



# *Intercarrier Compensation: Rate of Return Carrier Impacts*

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# *Intercarrier Compensation Reform: The Basics*

- Adopts rules to address access stimulation and phantom traffic
- Adopts uniform national bill-and-keep framework
- Implements ICC rate transition for:
  - Interstate switched access rates
  - Intrastate terminating access rates
  - Reciprocal compensation rates
- Adopts Recovery Mechanism as a component of CAF
- "Toll" VoIP to be charged access

# *ICC Modifications*

- Access stimulation:
  - Refile rates if:
    - (1) Revenue sharing agreement and
    - (2) Either: 3-to-1 ratio of terminating to originating traffic, or 100% increase in traffic
- Phantom traffic
  - Include calling party's telephone number in call signaling
  - Require intermediate carriers to pass along signaling information in unaltered format

# *ICC Rate Transition*

- Nine years to bill-and-keep rates for RoR
  - 2 steps from Intrastate to Interstate
  - 3 additional steps to \$0.005
  - 3 additional steps to \$0.0007
  - 1 additional step to bill-and-keep
- Terminating rates only; originating addressed in FNPRM
- Intrastate transport rates transition to interstate levels; no further reduction
- Reciprocal compensation rates included to extent above specified rate levels

# ICC Rate Transition

	Interstate Access			Intrastate Access			Recip. Comp. ***	
	Originating All **	Terminating End Office	Terminating Transport *	Originating All **	Terminating End Office	Terminating Transport *		
Dec 29, 2011	Capped	Capped	Capped		Capped	Capped	Capped	
July 1, 2012					↓	↓	↓	
July 1, 2013					Interstate Levels	Interstate Levels	Interstate Levels	
July 1, 2014		↓			↓		↓	
July 1, 2015	Transition decided in FNPRM Proceeding		Transition decided in FNPRM Proceeding	Transition decided in FNPRM Proceeding		Transition decided in FNPRM Proceeding		
July 1, 2016		\$0.005					\$0.005	
July 1, 2017		↓					↓	
July 1, 2018		\$0.0007					\$0.0007	
July 1, 2019		↓					↓	
July 1, 2020	\$0.0000		\$0.0000		\$0.0000			

- \* Includes Direct Trunked Transport, Tandem Switched Transport and Tandem Switching
- \*\* Direct Trunked Transport used to both originate and terminate traffic will be affected
- \*\*\* Reduction assumes reciprocal compensation rate exceeds target rate at a particular step  
Default rate for non-access CMRS-wireline traffic goes to bill and keep on July 1, 2012

# *ICC Recovery Mechanism*

- Defines “Eligible Recovery” for RoR carriers as:
  - Baseline for recovery, minus ...
  - Revenues from ICC rates for given year
- Baseline for recovery equals:
  - 2011 projected interstate switched access revenue requirement (from annual tariff filing), plus ...
  - FY 2011 intrastate terminating switched access revenues and FY 2011 net recip comp revenue
    - FY 2011 defined as 10/1/2010 to 9/30/2011
  - RoR baseline for recovery reduced by 5% each year



## *ICC Recovery Mechanism (cont.)*

- Access Recovery Charge (ARC) for RoR carriers
  - End user charge
  - Allowed to increase over 6 years
  - \$0.50 increase per year for residential or single-line business
    - Can't exceed \$30 "Residential Rate Ceiling"
    - Not charged on Lifeline customers
  - \$1.00 increase per year for multi-line business
    - Maximum SLC + ARC = \$12.20

# *ICC Recovery*

- FCC is moving RoR carriers to a form of incentive regulation for ICC:
  - “... we adopt an approach to Rate-of-Return Eligible Recovery that takes interstate rate-of-return carriers off of rate-of-return based recovery specifically for interstate switched access revenues ...”
- What happens if actual Baseline amount decreases by more than 5%?
- What happens if actual Baseline amount doesn't decrease by 5% each year?



# *Association Petition for Reconsideration -- ICC*

- Need reasonable opportunity for RoR RLECs to recover interstate costs allocated to switched access rate elements
  - Reconsider cap and annual reductions
  - Permit RLECs to establish new rate element to recover costs
- Rate-of-Return baseline interstate RRQ should be cost study based rather than tariff forecasts based
- Clarify other components of Order related to: VoIP; net recip comp; intraMTA CMRS-wireline traffic delivered via an IXC; call signaling

# *Association FNPRM Comments*

## *ICC Reform*

- Methodically align ICC reform with high-cost USF reform
- Commission must delay reductions to originating access until previous reforms are evaluated
  - Sufficient replacement funding must be provided if originating access is eliminated
  - Access charges should continue to apply to 8YY traffic
- Should not migrate tandem and transport to bill-and-keep. But if FCC decides to do so:
  - Separate transition path
  - Incremental support

# *Association FNPRM Comments*

## *ICC Reform (cont.)*

- Evaluate interconnection rights and obligations
  - “Rural transport rule”
  - Not forbear from use of tariffs
- Premature to consider phase outs or accelerated reductions of ARCs and CAF ICC support for RoR RLECs
- Consider reopening discussion of establishing flat rate pricing structures as a possible end game for intercarrier pricing arrangements