OPASTCO

WESTERN TELECOMMUNICATIONS ALLIANCE

Action Item: Intercarrier Compensation

Intercarrier compensation refers to the payments among communications carriers that result from the interconnection of telecommunications networks. For rural incumbent local exchange carriers (ILECs), intercarrier compensation comprises, on average, approximately 30 percent of their operating revenues. Together with universal service support, intercarrier compensation enables rural carriers to provide high-quality service to rural consumers at affordable rates. Moreover, it provides them with the ability to invest in the network facilities that are needed to deliver broadband.

There are several reasons why the intercarrier compensation rules need to be reformed expeditiously. To begin with, the existing rules treat different types of carriers and services disparately. The intercarrier compensation regime that applies in a particular case depends on such factors as: whether the interconnecting party is a LEC, a long distance carrier, a wireless carrier, or an Internet service provider (ISP); and whether the service is classified as local or long distance, interstate or intrastate, basic voice or data. This patchwork of rules creates opportunities for regulatory arbitrage. Even worse, rural ILECs receive a significant amount of "phantom" network traffic that they are unable to properly bill for because the traffic cannot be identified by originating carrier, jurisdiction (interstate or intrastate), or technology.

In recognition of these issues, representatives from different segments of the telecommunications industry negotiated a proposal for intercarrier compensation reform that has become known as the Missoula Plan, which was filed with the FCC in July 2006. Since the filing of the Missoula Plan, numerous industry parties have called upon the FCC to address the growing problem of phantom traffic by strengthening its rules governing the creation and exchange of call identification or "signaling" information.

Congress should urge the FCC to immediately adopt rules to mitigate phantom traffic pending more comprehensive intercarrier compensation reform.

Over the past several years, rural ILECs have experienced significant growth in phantom traffic from other service providers. These calls, which impose costs on rural ILECs' networks, are delivered with either incomplete or inaccurate call detail information, which is necessary for billing purposes. As a result, rural ILECs are losing substantial amounts of intercarrier compensation which is placing at risk their ability to continue providing quality services at affordable rates to their communities. Furthermore, the transmission of misleading or inaccurate caller identification information raises serious concerns for public safety and jeopardizes the work of emergency service providers and law enforcement officials. Therefore, Congress should urge the Commission to immediately strengthen its rules for the creation and exchange of call signaling information, pending completion of more comprehensive intercarrier compensation reform.

Congress should encourage the FCC to expeditiously determine that access charges apply to providers of voice over Internet protocol (VoIP) services that interconnect with the public switched network.

Congress should encourage the FCC to quickly confirm that all providers of VoIP services that interconnect with the public switched network are subject to access charges. Rural ILECs are handling an increasing number of calls on their networks from providers of interconnected VoIP services that seek to avoid payment of any intercarrier compensation, despite the fact that their traffic utilizes the network in the same manner as calls received from any other carrier. The FCC has already recognized that, from the customer's perspective, interconnected VoIP services are indistinguishable from traditional voice services.

Consequently, it has required interconnected VoIP providers to offer E911 service and contribute to the Universal Service Fund just like traditional carriers. Thus, the FCC should require providers of interconnected VoIP services to fairly compensate rural ILECs for their use of the network as well.

Congress should encourage the FCC to expeditiously adopt the Missoula Plan for Intercarrier Compensation Reform.

The Missoula Plan is a comprehensive intercarrier compensation reform plan. It represents an extraordinary effort by a diverse group of industry stakeholders to reach consensus on how to address the numerous problems with the existing intercarrier compensation rules. More than 600 carriers have indicated their support for the proposal. Swift adoption of the Missoula Plan is necessary because it provides carriers with a more rational and stable means of recovering network costs in an emerging broadband environment.

The Missoula Plan would substantially reduce the highest intercarrier compensation rates, reduce disparities among these rates, and establish uniform rules for interconnection. These provisions would minimize arbitrage opportunities, alleviate regulatory uncertainty, and help mitigate the incentives for phantom traffic. As a result, carriers would be able to focus greater resources on serving consumers.

The Missoula Plan would be beneficial to consumers nationwide – both urban and rural. In the short term, many consumers would experience an overall decrease in their communications service bills for a given level of usage. Furthermore, low-income "Lifeline" subscribers would enjoy substantial rate reductions. In the longer term, the Plan would provide positive incentives for carriers to invest in their networks, enabling them to offer advanced services at affordable rates to greater numbers of consumers.

To ensure that the Missoula Plan is beneficial to the customers of small, rural ILECs, the Plan includes provisions that recognize these carriers' unique needs and circumstances. Most importantly, the Plan provides small, rural ILECs with revenue stability by enabling them to fully recover the revenues that are lost as a result of mandated reductions in intercarrier compensation rates. This is accomplished, in part, by a new "Restructure Mechanism" designed specifically for the replacement of lost intercarrier compensation revenues not otherwise recovered through end-user charges.

The high-cost characteristics of the areas served by rural ILECs cause them to have per-subscriber costs that are significantly greater than the costs of urban-based carriers. A larger percentage of those costs are presently recovered through intercarrier compensation. If rural ILECs were not permitted to recover all of the revenue lost from the reduction of intercarrier rates, it would impede investment in network infrastructure. Therefore, adoption of the Restructure Mechanism is essential to ensuring that rural consumers continue to have access to high-quality basic and advanced services, comparable to those offered in urban areas.

In sum, Congress should encourage the FCC to expeditiously adopt the Missoula Plan. Adoption of the Plan would be beneficial to consumers nationwide. In particular, the Plan would improve rural carriers' ability to maintain and upgrade their networks, thereby enabling rural consumers to gain access to future generations of broadband services.

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