



**Robert W. Quinn, Jr.**  
Senior Vice President  
Federal Regulatory

AT&T Services, Inc.  
1120 20<sup>th</sup> St., NW, Suite 1000  
Washington, DC 20036  
T: 202.457.3851  
F: 832.213.0243

October 23, 2008

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

**Re: Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; High-Cost Universal Service Support, WC Docket No. 05-337; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Intercarrier Compensation for ISP-Bound Traffic, WC Docket No. 99-68; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135**

Dear Ms. Dortch:

More than six years ago the Commission initiated this proceeding to reform existing intercarrier compensation rules. Since then thousands of pages of comments, reply comments, and ex parte letters addressing comprehensive reform have been filed with the Commission. During the intervening years, AT&T has worked tirelessly with regulators and other industry members to identify issues and find agreement on how to address them.

The Commission is now finally considering an order that would take definitive steps toward comprehensive reform of both intercarrier compensation and universal service. As described in the press, the proposed order would not fully resolve every issue that will have to be addressed in order to complete the task of reforming these woefully outdated regulatory frameworks. But by all accounts it takes the critical initial steps that must be taken to fix what virtually everyone concedes is an irrational and unsustainable set of rules, and it provides a solid cornerstone upon which the Commission, the industry, and state regulators can build. To be sure, the order does not – and frankly could never -- satisfy every industry segment or interest group, but it offers a balanced and reasonable accommodation of the various considerations implicated by these initial reform measures.

AT&T itself stands to lose significant revenue as a result of this order. It will lose most of its CETC support and substantial access revenues. While AT&T expects to recover some of those access revenue losses through increased SLCs, competition may well constrain AT&T's ability to recover all of those reductions, and AT&T will not be eligible for any additional universal service support to replace such revenues, regardless of whether it can address them through SLC increases.<sup>1</sup> However, this is not the time for short-sighted parochial concerns. As AT&T has

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<sup>1</sup> AT&T, of course, will not be able to raise the SLC beyond the level necessary to recover access revenue losses.

explained several times in this proceeding, the telecommunications industry is in the midst of a revolution in which circuit-switched networks deployed primarily for voice service are being rapidly displaced by optical IP packet-switched networks over which voice is just one of many applications.

This revolution is proceeding faster than anyone could have imagined. According to the National Cable Television Association, cable operators already provide voice service to over 16 million subscribers, and they offer such service to more than 100 million customers. Over-the-top VoIP providers serve millions of other customers, with Vonage alone serving over 2.6 million. Meanwhile, T-Mobile has deployed a service that permits its wireless subscribers to use their home Wi-Fi networks to make unlimited local and long distance calls for \$9.99 a month over a broadband connection, while Sprint/Clearwire has begun to deploy a nationwide WiMax network. And both Verizon and AT&T are spending huge sums of money rolling out fiber-based broadband networks that will carry packetized voice communications, along with other services.

The implications of this industry transformation are profound. Because access charges are not assessed on broadband connections, access revenues, which are already in rapid decline, will continue to decline at an accelerating pace. Hence carriers who rely on subsidies embedded in access revenues to recover the costs of providing service in rural areas will lose the support on which they and their customers depend.

But the effects are not limited to rural areas and the carriers that serve them. Under today's archaic intercarrier compensation framework, identical functionalities are priced at dramatically different levels depending upon jurisdiction, technology, and regulatory status. These regulatory disparities distort competition and investment, while promoting arbitrage and even fraud. These problems are well-known to the Commission, and they consume enormous resources as the Commission and the industry struggle, often unsuccessfully, to address them on a piece-meal basis.

Something must be done. The existing intercarrier compensation and universal service systems are on a collision course with technological change. Unless those systems are reformed now, the next Commission will inherit a set of problems that dwarf what we see already today. AT&T has filed in this proceeding data that demonstrate the potential impact on consumer rates and universal service costs of a range of reform options the Commission can take. Although in the past, AT&T has supported the Missoula Plan, which proceeded from the assumption that access revenues would be entirely replaced via subscriber line increases and explicit universal service subsidies, we recognize that the order before the Commission makes different assumptions. That is not unreasonable. What would be unreasonable would be for the Commission to miss this opportunity to enact reform. The Commission must overhaul its intercarrier compensation rules to ensure adequate funding of service in rural areas and to eliminate the arbitrage and competitive disparities that increasingly undermine the current system. The draft order would take important steps towards these ends by establishing a unified terminating compensation regime and permitting recovery of lost revenues via end user charges and, in some cases, universal service subsidies.

On the issue of universal service, Chairman Martin has proposed to implement a much needed and long overdue change that would transform the universal service fund into a broadband fund with the goal of making available broadband service to all Americans. American consumers are not well-served by today's universal service system, which, among other deficiencies, fails to support the deployment of broadband services in unserved areas. Establishing a mechanism to achieve that goal, which is codified in Section 706 of the 1996 Act, will provide an enormous boost to the American economy and the American consumer. As the Commission has recognized, this goal is a critical component of any national strategy to enhance our nation's ability to compete successfully in the world economy in the 21<sup>st</sup> Century. And redirecting the universal service system towards that end is the logical evolution of the universal service doctrine first espoused by Theodore Vail more than 100 years ago. There are many questions that will have to be answered and enormous amounts of work that will have to be done after the first steps taken in the proposed order, but it is essential that we begin to take the necessary steps to make that vision a reality.

In short, the order will provide enormous benefits, not only to the industry, but to consumers. Today's access charge regime imposes indirect costs on consumers through the hidden tax of the terminating monopoly. Turning those costs into explicit (and regulatorily constrained) end user charges places them squarely under the microscope of competition. In areas where competition is more limited, consumers, not only will benefit from the establishment of sustainable mechanisms to ensure continued support of critical services, but they will further benefit from a 21<sup>st</sup> century conception of what those critical services are.

That is not to say that the proposed order is perfect; to the contrary, AT&T believes it should be refined in certain respects. But this is an historic opportunity to make tough but necessary decisions that will set intercarrier compensation and universal service rules on a rational and sustainable path going forward. Accordingly, AT&T urges the Commission to adopt the order under consideration, subject to the following relatively minor modifications.

First, the Commission should shorten the proposed transition to the revised intercarrier compensation rules. The proposed order would establish a three-step transition to take place in years 2, 4, and 10. That should be shortened to a transition that takes place in years 1, 3, and 5.<sup>2</sup> A ten year transition is far too long given the accelerating erosion of the POTS business model, of which intercarrier compensation is an integral component.<sup>3</sup> Second, the Commission should adopt an orderly transition away from the existing CETC funding mechanism and toward a mechanism designed to extend wireless services to unserved areas. The existing CETC funding mechanism is flawed because it does not necessarily direct funds to those areas in which wireless service would otherwise be unavailable. As AT&T has previously recommended, the

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<sup>2</sup> AT&T recommends that the transition begin in mid-2009 in concert with ILEC annual access filings.

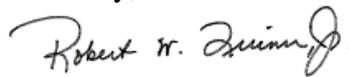
<sup>3</sup> The Commission should clarify the appropriate intercarrier compensation that applies when VoIP-to-PSTN traffic is exchanged between carriers during the transition to a unified rate. However the Commission decides that issue, it must make clear that PSTN-to-VoIP traffic is subject to the same compensation.

Commission should transition out of the existing funding mechanism over five years, with equal reductions per year, and, at the same time, seek comment on a new framework to fund the expansion of wireless networks to unserved areas.<sup>4</sup>

Finally, the Commission should adopt the numbers/connections proposal submitted by Verizon and AT&T on October 20. That proposal would further reduce the burden on consumers and is vastly superior to any revenue-based contribution system for business customers. There is no reason for the Commission to defer decision to a further notice. The existing revenue-based system, like the existing intercarrier compensation system, is based on irrational distinctions that are unsustainable and that have resulted in confusion, inequity, and fraud. The Commission has an ample record basis upon which to act now.

There can be no illusion that inaction is a responsible or even viable policy any longer. Failure to adopt the framework established in the order would further delay the beginning of the transition that is needed to establish sensible intercarrier compensation rules and turn universal service into a program that rationally promotes broadband deployment in rural areas. If the framework is adopted, AT&T will continue to work with all interested parties to further strengthen and develop the framework. But if the Commission passes on this opportunity to enact reform, prospects for reform in the near future will be dim. And, as carriers adapt their business models accordingly, the abuses that plague the current systems will only grow worse. For all these reasons, AT&T applauds the Commission for its efforts and urges it to adopt the framework in the order under consideration.

Sincerely,



Robert W. Quinn, Jr.  
Sr. Vice President-Federal Regulatory

CC: Kevin Martin, Chairman  
Michael J. Copps, Commissioner  
Jonathan S. Adelstein, Commissioner  
Deborah Taylor Tate, Commissioner  
Robert M. McDowell, Commissioner  
Daniel Gonzalez  
Amy Bender  
Scott Deutchman  
Scott Bergmann  
Greg Orlando  
Nicholas Alexander  
Dana Shaffer  
Don Stockdale

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<sup>4</sup> See AT&T Comments filed April 17, 2008 p. 23, WC Docket 05-237 High Cost Universal Service Support, CC Docket 96-45 Federal-State Joint Board on Universal Services