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BEFORE THE

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of Developing a Unified Intercarrier Compensation Regime	CC Docket No. 01-92

COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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Summary

The patchwork of existing intercarrier compensation arrangements creates opportunities for arbitrage and presents barriers *to* competition. GSA addresses these issues by responding to the Commission's request for comments on Bill–and–Keep as a "unified approach" to intercarrier compensation for switched traffic.

GSA explains that Bill–and–Keep is the best compensation method for traffic exchanged between all wireline LECs. In the first place, Bill–and–Keep is more readily accepted and implemented than other methods, partly because it parallels the existing procedure that calling parties, rather than called parties, are charged for most voice and data messages.

Very importantly, Bill–and–Keep eliminates the need to design, implement and monitor procedures for allocating costs between carriers. Moreover, Bill–and–Keep avoids the cost of measuring terminating traffic volumes. In addition, Bill–and–Keep eliminates the need to address many complex policy issues, such as allocation of the costs of local loops and other common facilities among interconnected carriers.

GSA acknowledges that economic theory faults Bill–and–Keep because the procedure does not require originating LECs to pay any of the costs incurred by terminating LECs. However, as costs at the originating end of messages have become a larger part of the total, Bill–and–Keep has become a more economically justifiable procedure. Also, the position that Bill–and–Keep can be economically inefficient has been rebutted by experience showing that the allocation *of* costs between carriers necessarily involves many arbitrary judgments. Moreover, even if rates could exactly match cost structures, users cannot respond to the corresponding pricing signals because they do not select the terminating carrier for most messages.

In a recent order, the Commission initiated a transition to Bill–and–Keep for messages to Internet providers. GSA urges the Commission to adopt Bill–and–Keep for additional types of traffic, including messages from wireline to wireless carriers, as well as traffic passing between IXCs and LECs.

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COMMENTS
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The General Services Administration ("GSA") submits these Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Notice of Proposed Rulemaking in CC Docket No. 01–928 ("Notice") released on April 27 2001. The Notice seeks comments and replies on intercarrier compensation plans for interstate telecommunications traffic.

I. INTRODUCTION

Pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 481(a)(4), GSA is vested with the responsibility to represent the customer interests of the FEAs before Federal and state regulatory agencies. From their perspective as end users, the FEAs have consistently supported the Commission's efforts to bring the benefits of competitive markets to consumers of all telecommunications services.

In the Notice, the Commission explains that this proceeding begins a comprehensive re–examination of all currently regulated forms of intercarrier compensation.[1] The proceeding will address the appropriate structure for (1) intercarrier compensation among LECs for the traffic they pass to each other; and (2) access charges that local exchange carriers ("LECs") levy on interexchange carriers ("IXCs") for handling long distance messages.*

On the same day that the instant Notice was released, the Commission adopted two orders addressing intercarrier compensation for specific types of traffic. In the *ISP Intercarrier Compensation Order,* the Commission addressed intercarrier compensation for traffic bound for Internet service providers ("ISPs").[3] In that order, the Commission adopted a three-year interim measure that will reduce intercarrier payments associated with the delivery of traffic to ISPs.[4]

Contemporaneously, the Commission adopted the *CLEC Access Charge Order,* addressing access charges that IXCs pay to competitive LECs.[5] In that order, the Commission adopted another interim measure that will allow competitive LECs to file tariffs establishing access rates only if those rates are at or below those of the incumbent LEC.[6]

After prescribing interim compensation arrangements for these cases, the Commission is now turning to parallel considerations of other types of traffic. Indeed, the Commission would like to consider a "unified regime" encompassing access

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1 Notice, para. 1.

2 *Id.,* para. 2.

3 *In the Matter of Intercarrier Compensation for ISP-Bound Traffic, CC* Docket No. 99-68, Order on Remand and Report and Order, released April 27, 2001 ("*ISP Intercarrier Compensation Order").*

4 Notice, para. *3.*

5 *In the Matter of Access Charge Reform; Reform of Access charges Imposed* ***by*** *Competitive Local Exchange Carriers, CC* Docket No. *96-262,* Seventh Report and Order, released April 27, 2001 *("CLEC Access Charge Order").*

6 Notice, para. 3.

charges, as well as the charges by LECs for local traffic they exchange with each other.[7] The Commission suggests a Bill–and–Keep approach as a common compensation framework.[8]

II. EXISTING INTERCARRIER COMPENSATION PROCEDURES ARE ECONOMICALLY INEFFICIENT AND HARMFUL TO COMPETITION.

In the *ISP Intercarrier Compensation Order,* the Commission explains that existing intercarrier compensation arrangements often create opportunities for arbitrage and have additional infirmities.[9] For example, present rate structures do not merely compensate terminating carriers for their direct costs, but also provide "windfalls" for carriers that can position themselves to receive more traffic than they originate.[10] At least on an interim basis, the Commission has addressed this issue for ISP–bound traffic, but the same problem exists for voice messages, particularly for traffic to facilities such as reservation centers.[11]

Another set of arbitrage opportunities results from the disparate rates that different types of service providers must pay for essentially the same calls. For example, IXCs are required to pay access charges to LECs that originate long distance calls, but ISPs providing Internet telephony do not incur these charges. This situation gives providers of Internet telephony an artificial cost advantage over traditional long distance service.[12]

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7 *Id.,* paras. 2–4.

8 *Id.,* para. 37.

9 *Id.,* para. 11.

10 *Id.*

11 *Id.*

12 *Id.,* para. 12.

Along with these examples of "regulatory arbitrage", intercarrier compensation rules have presented problems related to the fact that an end user typically subscribes to a single LEC.[13] From the standpoint of the IXC — and ultimately the calling party — this LEC has complete power over access to that subscriber. Problems arising from this power over terminating access are exacerbated by rate-averaging policies that have been adopted voluntarily by carriers or implemented pursuant to the Telecommunications Act.[14]

In some cases, competitive LECs have pressed their advantage by employing terminating access rates that substantially exceed those for the incumbent LEC.[15] The Commission addressed this issue in the *CLEC Access Charge Order.* In that *Order,* the Commission prescribed an interim compensation framework permitting competitive LECs to file tariffs with access prices only if the competitor's rates are below those of the incumbent LEC. However, a similar issue arises if the incumbent LEC provides interexchanae services in competition with IXCs. In fact, IXCs have argued that Regional Bell Operating Companies ("RBOCs") have the incentive and ability to discriminate in favor of their long distance affiliates by engaging in a "predatory" price squeeze.[16]

The Notice identifies additional infirmities in existing intercarrier compensation plans. For example, the present rules tend to distort the structure of end user charges because they allow — and in some cases even require — interconnection charges to

13 *Id.,* para. 13.

14 *Id.,* para. 14, citing Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, codified at 47 U.S.C. §§ 151 ***et*** *seq.* ("Telecommunications Act"), section 254(g).

15 Notice, para. 13.

16 *Id.,* para. 15.

be established on a traffic-sensitive basis.[17] Since most access costs are not traffic sensitive, significant per-minute charges are not economically efficient.[18] Indeed, larger end users who employ telecommunications facilities intensely, such as FEAs, are substantially penalized when traffic-sensitive rates are employed to recover non-traffic sensitive costs.

Finally, the Commission observes in the Notice that inefficient interconnection prices may distort a user's subscription decision.[19] For example, above-cost termination charges create incentives for a party that primarily or exclusively receives traffic to hold itself out as a "network" rather than as a subscriber to interexchange services.[20] Moreover, if LECs are permitted to charge higher rates for calls that are passed to other LECs, subscribers are motivated to choose larger networks, eliminating smaller competitors and tending to create additional regional monopolies.[21]

III. BILL-AND-KEEP IS THE BEST INTERCARRIER COMPENSATION METHOD FOR TRAFFIC EXCHANGED BETWEEN LOCAL EXCHANGE CARRIERS.

A. Consumers and carriers will receive numerous benefits from Bill-and-Keep.

The Commission postulates that "Bill-and-Keep" provides the best approach for addressing intercarrier compensation issues, at least for local traffic exchanged between LECs.[22] With Bill-and-Keep, neither carrier charges the other carrier for

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17 *Id.,* para. 17.

18 *Id.*

19 *Id.,* para. 18.

20 *Id.*

21 *Id.*

22 *Id.,* para. 44

terminating message traffic.[23] Each carrier recovers from its own end users all the costs that it incurs to both originate and terminate messages.[24]

GSA urges the Commission to adopt Bill–and–Keep for all intercarrier switched traffic. As discussed below, Bill–and–Keep is an economically efficient procedure that will foster more competition and provide additional benefits for consumers and carriers. As the mode of intercarrier compensation for local and long distance traffic, Bill–and–Keep will:

- be easier and less costly to operate because of its simplicity and the fact that it parallels the usual practice of requiring calling end users to pay for messages;
- provide an economically efficient system that reduces opportunities for arbitrage and engenders more cost–based rates;
- help foster competition for local and interexchange services; and
- serve as a uniform framework for compensation procedures to be employed for many types of traffic and interconnection arrangements.

The Commission can achieve these benefits quickly by implementing Bill–and–Keep on an expedited basis.

B. Bill–and–Keep is easier to implement and less costly to administer.

Bill–and–Keep is more readily understood, accepted, and implemented than other intercarrier compensation methods. Partly, these advantages stem from the fact that Bill–and–Keep parallels the existing procedure that <u>originating</u> end users are charged for most voice and data messages.

23 *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96–98,* Notice of Proposed Rulemaking released April 19, 1996; and First Report and Order, released August 8, 1996 *("Local Competition Order"),* para. 1096.

24 *Id.*

If interexchange or local calls are billed individually to end users, they are most often billed to the calling party, not to the party receiving the call. The calling party has no role in selecting the local carrier serving the person or business that he or she *is* calling. Indeed, the person placing the call often assumes that the carrier billing the call will keep all revenue from the call, although this is not usually the case.

Besides consistency with the current practice for charging end users, Bill–and–Keep has many operational advantages. Perhaps most significantly, Bill–and–Keep eliminates the need to design, implement and monitor procedures for allocating costs between carriers.[25] Thus, from the standpoint of both carriers and regulators, Bill–and–Keep is simpler to initiate and maintain.

Also, Bill–and–Keep avoids the costs of measuring terminating traffic volumes that are incurred with other intercarrier compensation methods. Such measurement costs can be significant, particularly for carriers serving lower volume end users. Indeed, MCI has reported that U.S. West found that measurement and billing costs constituted a majority of its costs for switching terminating local traffic in the state of Washington.[26]

Finally, Bill–and–Keep eliminates the need to address a number of complex policy issues. For example, with Bill–and–Keep it is not necessary to make decisions concerning the extent to which originating carriers will reimburse terminating carriers for the costs of "common" facilities such as local loops.

The Notice explains that incumbent LECs have traditionally employed Bill–and–Keep arrangements for traffic between end users in their contiguous service areas.[27]

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25 Notice, para. 39.

26 *Local Competition Order,* para. 1101, citing "Comments of MCI on Intercarrier Compensation" in CC Docket No. 96–98, May 16, 1996, p. 48.

27 *Local Competition Order,* para. 1102.

GSA believes that adoption of Bill–and–Keep by LECs who can employ any mutually acceptable intercarrier compensation method is convincing evidence that the approach is equitable, practical, and cost–effective.

C. Although Bill–and–Keep may not match revenues precisely with costs, it is usually more efficient than practical alternatives.

Economic theory faults Bill–and–Keep arrangements because they do not require the originating carrier to pay any of the costs incurred by the terminating carrier.[28] Thus, the theory holds that unless termination costs are negligible, originating carriers will be improperly motivated to exploit the opportunities for "free service" over other carriers' facilities.

In the *Local Competition Order,* the Commission recognized that Bill–and–Keep may not appropriately compensate terminating carriers.[29] Nevertheless, the Commission permitted Bill–and–Keep arrangements when the traffic between the two carriers is relatively balanced and the carrier–to–carrier charges are approximately symmetric.[30]

Over time, advocates of economic efficiency have become more favorably disposed towards Bill–and–Keep procedures. First, they acknowledge that the variable costs of terminating messages have declined significantly.[31] As costs at the originating end of the message become a larger part of the total, Bill–and–Keep is a more logical intercarrier compensation procedure.

Second, the position that Bill–and–Keep is not 100 percent economically efficient has been rebutted by experience in regulatory proceedings that the allocation

28 Notice, para. 42.

29 *Id.,* citing *Local Competition* ***Order,*** paras. 1063–64.

30 *Id.*

31 Notice, paras. 40–41.

of costs between carriers necessarily involves considerable judgment. Since many of the decisions are arbitrary, "economic efficiency" is not always achieved.

Moreover, even if there were exact matches to cost structures, consumers are not empowered to respond to the corresponding price signals.[32] Under most arrangements, the party billed for the call is not empowered to choose the lowest–cost means of completing the call. Therefore, even "correct" intercarrier cost assignments cannot ensure the "desired" outcomes.[33] From the consumers' standpoint, the originating (and billing) carrier might as well be getting <u>all</u> the revenue.

To provide comprehensive reviews of these issues, the Office of Plans and Policy ("OPP") commissioned two technical studies of intercarrier compensation procedures. Both studies culminated in OPP Working Papers that were published in December 2000.[34] These reports are referred to as the Atkinson–Barnekov and the DeGraba papers, respectively.

Both papers describe how Bill–and–Keep will eliminate or ameliorate most of the regulatory arbitrage opportunities under the existing interconnection regulations.[35] The Atkinson–Barnekov paper finds that one principle is paramount in intercarrier compensation plans: each network should recover its intra–network costs from its own subscribers.[36] However, the authors state, "We do not discuss in this paper the separable question of whether recovery [of these costs] would be from calling parties,

32 Notice, para. 40.

33 *Id.*

34 Jay M. Atkinson and Christopher C. Barnekov, A *Competitively Neutral Approach to Network Interconnection,* OPP Working Paper 34, December 2000; and Patrick DeGraba, Bill *and Keep at the Central Office as the Efficient Interconnection Regime,* OPP Working Paper 33, December 2000.

35 Notice, para. 52.

36 OPP Working Paper 34, para. 68.

called parties, or both."[37] Thus, the paper does not answer some of the main questions that the Commission has set out to address in this proceeding.

The DeGraba paper provides pertinent guidance in recommending a form of Bill–and–Keep called the Central Office Bill–and–Keep ("COBAK") intercarrier compensation procedure.38 This procedure contains two basic rules:

- No carrier may recover any costs of the customers' local access facilities from an interconnecting carrier.
- For calls traversing two networks, the calling party's network is responsible for the costs of transporting the call to the called party's central office.[39]

The DeGraba paper explains that these provisions will eliminate the regulatory advantage that Internet telephony now has over traditional long distance service, and also reduce problems with traffic that is directionally unbalanced.[40]

The DeGraba paper also recommends that if the Commission adopts the COBAK rules, it should refrain from recovering termination costs through per–minute charges.[41] To address this recommendation, the Commission asks for comments on whether originating carriers should be required to employ non–usage sensitive charges to recover their costs of terminating messages.[42]

From GSA's end user perspective, economic efficiency requires traffic–sensitive costs to be recovered with per–minute rates, and non–traffic sensitive costs to be recovered with flat charges, regardless of the identity of the billing carrier. Therefore,

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37 *Id.,* para. *73.*

38 OPP Working Paper 33, para. 21.

39 *Id.,* para. 24.

40 Notice, para. 52.

41 *Id.,* para. *55.*

42 *Id.*

GSA urges the Commission to require originating carriers to recover termination costs through non-usage sensitive rates to the extent the costs are not usage sensitive, and no more. This practice will further increase the operational efficiency of the Bill-and-Keep procedure.

D. Bill-and-Keep will help foster competition among carriers.

Both intercarrier compensation studies conclude that Bill-and-Keep will help to remove barriers to competition among carriers.[43] GSA concurs with these conclusions.

The DeGraba paper addresses the market power that rate structures with terminating access charges confer on incumbent and competitive LECs.[44] The paper references IXCs' reports that some competitive LECs have exploited their power by employing terminating access charges that significantly exceed corresponding charges by the incumbent LECs.[45] Termination charges present regulators with the Hobson's choice of either allowing non-incumbent carriers to exercise their market power, which would increase retail prices and reduce network usage, or regulating the terminating access rates of all carriers, even those without power under alternative interconnection regimes.[46]

In the *CLEC Access Charge* Order, the Commission established standards for competitive LECs' termination charges. GSA concurs with this step as a means to hold terminating access charges in check and help ensure that per-minute rates are not used to recover non-traffic sensitive costs, GSA believes that the Commission can

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43 *Id.*, paras. 42-46.

44 OPP Working Paper 33, paras. 89-90.

45 *Id.*, para. 90.

46 *Id.*

take an additional step and eliminate the need to apply and enforce comparative rate standards by prescribing Bill–and–Keep as the compensation framework for all local traffic exchanged between carriers.

The OPP working papers identify additional benefits of eliminating termination charges in helping to foster more competition among local carriers. For example, the DeGraba paper observes that minutes–of–use are not an appropriate measure of congestion on packet–based networks.[47] Therefore, elimination of per–minute termination charges should motivate LECs to cooperate with each other in finding a compatible packet–based technology that handles both voice and data traffic more efficiently.[48]

Moreover, the Atkinson–Barnekov paper identifies an additional benefit of reducing or eliminating termination charges for intercarrier traffic. These analysts explain that present reciprocal compensation arrangements motivate carriers to seek–out users with large inbound calling volumes, and do not motivate them to improve the telecommunications infrastructure.[49] On the other hand, Bill–and–Keep will lead to investment decisions that benefit the great majority of consumers.[50]

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47 *Id.,* para. 85.

48 *Id.*

49 Notice, paras. 52–54.

50 *Id.*

IV. BILL–AND–KEEP CAN PROVIDE A UNIFIED COMPENSATION FRAMEWORK FOR MANY INTERSTATE SERVICES.

A. Bill–and–Keep is consistent with the Commission's recent prescriptions for Internet messages and interstate access charges by competitive LECs.

The Commission has explained the value of a "unified" intercarrier compensation framework for many types of interstate traffic.[51] The Commission's recent prescriptions for ISP–bound traffic and the interstate access charges by competitive LECs establish a foundation for adopting Bill–and–Keep as the common framework.

The *ISP Intercarrier Compensation Order* states that the Commission has "initiated a 36–month transition towards a complete Bill–and–Keep recovery mechanism" while retaining the ability to adopt an alternative mechanism based on a more extensive evaluation in the near future.[52] The transition employs a gradually declining cap on the amount that carriers may recover from other carriers for delivering ISP–bound messages.[53]

GSA concurs with this procedure for ISP–bound traffic. In its Comments and Reply Comments in CC Docket No. 96–98, GSA urged the Commission to avoid reciprocal compensation arrangements for traffic to the Internet.[54] Moreover, GSA urged the Commission to assert jurisdiction over all ISP–bound messages, and to prescribe uniform national guidelines for intercarrier charges for this traffic.[55]

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51 *Id.,* paras. 2–4.

52 *ISP Compensation Order,* para. 7.

53 *Id.*

54 *In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996,* CC Docket **No.** 96–98, Comments of **GSA,** July 21, 2000, pp. 8–11**; and** Reply Comments of **GSA,** August **4,** 2000, pp. 6–10.

55 *Id.,* Reply Comments of **GSA,** pp. 3–6 and pp. 10–11

The *CLEC Access Charge Order* requires competitive LECs to reduce their access charges over time until they reach the rate charged by the incumbent LEC.[56] In that ruling, the Commission stated that it would not mandate Bill–and–Keep for the competitive LECs' access charges for at least four years.[57] However, in spite of this deferral, the Commission acknowledged the benefits of Bill–and–Keep, and indicated that this procedure will continue under "serious consideration" for the competitive LECs' rate structures.[58]

GSA agrees with the Commission on the need for caps on the terminating access charges employed by competitive LECs. Competitive LECs lack the infrastructure necessary for widespread market power. However, on the specific issue of terminating access to their subscribers, even small competitors exercise monopoly control. Therefore, GSA believes that the Commission should reconsider its self–imposed four-year deferral of Bill–and–Keep for interexchange traffic to the competitive LECs, and possibly adopt a shorter transition period.

B. Bill–and–Keep can provide a consistent compensation framework for additional types of interstate traffic.

Traffic involving commercial mobile radio services ("CMRS") introduces an additional dimension to intercarrier compensation issues. Traffic between CMRS carriers is not currently rate–regulated, but the Commission continues to maintain rate surveillance over traffic from wireline LECs to CMRS carriers.[59] In the Notice, the Commission seeks comments on intercarrier compensation for this traffic, noting the

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56 *CLEC Access Charge Order,* para. 4.

57 *Id.,* para. *53.*

58 *Id.*

59 Notice, para. 95.

advantages of maintaining consistency with the intercarrier compensation framework for LEC–to–LEC messages that may be adopted in the instant proceeding.[60]

CMRS carriers usually exchange traffic with each other on a Bill–and–Keep basis, so this is the logical intercarrier compensation procedure for LEC–to–CMRS messages.[61] However, the Notice identifies numerous interconnection configurations that may be employed for LEC–to–CMRS messages, depending on factors such as whether the calling and called parties are located in the same local calling area.[62] It is not clear that Bill–and–Keep reasonably reflects the structure of costs for some of these interconnection arrangements[63] Therefore, GSA withholds its recommendation on this issue pending review of comments submitted by CMRS carriers. However, if Bill–and–Keep appears to be economically efficient, **GSA** anticipates recommending that the Commission prescribe this method for LEC–to–CMRS traffic as well.

Finally, the Commission turns to the issue of access charges by incumbent LECs for originating and terminating interstate messages.[64] In the Notice, the Commission concludes that modifications in the access charge rules are not appropriate at the present time because it recently adopted a comprehensive intercarrier compensation plan for the large LECs.[65] Nevertheless, the Commission inquires rhetorically, "What comes after CALLS?"[66]

60 *Id.*, para. 90.

61 *Id.*

62 *Id.*, para. 91.

63 *Id.*, para. 91.

64 *Id.*, para. 97.

65 *Id.*

66 *Id.*

The Commission emphasizes that while experience with CALLS has been brief, there are several observations that can help shape future prescriptions.[67] For example, the Commission predicts that access charges will be set at much lower levels four or five years from now than they are today.[68]

GSA concurs with the Commission's forecasts of continuing declines in interstate access charges. Moreover, GSA observes that the historical trend has been for charges at the terminating end of interstate calls to decline more than charges at the originating end.

On December 31, 2000, the carrier common line charge ("CCLC") was 0.23 cent per originating access minute.[69] This was a decline of 69 percent from the 0.74 cent rate effective in February 1996.[70] On the other hand, at the terminating end, the December 31, 2000 common carrier line charge was only 0.07 cents per access minute, a decline of 92 percent from the 0.89 cent rate in February 1996.[71]

Moreover, when the present system of access charges for large LECs was established in mid–1984, originating and terminating access charges were both set at 5.24 cents per minute.[72] Over the last 17 years, the per–minute terminating charge has declined to less than a third of the per–minute originating charge.

In summary, as the system of IXC–to–LEC payments has evolved over time — and generally evolved to be more reflective of costs — much less reliance is placed on charges associated with the terminating end of the call. This trend presages the

67 *Id.*

68 *Id.*

69 Common Carrier Bureau, Industry Analysis Division, *Trends in Telephone Service,* December *2000,* Table 1.2.

70 *Id.*

71 *Id.*

72 *Id.*

application of Bill-and-Keep to the system of interstate access charges for the largest LECs if the Commission later decides to modify the CALLS intercarrier compensation framework.

V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Comments.

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I, Michael J. Ettner, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 21st day of August 2001, by hand delivery or postage paid to the following parties.

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