



Video Relay Services Market Reform – Rates

I) Sorenson’s Rate Arguments Lack Credibility

- (1) In 2006, when it was at least twice the current size of Purple and ZVRS, Sorenson insisted that it needed to be paid at least \$7.03 per minute to avoid a purported cataclysmic outcome for consumers.¹
- (2) In 2010, when it was at least five times the current size of Purple and ZVRS, Sorenson insisted it must be paid \$5.95 per minute to avoid a disastrous outcome for consumers.²
- (3) The FCC’s Office of Inspector General’s Semiannual Report to Congress indicates that “In 2011, Sorenson received significantly more in VRS compensation than what they reported on their RSDR. This excess, for 2011 alone, amounts to a substantive amount of money and points to a significant problem with the FCC’s VRS compensation mechanism.”³ Purple would submit that the “significant problem” the OIG identifies is the extreme overpayment of minutes generated at extremely high volumes.
- (4) While not formerly published, Purple’s preliminary audit report from the same Office of Inspector General indicates that Purple was not overcompensated for VRS services provided in 2011.

II) Sorenson is Overpaid. Other Providers Are Not.

- (1) Purple agrees that the Fund pays more for VRS than it should.
- (2) At current volumes, 60% of the minutes the Fund pays for are generated at rates above a volume level of 2MM per month; 100% of which are generated by Sorenson.
- (3) The rate the Fund pays for high-volume minutes results in excessive cost to the fund, and excessive payment to one provider – Sorenson.
- (4) The FCC’s audit team concluded that the second largest provider is NOT overcompensated

¹ Comments of Sorenson Communications, Inc., at 2, 28, CG Docket 03-123 (filed May 17, 2006) (“Sorenson 2006 Rate Comments”).

² Comments of Sorenson Communications, Inc., at 2, CG Docket 03-123 (filed May 14, 2010) (“Sorenson 2010 Rate Comments”).

³ FCC Office of Inspector General Semiannual Report to Congress, April 1, 2012 through September 30, 2012.

- (5) Rate reform must align with production costs, which are directly tied to production volumes.

III) A Premature One Size Fits All Rate Model will Weaken the Industry.

- (1) Elimination of subsidies is rational in a balanced, competitive market.
- (2) The current VRS market is neither balanced nor competitive – and a premature unitary rate based on the near-monopoly provider’s production costs (achieved at the efficiencies of extremely high volume rates) would disable smaller providers, if not eliminate them – in either case, resulting in a perpetuation of the Sorenson near-monopoly.
- (3) Ensuring the existence of multiple providers is the rational objective – FCC avoids putting the service at the mercy of a single provider, consumers are benefitted by competitive forces driving innovation and service quality.
- (4) A unitary rate will be possible at a time when competition is enabled and more than one provider operates at high-volume rates.

IV) Purple’s Rate Proposal is Rational, Supportable and Results in Immediate Savings to the TRS Fund

- (1) Purple proposes a rate cut that reduces compensation rates to ALL providers immediately
- (2) Purple’s proposal delivers greater immediate annual savings than RLSA’s proposal
- (3) The proposed savings is aligned in accordance with OIG’s audit findings on the providers that are and are not overcompensated.
- (4) Elimination of the lowest volume tier matches RLSA’s recommendation, and creation of a new highest-volume tier (applied to minutes generated >2MM per month), is supported by the analysis of Steven Turner from FTI Consulting, and is directly correlated to the documented scale efficiencies that drastically reduce the marginal cost of producing minutes at very high volume rates.

EXHIBIT 1

Reimbursement Rate Analysis

The revised rate model below is based on general assumptions Purple has made in light of industry data and current market conditions and structure. These figures are estimates and presented for illustration purposes only.

Revenue Assumptions		
Company	Minutes	% Share
All others	200,000	2.11%
CSDVRS	700,000	7.37%
Purple	950,000	10.00%
Sorenson	7,650,000	80.53%
Totals	9,500,000	
Annualized	114,000,000	

Reimbursement Models									
Current			RLSA Model			Purple New Model			
	Minutes	Payments	Minutes	Payments	Minutes	Payments			
Tier 1	0	50,000	\$6.24	0	500,000	\$5.29	0	500,000	\$5.92
Tier 2	50,001	500,000	\$6.23	500,001	\$4.51	500,001	2,000,000	\$4.82	
Tier 3	500,001	\$5.07				2,000,001	9,500,000	\$4.10	

Provider	Current		RLSA Model			Purple New Model		
	Comp	Blended	Comp	Blended	Impact	Comp	Blended	Impact
All others	\$1,246,975	\$6.23	\$1,058,000	\$5.29	-15%	\$1,184,000	\$5.92	-5%
CSDVRS	\$4,130,385	\$5.90	\$3,546,800	\$5.07	-14%	\$3,924,000	\$5.61	-5%
Purple	\$5,397,085	\$5.68	\$4,674,050	\$4.92	-13%	\$5,129,000	\$5.40	-5%
Sorenson	\$39,344,645	\$5.14	\$34,884,350	\$4.56	-11%	\$33,355,000	\$4.36	-15%
Totals	\$50,119,090	\$5.28	\$44,163,200	\$4.65	-12%	\$43,592,000	\$4.59	-13%
Annualized	\$601,429,080		\$529,958,400			\$523,104,000		

Savings Compared to Current

-\$71,470,680

-\$78,325,080