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FCC Meeting on Intercarrier Compensation

December 15, 2005

T-Mobile

T-Mobile USA, Inc.

- Nationwide GSM/GPRS/EDGE/WiFi Network, reaching 275 million POPs.
- 20+ million U.S. subscribers; 6500+ domestic WiFi hotspots.
- Rated #1 in Customer Service by J.D. Powers in all six regions of the country for the last two years in a row – 2004 and 2005.
- As the largest wireless carrier with no wireline affiliate, T-Mobile offers a unique perspective on intercarrier compensation reform issues.
  - T-Mobile both competes with, and is dependent on its interconnections with, ILEC networks.

- **The existing framework for intercarrier compensation (IC) is discriminatory, inequitable, anticompetitive, and inefficient.**
  - The current patchwork of inconsistent and increasingly irrelevant IC distinctions impose widely disparate compensation obligations for virtually identical traffic and functions.
  - Disparate treatment of traffic on jurisdictional and service category grounds generates arbitrage and avoidance behavior, further burdening the IC and universal service systems and ultimately consumers.

- **Pro-competitive, pro-consumer IC/universal service goals can best be achieved by adhering to the following reform principles:**

  - In order to advance the goals of efficiency, equity and competition, IC reform should focus on benefits to consumers, not carriers.
  - IC reform should generate incentives for all carriers to become more efficient, cost effective and competitive. The current regime encourages certain carriers to exploit their bottleneck positions and thereby shift excessive costs to their rivals.
  - A single, integrated IC scheme for all types of traffic and carriers, irrespective of technology, distance and jurisdictional category, should be implemented over a reasonable transition period.
  - The IC system should be non-discriminatory, technology neutral and administratively simple. All carriers should have equivalent obligations to transport traffic originated by their own customers to other interconnecting carriers.
  - The IC system should eliminate arbitrage opportunities.
  - Universal service reform should be based solely on universal service considerations, not carrier revenue requirements.

- **Intercarrier compensation reform can best be achieved by a unified bill and keep (B&K) regime.**
  - A B&K regime will facilitate intermodal competition by sending the appropriate signals for consumption, investment and market entry, and enable consumers to force carriers to squeeze excess costs out of their rates.
  - A fairly rapid transition to B&K will eliminate not only opportunities for carriers to impose inefficient costs on their competitors but also the avoidance and arbitrage behavior generated by IC charges.
  - Wireless carriers, which have never collected access charges, and LECs would be on an equal competitive footing under B&K.

- **Technologically and competitively neutral default interconnection rules are essential to a nondiscriminatory IC regime.**
  - Originating carriers should be required to deliver interconnected calls to terminating carriers at only one "edge" per LATA, on a B&K basis.
  - Carriers also have a statutory right under Section 251(a)(1) of the Act to interconnect either directly or indirectly with other carriers for the termination of traffic.
  - ILECs should be required to provide tandem transit service under Sections 201(a), 251 and 332 of the Communications Act at rates based on forward-looking costs.

- **The FCC’s IC goals can be realized only in conjunction with a forward-looking, least-cost universal service support mechanism.**
  - The goal of universal service should be to allow supported services to be provided at reasonable rates in high-cost areas, not to subsidize artificially low end user rates.
  - All high-cost universal service programs should be combined into a single fund that eliminates artificial distinctions between rural and non-rural, rate-of-return and price cap ILECs and intrastate and interstate costs.
  - A single, unified high-cost universal service support mechanism, based on the forward-looking economic costs of the most efficient technology for a particular geographic area, will ensure that support is no higher than necessary and declines over time.

Universal Service Contribution Methodology

- If the FCC ultimately determines that a telephone number or connections-based contribution methodology is preferable, it should make adjustments for wireless carriers.
  - A number or connections-based system should not apply, by definition, to calling card or prepaid plans not tied to a particular number.
  - Fairness also requires that wireless prepaid plans for which numbers are assigned and wireless numbers used in a family share plan be assessed a pro-rata or discounted contribution.

- **Disputes regarding “phantom traffic” illustrate the need for IC reform and the benefits of a B&K regime.** This issue is a symptom of the current patchwork of rates and would be eliminated by IC reform.

  - This problem is caused largely by RLECs’ technical inability to receive the necessary data. T-Mobile passes along all required information.

  - Any action on this issue should ensure that tandem transit providers pass along data sent by originating carriers without modification. Moreover, terminating carriers must not be permitted to engage in “self-help” by blocking calls or other anticompetitive means.

  - RLECs must not be permitted to alter the Commission’s longstanding rule that intraMTA traffic is jurisdictionally local.

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