

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

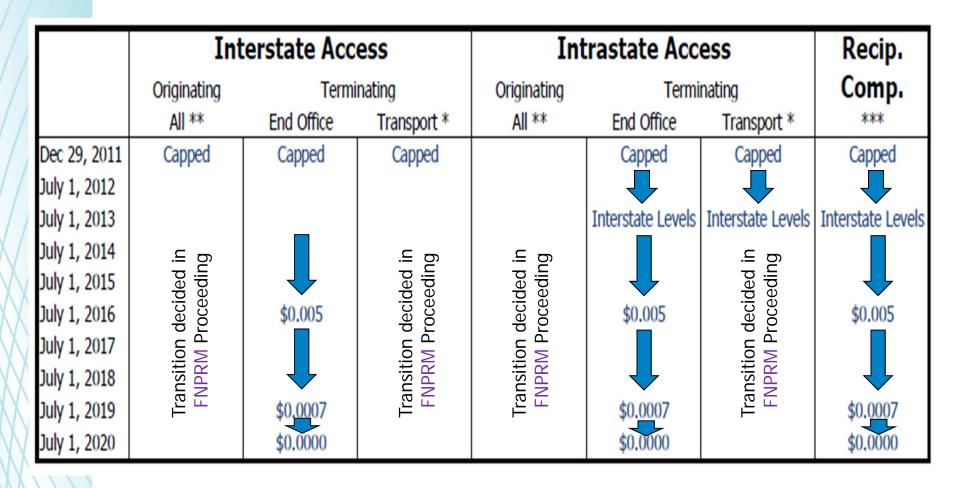


ICC Rate Transition

- 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



* 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 <u>projected</u> 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 <u>more</u> than 5%?
 - What happens if actual Baseline amount <u>doesn't</u> 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-andkeep. 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

