INTERCARRIER COMPENSATION

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BASIS FOR INTERCARRIER COMPENSATION

The Retail Service Provider (IXC, Wireless Provider, RBOC, LEC, etc.) charges the customer for the service it provides and uses those customer revenues to recover its costs and to pay all carriers for the use of their facilities utilized by the service provider to complete its customers' calls.

As is the case in any business, an input to a retail service (in this case, network costs) should be paid for by the retail business or service provider.

There must be a recognition that the wireline network is essential and must be sufficiently funded, maintained and protected, not only for providing COLR universal service, but because virtually all intramodal and intermodal competitors use it to enable them to originate and/or terminate their data and voice calls.

Arbitrage Incented By Differing Compensation Rate Levels. For Example:

- Interstate access – Approx. 2 cents per MOU
- Intrastate access – Approx. 6 cents (Ok) per MOU
- Local – Approx. 0 – 2 cents per MOU
- ISP Traffic - 0 cents per MOU
- VOIP Traffic - ?

Types of Arbitrage

- Carriers masquerading traffic as local rather than access – WorldCom / MCI; AT&T VOIP – terminating access traffic handed off to a CLEC or an ESP in order to pay local compensation or no compensation rather than access.

- Carriers reporting Intrastate access traffic as Interstate access in order to pay lower Interstate access rates.

- Stripping the Calling Party Number (CPN) and/or Carrier Code so that the originating retail carrier cannot be identified or billed by the terminating network provider (i.e. Phantom Traffic).

- Carriers seeking to avoid compensation by claiming that traffic is information service (VOIP, AT&T Payphone, etc.)

Arbitrage is detrimental to carriers and consumers

- Advantages certain retail providers at the expense of others – CMRS carriers have lower compensation costs for calling within the MTA than IXCs; ESPs pay a much lower effective compensation rate than either CMRS carriers or IXCs or LECs.

- Results in lost revenue and cost support resulting in more reliance on cost recovery funds by LECs.

- Causes a compensation system that is not competitively or technologically neutral.

BASIS FOR CHOOSING A REVISED INTERCARRIER COMPENSATION PLAN

- Does the solution eliminate or minimize arbitrage?

- Is the solution cost causative or economically efficient?

- Is the solution simple, does it minimize the current administrative problems and does it provide a smooth transition from the current compensation process (minimize discontinuities or abrupt changes)?

- Is the solution equitable for consumers, retail service providers and to providers of network facilities throughout the country?

- Does the solution maintain existing Federal and State jurisdictions?

- Does the solution provide sufficient, sustainable and predictable revenues as required by the Act for the network providers to recover the costs of maintaining and upgrading networks that all retail service providers use?

- Is the solution competitively neutral?

- Is the solution technologically neutral?

Positive Features of Various Plans

1. ICF Plan:

- Maintains usage based transport charges for rural LECs.

- Creates a revenue neutral fund to preserve funding required to maintain and upgrade the network.

- Proposes a plan to expand the recovery of universal service funding (connections) from all carriers.

- Removal of USF cap and safety valve changes would incent rural investment.

Positive Features of Various Plans

2. ARIC/EPG Plans:

- Unified cost-based rate for use of all network functions – originating, transport and/or terminating. Rates charged to all retail providers that use the network functions.

- Creates a revenue neutral fund/charge to preserve funding required to maintain and upgrade the network.

- Maintain state involvement in creation of unitary rates.

- Provides nationwide equity between States and customers – Implement a benchmark local/SLC rate (nationwide RBOC level). Recover a portion of the revenue shortfall created by the unitary rate from increases to the local/SLC rate benchmark, where rates are below that benchmark.

- Removal of USF cap would incent rural investment.

Positive Features of Various Plans

3. ARIC Plan:

- Maintains state involvement and funding of additional support funding.

- Provides a framework to deal with intercarrier compensation with an IP network.

- Maintains ESP exemption, reaffirms that dial-up Internet traffic is interstate access and that under the exemption, no compensation is due to either a CLEC serving an ISP or an ISP.

- Maintains 1+ Presubscription requirement of LECs and associated compensation requirements.

ICF Plan Concerns

- No basis to eliminate originating charges. Does not create a competitive disadvantage for IXC's vs. Wireless – Both have originating costs – Wireless have their own facility costs and IXCs have cost for use of LEC originating network.

- No basis to treat local switching as NTS to be recovered from the USF. Switching costs remaining after CALLS and MAG are TS as evidenced by past network failures with dial-up ISP loads.

- No basis to disconnect Retail Provider from responsibility to pay for costs it causes and uses by moving to bill and keep.

- Bill and Keep is only appropriate when traffic is roughly balanced between service providers (i.e., approximately 50/50and termination costs are approximately the same. Rural LEC traffic is not roughly balanced with wireless carriers or with CLECs' and other LECs or RBOC's use of Rural LECs' networks.

- Bill and Keep provides no constraint on the uneconomic imposition of additional (and unrecoverable) network costs by retail service providers on network facility providers.

EPG Plan Concerns

- Capacity-based plans charge network termination costs to the third party carrier and not to the retail provider of the service. The plan does not appear to provide a method of recovery from retail service providers for common (FGC) trunk group costs that are utilized by multiple retail service providers.

- Capacity plans may cause carriers to order too few facilities resulting in a deterioration of service quality.

ARIC Plan Concerns

Perceived as complicated:

- Cost based procedure to establish and approve intercarrier rates.

- Joint development of additional support fund by FCC and State Commissions

Other Plans - Concerns

NASUCA – Assumes that the revenue shortfall created by moving to a unitary rate is not needed by the LECs to maintain and enhance the network.

CBICC – Establishes intercarrier rate based on TELRIC. No valid model has been developed for areas served by rural LECs.

Western Wireless:

- Seeks affirmation of virtual NPA-NXX.
- Ignores state access rate authority – requires transition to bill and keep. Ignores the requirement for reciprocal compensation that bill-and-keep is for roughly balanced traffic only.
- Promotes continued arbitrage by maintaining disparate reciprocal compensation and access rates during the transition to bill-and-keep.
- Has no cost basis for rates.
- Has all the same problems already outlined for bill and keep.

Other Plans - Concerns

Western Wireless Cont.

- Increases the SLC cap to inappropriately high levels.

- Includes the SLC in the customers basic rate - The SLC is a FCC mandated support recovery charge, not a basic service charge.

- Ignores current levels of USF support revenues and additional revenues lost as the plan transitions to new intercarrier rate levels. Resulting revenues would be insufficient to maintain the existing the network and to provision a network capable of providing access to advanced services.

- Uses a model to determine support - not a simplification, but an endless source of disagreement.

- Appears to ignore state role in establishing ETC requirements – ILECs may receive support, but a competitive ETC may not unless it meets requirements established by the state commissions.

The following steps are essential in order to retain intercarrier compensation revenue that reflects the use of the network by carriers and to support that network

1. Eliminate or minimize most arbitrage - A unitary rate for Access and Reciprocal Compensation and application of that rate to all retail service provider traffic that uses LEC originating or terminating network facilities, including phone-to-phone or computer-to-phone VOIP services.

   - ARIC rate development is appropriate and develops a cost based unitary rate by LEC. An expedient cost based rate is the EPG mirroring of the interstate rate. This rate would essentially be the same for all LECs.

   -Maintain the originating dial-up exemption and clarify that no compensation is due to CLECs or ISPs for this interstate traffic. Clarify that ESPs or ISPs cannot terminate calls to the circuit switched network but must pay the unified rate.

   -Enforce the unified rate structure; Require CPN and CIC on all calls; Allowing blocking if CPN and CIC are not provided.

   - Clarify that LECs are required to deliver all 1+ presubscribed traffic to the customers choice of an IXC.

Essential Steps cont.

2. Recover the remainder of the revenue shortfall from an access recovery fund or state equalization fund.

   - An expedient funding mechanism is proposed by EPG under the federal jurisdiction. A shared fund as proposed by ARIC would insure state involvement and oversight of the fund.

   - As proposed by ARIC or EPG, implement a benchmark local/SLC rate (nationwide RBOC level). Recover a portion of the revenue shortfall created by the unitary rate from increases to the local/SLC rate benchmark, where rates are below that benchmark.

   - The ICF proposal to expand the base of payers appears to be appropriate and would resolve the issue regarding sustainability of the fund if recovered only based on interstate revenues. The NASUCA proposal to implement dual recovery mechanisms (numbers/revenues) may also be appropriate.

   - As proposed by ICF, remove the USF cap and implement safety valve changes to incent rural investment.

   - Funding should be revenue neutral. If there is evidence that inappropriate revenue levels are earned by certain LECs, state commissions should, using existing authority, review those specific LECs.