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Proposal for a 3-Year Variable Tiered Rate Methodology

Background

Historically, VRS providers have been reimbursed a flat per minute rate regardless of how many minutes each VRS provider delivers each month. Each year NECA and the FCC have determined what the rate would be by collecting cost data from the various providers and then instituting a rate that would appear to cover reasonable costs. In order to be a VRS provider, a company must run a business that has a wide variety of costs – both operating costs and capital costs. The VRS provider must deliver a service that meets certain quality measures that are mandated by the FCC (for example, an average speed of answer, 24/7 service availability, 24/7 Spanish service availability, confidentiality), as well as certain quality measures that are evaluated by the consumer (for example, video quality, interpreter quality, pc software). In the end, consumers have the ultimate choice of which VRS provider they will use for each VRS call that they make. This ultimate choice allows the VRS market to be competitive and constantly improving to meet the needs of the consumer.

For the past two years, VRS providers have been reimbursed at the rate of $6.64 per minute. While this rate has been in place, the market for VRS has grown dramatically, the number of VRS providers has expanded and the quality of the service for consumers has improved. This rate has provided a competitive industry with service differentiation and technical innovation that has allowed VRS providers to offer consumers high quality relay service that was the original goal of Section 225 of the Communications Act.

However, over the last two years, one VRS provider has grown to be significantly larger than any other provider and has become a 70-80%+ market share holder. The other VRS providers hold market positions of no greater than 10%. As with any telecommunications service, VRS is a service under which the cost per minute of service delivered will decline as the total volume of minutes of the service increases. As a VRS provider gets larger, it can operate its service more efficiently by taking advantage of operating efficiencies. This allows larger VRS providers to have a lower per minute cost than smaller VRS providers.

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With this market share phenomenon taking place, it is difficult for the FCC and NECA to implement a flat rate that would follow the regulatory mandate, while also appearing fair to both small and large providers and covering the reasonable costs of each provider. Moreover, the exercise of setting and changing the VRS rate has created an annual challenge for FCC, NECA, and the VRS providers. All agree that an improved solution will be one that enables the FCC and NECA to set a multi-year rate and offers some stability to the market.

With this in mind, we believe that a new rate methodology should be adopted that will continue to meet the objective of providing functionally equivalent telephone service, but will allow the government to reimburse VRS providers at a rate that is commensurate with the size of each provider's service. More specifically, we believe that the industry would benefit from a rate structure that is on a sliding scale, i.e., one that would pay providers less as their minutes grow. This would more properly align the VRS rate with the cost structure of each of the providers.

<u>Explanation of 3-Year Variable Tiered Rate Methodology</u>

Today, The VRS rate is calculated on a per minute of service basis so that if one provider delivers 100,000 minutes per month, that provider receives $6.64 for each minute; if a second provider handles 2,000,000 minutes per month, that provider receives the same $6.64 for each minute. A 3-Year Variable Tiered Rate Methodology (VTRM) would set thresholds by which the rate would decrease as the volume of a provider's minutes increases. The following example is not intended to be representative of the actual compensation scheme for VRS, but rather is merely illustrative of this concept:

<u>Monthly Minutes</u>

For minutes 1 through 100, a provider is compensated $9.99/minute
For minutes 101 through 200, a provider is compensated $8.88/minute
For minutes 201 through 300, a provider is compensated $7.77/minute
For minutes 301 through 401, a provider is compensated $6.66/minute
For minutes 401 through 501, a provider is compensated $5.55/minute

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At the end of the month, each provider submits the number of minutes it has handled and is paid accordingly. Using the above hypothetical compensation scheme, Providers A and B would be compensated as follows:

<u>Provider A delivers 150 VRS minutes in month 1:</u>
100 minutes are reimbursed at $9.99/minute = $999.00
50 minutes are reimbursed at $8.88/minute = $444.00
Total compensation is $999 + $444 = $1443.00
Average compensation per minute is $1443/150 = $9.62/min

Provider B delivers 350 VRS minutes in month 1.
100 minutes are reimbursed at $9.99/minute = $999.00
100 minutes are reimbursed at $8.88/minute = $888.00
100 minutes are reimbursed at $7.77/minute = $777.00
50 minutes are reimbursed at $6.66/minute = $333.00
Total compensation is 999+888+777+333 = $2997.00
Average compensation per minute is $2997/350 = $8.56/min

This rate methodology allows smaller providers to be compensated at higher rates than larger providers, but it allows both small and large providers to be compensated at a fair and reasonable level to cover their costs. This methodology also provides incentives for providers to operate their business more efficiently, to maximize returns, and to continue technical innovation to attract more customers.

The challenge of 3-Year VTRM will be for the FCC to determine an appropriate sliding scale, as well as the associated compensation rates at each threshold. For purposes of making this determination, we make the following assumptions:

Assumption 1 – $6.64 has been a rate that has allowed numerous smaller providers to offer innovative services and operate their business over a two year period with some level of consistency. Also, numerous small carriers have delivered cost data to NECA that appears to indicate that the rate of $6.64 is the minimum they need to operate VRS.

Assumption 2 – NECA has received data that shows the weighted average cost of all VRS providers to be in the mid $4.00 range. This weighted average is highly influenced by the provider that holds a large market share. NECA

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has stated that the non-weighted average cost of all providers is in the $7.00 range.

The following is one way that the sliding scale and thresholds can be set – again, this is intended to be illustrative only:

MONTHLY MINUTES AND THE RATE PER MINUTE

Minute Start	Minute End	Rate/Min.
-	500,000	$ 7.00
500,001	1,000,000	6.75
1,000,001	2,000,000	6.50
2,000,001	3,000,000	6.25
3,000,001	4,000,000	6.00
4,000,001	5,000,000	5.75
5,000,001	X	5.50

Our belief is that this rate system would:

1. Fairly and reasonably compensate each provider based on that provider's volume. Many, if not most, of today's providers only have enough minutes to be counted in the first and second tier of the sliding scale, that is, most have less than 500,000 or 1,000,000 minutes per month. These providers will be fairly compensated in the $6.75-$7.00 range. While this rate is slightly higher than the flat rate of $6.64 that is in place today, it is expected that a higher rate for a smaller provider will lead to more innovation, thus driving down delivery costs long term.
2. Provide a competitive market that would deliver functionally equivalent VRS.
3. Provide for continued innovation that would allow consumers to receive the benefits of technological advances.
4. Provide for a savings in the size of the VRS funding requirement for the 2007-08 fund year and subsequent years.
5. Provide consistency for providers over a period of three years, after which the FCC and NECA can re-evaluate the sliding scale rate and thresholds.

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6. Eliminate the need for the FCC and NECA to engage in inefficient long and drawn-out processes to calculate a different rate (or the same rate) each year.

The VTRM has been employed in a variety of industries for many years and offers a perfect solution for determining VRS rates given the current composition of this market. The benefit of establishing the VTRM and initially instituting it over a 3 year period is that it will allow the FCC and NECA to have built in mechanism for a lower rate as minutes per provider increase. In addition, it insures a competitive market though a planning cycle that gives providers time to develop new options, which will enhance opportunities for consumers who are deaf and eventually leads to lower costs. We would like to emphasize that a 3 year rate will allow VRS providers to more effectively manage their business operations and invest in new solutions that benefit the consumer and provide equivalency. CSDVRS looks forward to exploring in greater detail how this methodology can effectively be applied to achieve fairness and continue to deliver functionally equivalent service by the VRS industry.

This letter is being submitted for inclusion in the record of the above-referenced proceeding pursuant to the Commission's rules.

Sincerely

/s/

Sean Belanger
CEO
CSDVRS