



**Sorenson
Communications®**

Connecting You™



VRS Reform FNPRM July 23, 2012

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About Sorenson

- Sorenson is the leading provider of VRS and other services enabling the deaf and hard-of-hearing to communicate with the hearing world.
 - By “relaying” the conversation through an ASL-fluent interpreter, VRS enables deaf and hard-of-hearing individuals to use their native language to communicate with hearing individuals in real time.
 - VRS providers also enable VRS users to make “point to point” calls directly to other VRS users. Point-to-point calls (which are not compensated) outnumber VRS calls by about eight-to-one.
- Sorenson operates a network of over 100 VRS call centers staffed by highly-skilled, ASL-fluent video interpreters.
- Sorenson is the lowest-cost provider of VRS, and receives the lowest average per minute compensation, with a proven history of innovation, reliability and ethical conduct.

VRS History

- The VRS industry's history provides context for providers' advocacy positions and insights into the proposed reforms.
- Sorenson didn't have a "first entrant" advantage. It entered the VRS market in 2003 – which was after Purple and ZVRS were already providing service.
- Unlike Purple and ZVRS, Sorenson focused on developing a dedicated videophone specifically tailored to the unique needs of the deaf and hard-of-hearing. The combination of unique videophones, a higher level of interpreting quality, and enhanced features attracted users to Sorenson.
- Consumers quickly gravitated to Sorenson because of its superior service and products.
- Providing equipment and service that attract consumers is the foundation of a successful strategy in a competitive market. It does not constitute anti-competitive lock-in.

What makes Sorenson the industry leader in VRS?

1. Sorenson has recruited, trained and developed the vast majority of VRS capable interpreters and actively invests to grow the pool of interpreters for VRS and community work opportunities
2. Sorenson is the “all-in” low cost VRS provider
 - lowest cost operational provider – due to explicit operational decisions, not due to scale
 - lowest cost including capital structure costs
3. Sorenson is the best managed VRS provider
 - best business and operational processes
 - most experienced and professional management team
4. Sorenson provides the greatest innovation for the deaf and hard of hearing
5. Sorenson is a transparent and ethical VRS provider

In summary, Sorenson has a very different business model from all other VRS providers:

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- Develop deaf-centric endpoint
- Seek new users & provide VRS access
- Invest in growing VRS interpreter pool
- Support and service existing users
- Provide lowest cost service
- Leader in implementing FCC directives

Other Providers

- Deploy “off the shelf” endpoints
- Take users away from Sorenson
- Take interpreters from Sorenson
- Provide minimal service
- Zero incentive to lower cost of service
- Lag implementation and seek waivers

The VRS Reform Effort

- June 28, 2010—FCC mandates initial rate cuts and releases an NOI to take a “fresh look” at VRS. Sorenson is cut 18% -- substantially more than any other provider. Providers that were exclusively in Tiers 1 and 2 had a 2010 rate cut of 3.5% (500,000 MOU) to 6.9% (50,000 MOU).
- December 15, 2011— FCC releases the FNPRM proposing critical reforms to VRS. Reforms are generally designed to:
 - promote “functional equivalence” between VRS and traditional hearing service as the ADA requires; and
 - combat waste, fraud and abuse.
- Specific reform proposals include:
 - changing the compensation regime from a per-minute system to a per-user system;
 - adjusting the compensation rate;
 - developing interoperability standards; and
 - Implementing consumer protection measures.
- Sorenson supports many of the Commission’s proposals and has been working actively to provide FCC staff with data and information necessary for the rulemaking.

Rate Tiers Should be Abandoned

- VRS providers are currently compensated under a system of declining rate tiers.
 - Per-minute rates computed as a combination of historical “allowable” costs and rates adopted in previous years.
 - A provider’s compensation rate falls as its traffic volume rises: \$6.2390 for Tier I, \$6.2335 for Tier II, and \$5.0668 for Tier III.
 - Apparent objective of tiers was to prop up inefficient suppliers.
- At least three providers receive at least some Tier III compensation, but only Sorenson receives the huge majority of its compensation at the reduced rate.
- As the FNPRM recognizes, tiers are wasteful because they encourage and reward inefficiency. Tiers contravene the ADA’s mandate that VRS be made available “in the most efficient manner.”
- Some providers argue that tiers are necessary to enable them to achieve “scale,” but none of them has offered any economic analysis or data to back up their arguments.
- Sorenson’s outside economist—Dr. Michael Katz—analyzed industry data and found that the primary sources of scale economies (call queuing and interpreter staffing) are nearly fully realized at 250,000 minutes per year. Purple and ZVRS are already at scale.

The Reformed VRS Compensation Rate

- The Commission should adopt a single rate equal to the blended rate currently provided to the current lowest-compensated per-minute provider (Sorenson) – which is \$5.14 per minute.
- Any near to medium-term rate (unified or for Tier III) materially lower than \$5.14 would – at best – result in substantial degradation of service across the industry. It could also force Sorenson (and others) into bankruptcy, with the attendant disruptions that would cause for thousands of customers.
- The FNPRM's suggested rate of about \$4 per minute is premised on excluding a variety of costs that providers actually bear in the real world, including taxes, the actual costs of capital, R&D, manufacturing equipment, and porting numbers.

The FCC Should Adopt a Price-Cap Approach

- As proposed in the FNPRM, the FCC should employ a price-cap mechanism, not rate of return.
- ROR rewards high cost service and discourages efficiency. It also creates revenue volatility, which impedes providers' access to capital markets.
- ROR ignores returns on labor, which is the predominant component of VRS.
- Under a price-cap approach, the FCC can make adjustments, but it should not engage in too-frequent reviews of the rate, as that will essentially re-create the downsides of the ROR approach.
 - The FCC should review the price cap rate no more often than every five years.
- If the FCC preserves any ROR components, it should stop basing rates on an arbitrary subset of "allowable costs". Providers incur real costs in providing VRS – including taxes, R&D, numbering, and the cost of financing. There is no reasonable basis for excluding them from the compensation process.
- If the FCC preserves any ROR components, it should also reject the 11.25% ROR on capital that it has presumed to be applicable. That rate was originally crafted in 1990 for LECs' capital intensive business structures. It has absolutely no logical bearing on VRS, which is characterized by comparatively low capital investment and high operational expense.

End Point Interoperability

- Sorenson supports developing an industry SIP-based standard for point-to-point communications between videophones (whether hardware or software-based).
- Standardization will start with interoperability followed by portability. Interoperability should not extend to enhanced features.
- Use of “off-the-shelf” hardware is growing, and does not need to be mandated. This is being driven by the market, with multiple providers having PC, tablet and smartphone-based VRS applications.
 - Banning proprietary videophones would reduce options for consumers and harm consumer service.



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