Donna Epps
Vice President
Federal Regulatory

October 2, 2008

1300 I Street, NW, Suite 400 West
Washington, DC 20005

Phone 202 515-2527
Fax 202 336-7922
donna.m.epps@verizon.com

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; IP-Enabled Services, WC Docket No. 04-36; Federal-State Joint Board on Universal Service, CC Docket No. 96-45

Dear Ms. Dortch:

Yesterday, Amy Rosenthal, Tamara Preiss, Maggie McCready, Alan Buzacott and the undersigned, representing Verizon and Verizon Wireless, met with Don Stockdale, Marcus Maher, Randy Clarke, Victoria Goldberg, Lynne Engledow, Bill Sharkey, Jay Atkinson, Doug Slotten, Jennifer McKee, Rebekah Goodheart, Claude Aiken, Matt Warner, and Nicholas Degani of the Wireline Competition Bureau and Chris Killion and Paula Silberthau of the Office of General Counsel to discuss Verizon's position on intercarrier compensation reform. In the meeting, we provided an overview of and answered questions about Verizon's comprehensive intercarrier compensation reform plan filed on September 12, 2008.

In the meeting, Verizon discussed the interaction of the National Comparability Benchmark, federal subscriber line charges (SLCs), and recovery from the Replacement Mechanism under its proposal. Under Verizon's proposal, any carrier that experiences a decrease in access revenues as a result of the plan would be given the opportunity to recover those losses through a combination of increases to federal SLCs on end user bills and recovery from a new universal service fund, or Replacement Mechanism. The carrier's permissible SLC increases and recovery from the Replacement Mechanism, however, would be linked to a new National Comparability Benchmark. The Commission would establish the Benchmark at a level that reflects what residential end users in today's communications market can reasonably be expected to pay for monthly telecommunications service. Verizon has suggested that one way to structure such a Benchmark would be to set it at a level that approximates the average urban rate for residential local exchange service, which Commission data indicate is likely to be between $22 and $26. Tying carriers' recovery to the Benchmark would bring equity to the retail rates that end users pay for voice services by recognizing the efforts of those states that have re-balanced retail rates and encouraging carriers with artificially low rates to charge prevailing market levels.[1]

The permissible federal SLC increase, Benchmark, and Replacement Mechanism work together as follows: A carrier that experiences intercarrier compensation revenue losses under the new regime would first calculate its *access shift*, or the net revenue loss caused by the rate changes under the plan. The access shift is the amount of interstate and intrastate access revenues lost under the new regime, offset by the new revenues earned under the plan, such as by charging the $0.0007 per minute rate for all terminating traffic.[2]

The carrier would then be permitted – but not required – to recover a portion of its access shift from its own customers by increasing the federal SLCs on end user bills. The Commission would institute a new "flexible SLC cap": each carrier's SLC cap would be equal to $10.50 (a $4 increase over today's residential SLC cap) *or* the amount needed for the carrier to meet the Benchmark*, whichever is higher*. This approach allows carriers that have the lowest rates today the opportunity to increase their federal SLCs more than $4 if needed to meet the Benchmark and recognizes the rate rebalancing efforts that have already been undertaken in those states where carriers' retail rates are higher.

Carriers would also be permitted to recover a portion of their access shift from the new Replacement Mechanism. Although a carrier would not be required to adopt the maximum SLC increases permitted under the plan (or any SLC increases, for that matter), the maximum permissible increase would be imputed to the carrier in calculating its recovery from the fund. In other words, the amount of a carrier's access shift would first be offset by the revenues that the carrier *could* have gained by raising its SLC to the maximum amount permitted under the plan; the carrier could then recover any additional losses from the Replacement Mechanism.

A numerical example illustrates the interaction of the Benchmark, the flexible SLC cap, and the Replacement Mechanism under Verizon's proposal. The following example assumes a Benchmark of $22 and assumes that each carrier is already imposing the maximum SLC under pre-plan rules.

---

1 Verizon's plan also notes that an alternative might be to base the Benchmark on some measure of average revenue per local exchange line to recognize that carriers have an opportunity to earn revenues from a variety of services in addition to basic local exchange. *See* Verizon Proposal § 3.b.ii.

2 Rate of Return carriers can also include net reciprocal compensation changes, if any, in this calculation.

Carrier	Pre-Plan End User Rate	Maximum SLC Increase Permitted Under Plan	End-User Rate Assuming Maximum SLC Increase	Carrier's Recovery From Fund
Carrier A	$17	$5	$22	Access shift minus revenues that would be earned by a $5 SLC increase
Carrier B	$19	$4	$23	Access shift minus revenues that would be earned by a $4 SLC increase
Carrier C	$27	$4	$31	Access shift minus revenues that would be earned by a $4 SLC increase

Under Verizon's proposal, Carriers B and C subtract from their access shift the additional SLC revenues they are allowed, assuming a full $4 SLC increase; they could then recover any remaining amount from the Replacement Mechanism. The same $4 SLC increase would leave Carrier A (with its $17 pre-plan end user rate) below the Benchmark. Carrier A would therefore be subject to the "flexible" SLC cap, which permits carriers to make additional SLC increases to reach the Benchmark "floor." Carrier A would be permitted to raise its SLC by $5 to reach the $22 Benchmark, and would calculate its recovery from the Replacement Mechanism by subtracting from its access shift the SLC revenues it would receive, assuming a $5 SLC increase.

To the extent that the Commission is concerned about placing additional rate burdens on high-cost carriers in those states that have taken the greatest steps toward rate rebalancing, and thus already have the highest rates, the Commission could consider imposing a "ceiling" on federal SLC increases as well. Under such an alternative approach, the Commission would identify a "ceiling" that would limit SLC increases for those carriers that have end user rates that are already materially higher than the Benchmark. Wyoming, for example, has adopted rate rebalancing measures that allow high-cost local exchange carriers to charge up to $32.47 for basic local exchange service.[3]

---

[3] *See, e.g.,* Wyoming Public Service Commission, Notice and Order Establishing the Wyoming Universal Service Fund Assessment Level On An Interim Basis, Docket

A numerical example also aids in illustrating how such a "ceiling" structure might operate. The following example assumes the same $22 Benchmark and the same three hypothetical carriers – but also assumes a "ceiling" that is $10 higher, at $32:[4]

Carrier	Pre-Plan End User Rate	Maximum SLC Increase Permitted Under Plan	End-User Rate Assuming Maximum SLC Increase	Carrier's Recovery From Fund
Carrier A	$17	$5	$22	Access shift minus revenues that would be earned by a $5 SLC increase
Carrier B	$19	$4	$23	Access shift minus revenues that would be earned by a $4 SLC increase
Carrier C	$29	$3	$32	Access shift minus revenues that would be earned by a $3 SLC increase

Carrier A and Carrier B would be unaffected by the "ceiling" and would be permitted to make the same federal SLC increases (and the same Replacement Mechanism recoveries) as in the first example. Carrier C, however, which had a pre-plan rate of $29, is only $3 below the "ceiling." As such, the maximum permissible federal SLC increase for Carrier C (and the SLC increase imputed to Carrier C) would be $3 – the amount needed to reach the ceiling – and its recovery from the Replacement Mechanism would be calculated accordingly.

Additionally, some parties have questioned the scope of the traffic covered by Verizon's September 12 reform proposal. Verizon's proposal addresses all traffic routed on the public switched telephone network (PSTN). As such, Verizon's proposed intercarrier compensation regime would govern IP-to-PSTN traffic and PSTN-to-IP

No. 90072-27-XO-07, ¶ 13 (May 15, 2007) (http://psc.state.wy.us/htdocs/orders/90072-27-16904.htm).

[4] The $32 ceiling used in these examples is for illustrative purposes only. Experience in Wyoming and other states shows that the ceiling could be set above $32.

traffic. By its terms, however, Verizon's proposal does not attempt to address what compensation may or may not be due for IP traffic that does not traverse the PSTN and does not address the IP-to-IP exchange of traffic. Those issues should be addressed in the first instance through commercial negotiations between the parties, and Verizon's proposal does not prejudge the results of those negotiations.

We look forward to continued discussions regarding Verizon's proposal for intercarrier compensation reform.

Sincerely,

Donna Epps