



MISSOULA PLAN FOR INTERCARRIER COMPENSATION REFORM

Gail Long – WITA President

Washington Utilities & Transportation Commission
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Today's Presentation

- Intercarrier Compensation (ICC)
- Why ICC is important
- Why ICC needs to be reformed
- Broadband Dilemma
- Where do we go from here?

Intercarrier Compensation

- The system by which carriers compensate each other for use of their network
 - Intrastate switched access
 - Interstate switched access
 - Reciprocal compensation

Why ICC is important

- Small and mid-size LECs receive substantial cost recovery from ICC.
- On average, rural carriers receive over 25% of their cost recovery from intercarrier compensation; many recover over 50%
- Rural networks are more costly to build due to longer distances and lower traffic volumes
- Those who invest to build rural networks must receive fair compensation for use of their property
- Bill and Keep would place unnecessary strain on currently overburdened USF mechanisms and/or rural consumers

Why ICC needs to be reformed

- Fundamental nature of the network is changing:
 - Current compensation mechanisms are premised on an analog, copper, circuit-switched network
 - Rapid evolution towards a digital, fiber, packet-switched network
 - Intercarrier compensation must also evolve
- Disparate charging mechanisms based on:
 - Jurisdiction (intrastate, interstate)
 - Nature of the call/technology (local, long distance, Internet)
 - Type of carrier (LEC, IXC, CMRS, ISP, end-user)

Why ICC needs to be reformed

- System is neither economically rational nor sustainable
 - Disparities leading to arbitrage and/or fraud
 - “Phantom Traffic” makes billing of traffic difficult & carriers are misrepresenting traffic to avoid paying
 - Inability to differentiate between interstate and intrastate traffic
 - Evolution of technology (e.g., VoIP) allows for bypass of the circuit switched network
- High access charges in rural areas make long distance products less competitive

Broadband Dilemma – Policy Makers

- “This country needs a national goal for...the spread of broadband technology. We ought to have...universal, affordable access for broadband technology by the year 2007, and then we ought to make sure as soon as possible thereafter, consumers have got plenty of choices when it comes to [their] broadband carrier.” President George W. Bush, March 26, 2004
- “I have made broadband deployment my highest priority at the Commission. Broadband technology is a key driver of economic growth. The ability to share increasing amounts of information, at greater and greater speeds, increases productivity, facilitates interstate commerce, and helps drive innovation. But perhaps most important, broadband has the potential to affect almost every aspect of our lives. It is changing how we communicate with each other, how and where we work, how we educate our children, and how we entertain ourselves.” Kevin Martin, 9/12/06 before Committee on Commerce, Science & Transportation U.S. Senate
- “Given the power of broadband to enrich peoples’ lives, we must make certain that no American, especially those living in rural areas, is left out of this technological revolution.” Kevin Martin 7/7/2006
- “It is important to ensure that rural America is connected to broadband as much as the rest of the country. . .ensuring rural broadband will enable rural communities to be as competitive as anywhere in the United States.” Jonathan Adelstein, 9/19/06 NECA 2006 Expo

Broadband Dilemma - RLEC Business Plan

- Policy makers want broadband
- Customers want broadband
- As broadband deployment expands – access revenues are jeopardized
- Without reliable revenue streams why invest?

Where do we go from here?

- Continue to learn as much as possible about this complex issue
- Proceed carefully - Potentially huge impacts for rural customers if nothing is done
- Keep the discussion open - Involve industry in decision-making
- Next workshop on - November 1, 2006
- Take care of the needs of Washington State – no one else will