Intercarrier Compensation Proposal

NARUC Intercarrier Compensation Task Force

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What is Intercarrier Comp.?

- Payments carriers make to each other for the exchange of traffic
  - Reciprocal compensation pursuant to §251 and §252 of the Communications Act
  - Intrastate access charges
  - Interstate access charges
  - Contractual agreements

Is there much at stake?

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 5			
$ Millions	Base Period Access Revenue	Remaining Intercarrier Payments *	Cumulative Access Shift	Enduser Revenue (Delta SLC)	TNRM / ICRM Support
Non-CRTC	$ 7,194	$ 659	$ 6,536	$ 5,778	$ 757
CRTC	$ 2,384	$ 573	$ 1,811	$ 566	$ 1,246
TOTAL	$ 9,578	$ 1,232	$ 8,347	$ 6,344	$ 2,003
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					$ 300
Lifeline Increases From Higher Primary Residential SLC Rates					$ 216
Net Settlements -- Not Included In The Base					$ 150
Grand Total	$ 9,578	$ 1,232	$ 8,347	$ 6,344	$ 2,669

But, there’s more!

- Intercarrier compensation is joined at the heart to universal service funding:

High Cost Support	$3.9 Billion
Low Income	$ .8 Billion
State Funds	?????????

Source: USAC 1st Qtr. 2005 projections, annualized

Why should we bother?

- Industry structure is changing in fundamental ways
- Rampant “arbitrage” is seriously eroding intercarrier compensation
- Current structure “handicaps” competition
- Industry, FCC, and probably Congress agree on the need for a national solution
- The future role of States is “in play.”

What has the Task Force been up to?

- More than a year of effort involving thousands of person-hours of work by Commissioners, staff, and stakeholders
  - 5 2-day workshops in Salt Lake, Missoula, Washington, DC, Nashville, and Washington, DC
  - Dozens of conference calls
- An extraordinarily open and inclusive process of policy development

Basic Principles

- Compatible with existing law
- Avoid arbitrage through rates for all intercarrier traffic that are unified and viable in a competitive market
- Protect universal service by reforming the way Universal Service Funds are collected and distributed
- Maintain an appropriate balance between roles of FCC and State commissions

Basic Principles (cont.)

- Whenever and wherever possible, intercarrier compensation should be negotiated by the parties and reflected in voluntary agreements.
- An intercarrier compensation framework needs to be available as a context for negotiation but should only be used when negotiations fail.

Origination and Termination

- No Origination Charge
  - Alternative includes origination charge
- Tiered Termination Charges

Access Lines in Wire Center	% in Category	Term. Rate/Min.
>5000	90%	$.002
500-5000	9%	$.005
Less than 500	1%	$.01

Origination and Termination

- CLECs can adopt charge no greater than ILEC
- Carriers free to negotiate other arrangements, including bill and keep
- Intercarrier compensation agreements subject to review and approval by State commissions in accordance with §252(e)

Origination and Termination (cont.)

- Within five years, all charges for origination and termination must be converted to port charges.
  - Tracks cost causation
  - Eliminates costs and problems associated with charging for minutes
  - Compatible with conversion to packet network

Transport and Tandem Transit

- Proposal adopts ICF plan for transport and tandem transit as a starting point
  - Most complete proposal to date
  - Developed by a broad range of stakeholders
  - Has been modified based on discussion with stakeholders

Transport and Tandem Transit (cont.)

- Proposal adopts ICF edge definitions for hierarchical, non-hierarchical, and rural carriers
  - Significant advantage for rural carriers since edges are at end offices for termination and territory boundary for origination
- Proposal includes per minute charges for rural carriers' "terminating transport."
  - $.0095 for terminating transport distances less than 200 miles
  - $.019 for 200+ miles

Universal Service Principles

- Funding should be:
  - Technology neutral (e.g. if a rural carrier converts from circuit switched to IP)
  - Based on the most cost effective and efficient way to provide supported services
  - Compatible with transition to broadband

Funding Universal Service

- Current method is not viable for the future.
- Unit charge for connections, bandwidth, and possibly telephone numbers is the best approach proposed but concerns exist:
  - Shift of revenue requirements to residential customers
  - Sustainability of a charge on telephone numbers

Rural Access Charge Transition Fund

- New fund that would offset reductions in tariffed access charges for rural Eligible Telecommunications Carriers in first three years so long as company's earnings are not unreasonable.

Non-rural Carrier SLC Offsets

- Non-rural LECs may increase their Federal SLCs by up to the lesser of $3 or the amount of intercarrier compensation losses if State commission concurs and FCC approves

A New Approach to Universal Service

- Within three years, the FCC allocates universal service funds to each state
  - Not less than funding for that state in 2004
  - Sufficient to meet standards for universal service prescribed in §254(b)(3) of the Communications Act
  - Using a national benchmark level for local exchange network cost recovery

A New Approach to Universal Service (cont.)

- State commission that participates in unified intercarrier charges determines distribution of funds within its state
  - Subject to FCC guidelines and review
  - FCC acts if state does not opt in
  - Conditioned on demonstration by carriers that funds are being used for rate relief or infrastructure development in supported exchanges

Procedural Issues

- FCC should consult with the Federal-State Joint Boards prior to adopting a plan for intercarrier compensation reform.
- After adoption of a plan, FCC should refer the plan to Joint Boards for recommended decisions dealing with implementation issues.