Responsible ICC Reform

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The Facts Regarding Traffic

- **The vast majority of traffic can be and is jurisdictionalized**
  - Only a small amount of traffic is VOIP and, an even smaller amount is “nomadic” VOIP
  - The industry views NXX as a reasonable method for determining wireless call location
  - The FCC requires all technologies to implement E911 which requires carriers to have the ability to determine location

The Facts Regarding $.0007

- $.0007 is NOT a Reasonable Rate
  - Virtually no rural ILECs have adopted the $0.0007 rate and the mirroring rule
  - Rural carriers' reciprocal compensation rates range between $0.02 and $0.025*
    - These rates have been subject to arbitration and in some cases court challenges
  - Additional costs vary by location and geography not unlike any other business
  - A $.0007 rate does not cover the cost of billing let alone the costs of the service

* Nebraska, Iowa, and South Dakota (however may also apply to other carriers)

The Law

- The law is clear – states have authority under S. 252, 152(b), and under court decisions
  - Verizon’s entire legal position is based on assertions, which the facts do not bear out
  - The FCC’s authority is expressly limited by federal and state statutes, federal rules (separations, TELRIC pricing, etc.), and court precedent (IUB, Louisiana, Smith vs. Illinois)
    - Preemption will result in uncertainty, reform grinding to a halt, and no additional broadband investment
  - The courts have been clear: The FCC cannot set or telegraph rates under S. 251
    - There is no difference between Proxy and Default
      - Supreme Court: FCC may be able to set a default “methodology” but it cannot set default rates
      - If costs are greater than $.0007, creating a default rate of $.0007 is RATE SETTING, not establishing a methodology

The Policy

- Contrary to claims, implementing a mandatory $.0007 terminating rate for all carriers and all services:
  - Would be contrary to federal policy
  - Would harm rural customers and their carriers, absent balanced replacement revenue
  - Would subsidize carriers that use rural networks, but do not invest in rural infrastructure
  - Would halt further rural broadband investment

Scorecard-AT&T and Verizon Win

Action	AT&T and Verizon	Rural LECs
Reduction in ICC rates	Huge expense savings	Revenue decreases or potential short-term replacement revenues from risky sources
Default intercarrier rates	No need to negotiate or arbitrate reciprocal compensation	High cost rural networks are provided for virtually free
Elimination of originating access	IXCs receive all revenues	Expense incurred, but little compensation, especially 800
SLC increases	SLC increases will be unnecessary	Rural SLCs already at the cap. No provision for high local rates.
Benchmarks ignore state contributions	Benchmarks will have no impact	Rural customers in states with funds pay twice
Transiting rates frozen	Current rates locked in place	Pay high transiting rates to the large providers
Universal Service funding changes	No additional universal service funding required	Increased dependence on universal service funding
Contributions changes	Long distance and special access contribute less	Wireline residential customers contribute more

Result of $.0007

- Customer Impact
  - Urban, enterprise and special access see contribution and rate decreases, rural customers see increases
  - Rural RBOC customers ignored
  - RLECs stop deploying broadband
- Competitive Situation
  - Wireless more competitive
  - Rural wireline less competitive
  - Large carriers' market dominance
- Financial Situation
  - Cost reductions for large carriers
  - Rural debt endangered and USF overdependence

Bottom Line

- The cycle of deregulation and increased consolidation, coupled with no reporting, creates an unregulated economic monopoly with market power.
- Comparable policies have resulted in disaster in the financial markets.
- Without sustainable cost recovery, rural carriers will experience financial disaster, their customers will have high rates and low service quality and the national infrastructure may no longer be interconnected, risking service and national security.

Long-Term USF Is Essential for Rate of Return ICC Reform

- Proposals that set ICC below cost are dangerous
  - halt broadband deployment
  - create uneconomic price signals
  - cause concerns for rural lenders
    - Rural lenders, such as CoBank, have warned that inadequate revenue streams for rural carriers would result in CoBank not extending new or additional credit
- The reform's USF price tag must be clear
- Long-term USF replacement revenues are a necessary precondition to any ICC rate reductions
- The questions are:
  - Will the FCC add additional money for High Cost funding and if so how much?
  - In the current political environment, are billions of dollars in replacement USF available?

Responsible Reform Would

- Address the Core Com remand narrowly
- Recognize legitimate state jurisdiction by using a carrot rather than an unlawful stick to invoke change
    - Allow states to opt in to interstate rate levels
    - Cap interstate rates with the residual recovered through USF
    - Set a benchmark rate for determining whether SLC increases or additional replacement revenues are necessary
    - Allow SLC increases or imputation if local rates are below the benchmark – rates must remain affordable
    - Provide replacement revenues to the extent necessary to cover costs and provide a reasonable return
- Recognize the progress rural companies have made in deploying broadband