VNXX, RURAL CONSUMERS AND RURAL INTERNET ACCESS

OVERVIEW

- **Dial-up is still an important means of Internet access, especially in rural areas.**
- **Rural consumers use the Internet, and have lower incomes, than urban and suburban consumers.**
- **VNXX/FX-like arrangements are critical to delivering affordable dial-up Internet access in rural areas, because they allow these areas to benefit from the rapidly declining costs of storage and processing.**
- **ILEC proposals to apply access charges to VNXX/FX Internet access traffic would reduce Internet access choices in rural areas that already have many fewer choices. Small, local ISPs, many affiliated with the incumbent LECs, would be the only dial-up ISPs. ILECs propose *protectionism, not cost recovery!***
- **ILEC attempts to apply access charges to VNXX/FX-like arrangements would harm rural consumers by:**
    - **Discouraging dial-up Internet access competition in rural areas;**
    - **Significantly raising the costs of dial-up Internet service to rural areas, which will cause larger ISPs to abandon those areas;**
    - **Increasing higher prices for dial-up Internet access in rural areas, even though the population is poorer and more likely to be price sensitive, and less likely to have access to broadband services;**
    - **Reducing Internet usage in rural communities.**
- **Accordingly, the FCC should make clear that VNXX traffic is exchanged in the same manner as all other ISP-bound traffic, subject to the *ISP Remand Order*.**

Pew Study – "Rural Areas and the Internet" (rel. Feb. 2004, attached)

- **23%** of US adults (46 million) live in rural communities.
- Rural consumers are **less likely** to use the Internet than urban consumers (52% rural v. 67% urban/66% suburban in 2003).
- Rural consumers are disproportionately dependent upon dial-up Internet access (**80%** dial-up in rural areas v. 63% dial-up in urban areas in 2003).
- **29%** of rural Internet users (and **31% of rural dial-up users**) report that their ISP is the **only ISP** available to them. When asked to identify their ISPs, 46% named small local providers, more than double urban and suburban users.
- By contrast 25% of urban consumers and 17% of suburban consumers reported they selected their ISP based on a promotional offer or deal.
- Rural dial-up Internet users are equally as likely as urban and suburban dial-up users to want a broadband connection.
- Rural areas are **poorer**: rural areas have a much larger percentage of households with annual incomes under $30,000 (47%) than urban (39%) and suburban (29%) areas. $30,000 is a significant threshold for going online in all communities.

VNXX/FX-like Arrangements Reduce Costs of Providing Internet Access, Allowing Rural Consumers to Pay Less for Internet Access

- As the costs of processing, storage and IP backbone have plummeted, the non-telecom costs of providing dial-up Internet access have fallen dramatically.
- The dial-up Internet access market has seen the rise of low-price providers such as Juno/NetZero, AOL Netscape, and People PC. These low price services allow lower income consumers to buy Internet access.
- VNXX-/FX-like arrangements allow ISPs to serve an entire LATA from a single server (or even multiple LATAs from a single server), reducing the costs of serving rural areas by allowing those areas to share economies of scale and scope.
- VNXX/FX-like arrangements also allow CLECs to consolidate switching into regional switching centers, that allow CLECs to take advantage of the decreased cost of processing calls, reducing the costs of serving rural areas by allowing those areas to share economies of scale with respect to call processing (e.g. softswitching).
- VNXX/FX-like arrangements allow consumers to use locally-dialed numbers to reach these dial-up Internet access providers.
- Without VNXX/FX-like arrangements, low priced ISPs are unlikely to extend offerings to rural areas.
    - Low-price Internet access services provide little margin to absorb the increased costs of placing servers in rural local calling areas.
    - Because rural areas are poorer than urban areas, increased advertising and other non-subscriber revenues are unlikely to cover any increased costs of serving those areas.
    - The likely alternative to VNXX/FX-like arrangements would be for low-priced ISPs to opt not to serve rural areas.

ILEC Proposals for Access Charges on VNXX/FX-like ISP-bound Traffic Will Harm Rural Consumers by Leading to Higher Prices for Internet Access.

- Access charges on dial-up Internet access provided through VNXX/FX-like arrangements would make dial-up service wholly uneconomic, solely due to telecom charges.
- Eliminating low-priced and other national ISPs from rural markets means that rural consumers will continue to be denied promotional and low-price deals prevalent in urban/suburban markets.
- JSI Ex Parte (10/28/04) demonstrates protectionist impact of access charges on VNXX/FX-like traffic, to prevent competition to ILEC-affiliated ISPs, with no benefit to consumers. ILECs bear the same transport costs regardless of ISP server location.
- After being presented with evidence of the disastrous impact that access charges on VNXX/FX-like traffic would have on rural ISP services, the Texas PUC reconsidered its decision to apply those charges and instead concluded that the compensation regime of the *ISP Remand Order* applies.

VNXX/FX-like Arrangements Do Not Place Higher Costs on ILECs than Any Other Locally-Dialed Telephone Exchange Service

- **In areas subject to the rural exemption,** CLECs serving ISPs interconnect with the RLEC within the RLEC local calling areas, usually at the ILEC end offices. Contrary to CenturyTel's assertions, in this situation, the ILEC does not incur any additional interoffice transport costs as a result of the ISP's server being located outside the RLEC local calling area.
- **In non-rural areas or rural areas in which the rural exemption has been lifted,** CLECs are entitled to exchange *all* traffic at a single point of interconnection in the LATA, regardless of the server location of the ISP. In other words, any interoffice transport costs that the ILEC incurs are *not* due to the fact that the ISP's POI is located outside the RLEC's local calling area. JSI ex parte, dated 10/28/2004, at Attachments at Slides 10-12 (excerpts attached) illustrate this: the ILEC's responsibility is the same regardless of server location – to carry traffic to its POI with the CLEC in the LATA. To the extent an RLEC whose rural exemption has been lifted is required to carry traffic outside its service area, and an "undue" burden results, that situation can be addressed through Section 251(f)(2) modifications to the single POI per LATA rule, without imposing per minute access charges. To the extent the issue is the *location* of the CLEC POI, that is an issue related to the "single POI per LATA" rule, not the intercarrier compensation for ISP-bound VNXX/FX-like traffic.
- **CenturyTel has pressed for access charges, even for end office switching, which bears no relationship to alleged transport costs.** Although CenturyTel purports to base its demands for access charges on VNXX/FX-like ISP bound traffic on transport cost recovery, CenturyTel has demanded end office switching access charges as well, which bear no relationship to transport costs.

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CONCLUSION: Access Charges for VNXX/FX-like Arrangements – A Bad Deal for Rural Consumers

- **Rural consumers will pay more for Internet access, and will likely lose (or never gain) access to low-priced offerings.**
- **Fewer rural consumers will subscribe to Internet access if access charges apply.**
- **Making clear that access charges do not apply to VNXX/FX-like services will help to expand the availability of low-priced offerings in rural areas – which are poorer than urban areas.**
- **Maintaining the "ISP exemption" and treating all ISP-bound traffic under the *ISP Remand Order* will help expand rural Internet usage, and close the urban/rural Internet divide.**