, those calls miraculously complete. It is unlawful for access stimulators to block calls and prevent them from being completed over the CEA network, yet this is the mechanism used to carry out access arbitrage.”
- Inteliquent: Inteliquent has documented the call-blocking scheme extensively in its Comments, Reply Comments, and in ex parte letters on Oct. 19, 2018 and Nov. 16, 2018.



Solution: Prevent abuse of call completion rules

- The FCC should clarify the IXC meets its call completion duties when it delivers call to tandem specified by the LEC in the LERG

Updating the Definition of Access Stimulation

Presentation by Inteliquent, Inc. (WC Docket No. 18-155)

April 16, 2019



Problem: Current Definition Trigger is Revenue Share

If a LEC doesn't meet the definition of "access stimulation," it escapes access arbitrage rules

Under current rules, the LEC is engaged in "access stimulation" only if it has:

1. An "access revenue sharing agreement" that would result in a "net payment to the other party (including affiliates)" that is "based on the billing or collection of access charges." All payments, discounts, credits, services, features, functions, and other items of value provided by the LEC to the other party to the agreement shall be taken into account

and

2. Either an interstate terminating-to-originating traffic ratio of at least 3:1 in one calendar month, or >100% growth in originating and/or terminating MOUs in a month as compared to same month in prior year

Potential Loopholes in Revenue Sharing Requirement

Today's arbitrage is excessive mileage and termination charges, not the existence of a revenue share

- Possible examples of end-runs around “revenue shares” include:
 - Ownership of end office by high-volume calling platform, under a single corporate entity
 - Outsourcing of switch management to a high-volume calling platform or its affiliate
 - Block the call at the platform forcing a carrier to reroute calls to an LCR route to avoid the risk of rural call completion fines (LCR routes calls to an unregulated affiliate of the access stimulation platform)

Solution: Update definition of access stimulation

The FCC can avoid the risk of future arbitrage schemes by updating the definition of Access Stimulation and removing the 'Revenue Share' as the first trigger – which can be easily bypassed

Proposed new Access Stimulation definition: A LEC is deemed to be engaged in access stimulation if:

1. More than 10 miles is billed between the tandem and the serving end office;
and
2. The end office has interstate terminating-to-originating traffic ratio of at least 6:1 in one calendar month (6 to 1 would include the LECs own traffic that may not get routed to its own IXC);
and
3. The end office has interstate terminating MOU of at least 1 million in one calendar month.

Rationale: High terminating-to-originating ratio plus high mileage suggests that LEC is benefitting from transporting high traffic volumes over many miles

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Q&A