



FCC Presentation – March 23, 2011

Main Themes

- Tandem transit service is competitive and the tandem function for local or access traffic is the same (minute is a minute).
- Minute is a minute – there should not be a distinction between local or long distance minutes, traditional TDM or VoIP minutes, intra-state or inter-state minutes.
- Disputes regarding originating 8YY traffic exist because the IXC that pays the access charges for the call has no control over the routing of the call.
- Phantom traffic exists because of arbitrage between local and access rates.

Neutral Tandem Update

- Previously focused on tandem transit services for local voice traffic.
- Rapidly growing tandem transit business for access traffic.
- Acquired Tinet SpA in October 2010.
 - Tinet is one of the largest “Tier 1” IP transport providers in the world
- Expanding into Ethernet/Data.

Local Tandem Transit

- Competition in local tandem transit is robust and growing.
 - Prices have declined substantially.
 - Carriers have multiple options.
- Price regulation would be inappropriate for local tandem transit services.

Tandem Transit Access Services

- Competitive market exists for “tandem transit” part of access, i.e., services provided between carriers.
 - FCC has recognized that the “end-office” part of access, i.e., the delivery of traffic to a carrier’s own end-users, is inherently not competitive and should be price-regulated.
 - However, the “tandem transit access” part of calls between carriers, i.e., where an intermediate carrier performs the tandem switched access function but then delivers the call to a third party carrier’s end office, is competitive.
 - Prices for tandem transit access services have fallen and continue to fall.
 - Important to understand distinction between tandem transit access services (competitive) and end-office services (not competitive) with respect to access traffic.

Tandem Transit Access Services

- Arbitrage schemes are an issue in the tandem transit access market.
 - On originating side, some carriers have circumvented FCC's access charge caps. Other carriers have engaged in schemes to avoid payment of access charges.
 - On terminating side, some carriers have masked the type of traffic they are delivering to terminating carriers (i.e., "phantom traffic").
- NT supports rules to prevent access stimulation.
- NT also supports the proposed "phantom traffic" rules.
- But those rules, standing alone, do not fully resolve the bigger-picture issues.

Principles for ICC Reform

- NT agrees that the current system, which distinguishes compensation based on: (1) the type of traffic, and (2) the type of carrier, “is inefficient, wasteful and slowing the evolution to IP networks.” NPRM ¶ 502.
 - NT also agrees that the current system does not always send proper pricing signals, particularly in the context of access traffic. *Id.* ¶ 526.
 - NT also agrees that it is problematic to force carriers to pay for interconnection arrangements they do not control. *Id.* ¶ 682.

Principles for ICC Reform

- ICC reform should focus on three areas:
 - Eliminating intercarrier compensation distinctions based on types of traffic (local, access, VoIP).
 - Eliminating intercarrier compensation distinctions based on types of carriers (LEC, IXC, CMRS).
 - Giving carriers with the financial responsibility for traffic the right to control how that traffic is delivered.
- It is critical that reform take account of the competitive nature of tandem transit services for all types of traffic, and not adopt price regulation that stifles that competition. (See NPRM ¶ 571 (seeking comment on how ICC reform would impact different types of carriers)).

Principles for ICC Reform

- Application of these three principles will substantially reduce or eliminate arbitrage schemes based on current intercarrier compensation rules.
- Application of these three principles also will allow carriers to develop their networks, and route the traffic for which they are financially responsible, based on what is most efficient from a business perspective, not based on intercarrier compensation rules
- Carriers will then choose to use intermediate tandem transit carriers such as NT, or not, based on what is most efficient for their businesses and their networks.

Phantom Traffic

- Neutral Tandem generally supports the concepts articulated in the NPRM.
- FCC should favor policies to allow for the continued development of competitive tandem providers.