



Intercarrier Compensation Reform

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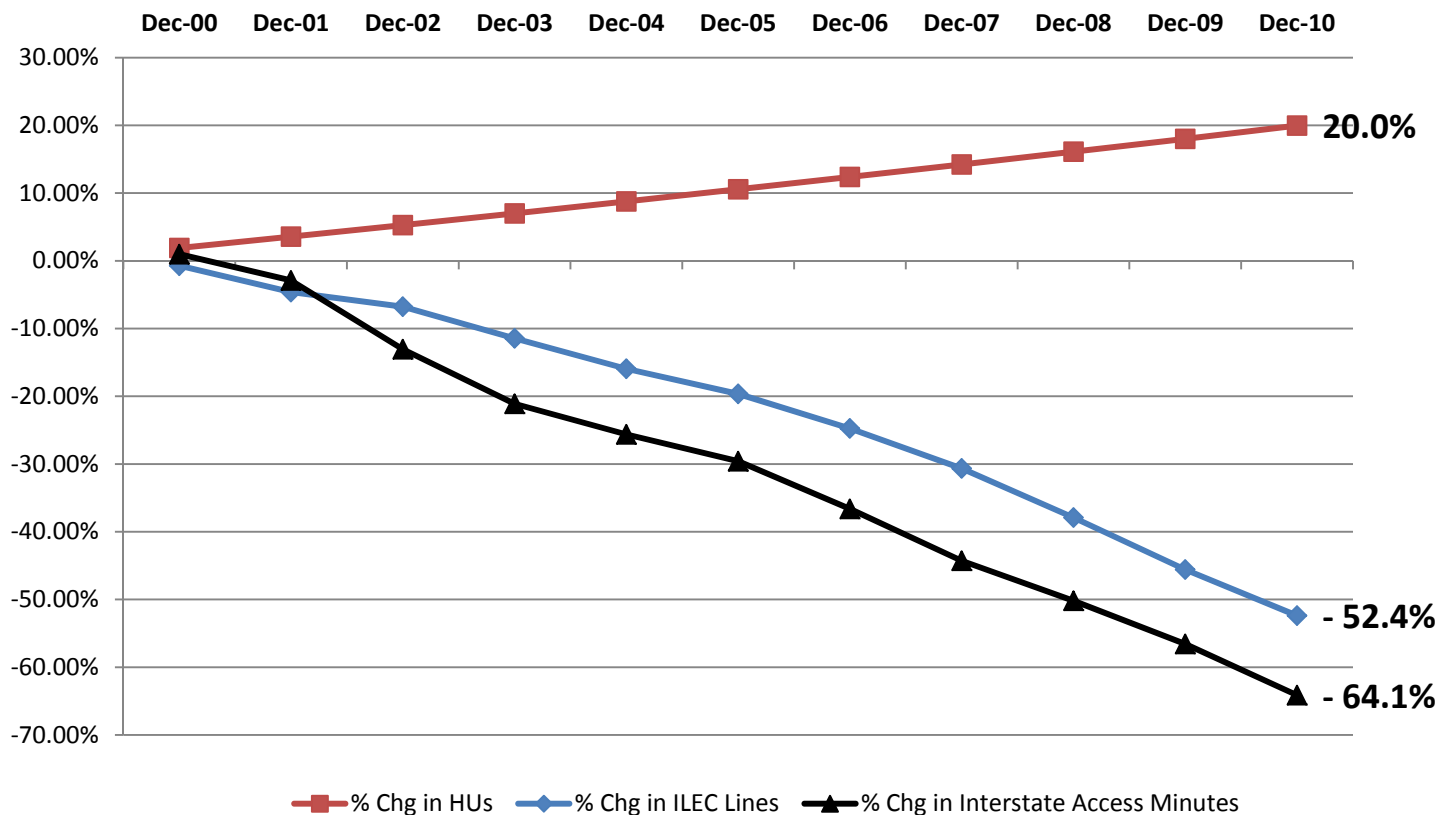
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The POTS Business & Regulatory Models Are Broken

Washington

% Change in ILEC Lines - Interstate Access Minutes - Housing Units

December 1999 - December 2010



Data Sources:

- ILEC Lines from FCC Local Telephone Competition Reports
- Interstate Access MOU from NECA Reports from FCC's WCB Statistical Reports
- Housing Units are linear plots of values from 1990, 2000, & 2010 Census



July 1, 2012 Will Be a Milestone Event

The implementation of intercarrier compensation reform ordered by the FCC will generate significant activity.

- ILECs will file state/federal tariffs.
- CLECs and CMRS providers are also involved.

The ILEC state rate reductions are inputs to the federal filings to determine revenue eligible for ARC and CAF recovery.

In addition to the access rate transition, the current reciprocal compensation contracts will change, consistent with their change in law provisions, and amendments will be filed with state commissions.



Establish a Process for Review

The interval to review tariff filings is short. CLEC rate reductions will have to be managed through contract negotiations.

The State Commission should establish a process to help ensure intrastate rate reductions become effective July 1, 2012 in accordance with the FCC's rules and applicable state law.

- **Data should be made available in advance.**
 - Data would allow State Commission and industry to calculate preliminary estimates of expected July 1, 2012 rate reductions.
 - Providing minimal data in advance would strike a reasonable balance between carriers needing time to prepare their rate reductions and the time needed to review the rate reductions when they are made.

- **Protective orders should be issued by state commissions to cover proprietary production and review of materials.**

- **The FCC Order relies upon state commissions to ensure access rate reductions. States may require carriers to provide additional information.**

- **Carriers that claim they are already at parity should provide supporting documentation.**



Getting Started

December 29, 2011

Cap Intrastate & Interstate Access Rates

Advance Data

- Interstate and intrastate access rates are capped for all rate elements that will be reduced in the rate transition.
 - Other interstate and intrastate switched access service rates are capped.
 - No telecommunications carrier may increase a non-access reciprocal compensation rate for transport and termination.
 - All bill and keep arrangements in effect on December 29, 2011 shall remain in place unless both parties mutually agree to an alternative.
- LECs should provide certain data in advance of their July 1, 2012 rate reductions so state commissions and industry can calculate preliminary rate estimates.
 - Provide Fiscal Year 2011 (FY2011) intrastate demand for Transitional Intrastate Access Service (by rate element).
 - Provide intrastate rates as of December 29, 2011 for Transitional Intrastate Access Service.
 - Provide interstate rates as of December 29, 2011 for Transitional Intrastate Access Service.
 - If the intrastate rate structure and the interstate rate structure are not the same, FY2011 intrastate demand for Transitional Intrastate Access Service should be mapped into the interstate rate structure.
 - Provide a description of the methodology to set revised rates.
 - Identify which rate structure option will be utilized in Step 1.



Price Cap ILEC – Access Transition

Rate Transition

- **Step 1** – Intrastate rate reductions half way to interstate parity for terminating end office access, terminating tandem-switched transport and originating and terminating dedicated transport. (July 1, 2012)
- **Step 2** – Step 1 rates reduced to interstate parity levels and structure. (July 1, 2013)
- **Steps 3-5** – Reduce intrastate and interstate end office access service to \$0.0007. (July 1, 2014 – 2016)
- **Step 6** – End office access service becomes bill and keep. Reduce intrastate and interstate tandem-switched transport to \$0.0007 for traffic that terminates on tandem owner's network. (July 1, 2017)
- **Step 7** – Intrastate and interstate tandem-switched transport becomes bill and keep for traffic that terminates on tandem owner's network. (July 1, 2018)

Eligible Recovery

- **Eligible Recovery** – An amount calculated at each rate transition step that ILECs will be given the opportunity to recover through FCC recovery mechanisms.
 - Eligible Recovery is the sum of the cumulative revenue reductions since the base year.
 - The cumulative revenue reductions are reduced by the Traffic Demand Factor and the Study Area Base Factor.
- **Traffic Demand Factor** – The revenue reductions calculated in each step are reduced on a straight-line basis at a rate of 10% annually starting at Step 1 (2012) to account for declining demand.
- **Study Area Base Factor** – 100% revenue neutrality is not provided. The revenue reductions adjusted for the Traffic Demand Factor are reduced by the Study Area Base Factor which is 90% for CALLS study areas. For non-CALLS study areas, the factor is 100% until July 1, 2017 when it becomes 90%.

FCC Recovery Mechanisms

- **Access Recovery Charges (ARCs)** are assessed upon end users to recover some or all of the Eligible Recovery amounts.
- **Residential and Single Line Business ARCs** – Maximum ARC beginning July 1, 2012 is \$0.50 per line. ARCs increase in \$0.50 increments over 5 steps until they reach \$2.50.
 - Primary residential lines are subject to a \$30 Residential Rate Ceiling.
 - ARCs are not assessed on Lifeline customers.
- **Multi-Line Business ARCs** – Maximum ARC beginning July 1, 2012 is \$1.00 per line and will increase in \$1.00 increments over 5 steps until it reaches \$5.00.
 - Multi-line business SLC plus ARC cannot exceed \$12.20.
- **Connect America Fund (CAF)** – ICC support will be provided for Eligible Recovery that cannot be recovered through ARC rates calculated at a Holding Company level.
 - CAF ICC support phases out over 3 steps beginning July 1, 2017.

