

Michigan VNXX Work Group  
(U-14683)

Review of Industry Initiatives (ICF)  
related to Inter-carrier Compensation  
Reform

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# Today's Intercarrier Compensation is Broken

- Even though services are fundamentally the same, the current system:
  - Allocates financial responsibility for interconnection, origination and termination of traffic in a disparate and uneconomic manner;
  - Applies different rate structures and rate levels.
  - For example, wireless traffic is not treated the same as wireline traffic for reciprocal compensation purposes.
- Competition and new technology make the current system obsolete and unsustainable.

# Top 5 Reasons Reform Is Needed Now

- No. 5 Current rules were designed for networks and markets of the '80s and '90s.
- No. 4 Current rules are no longer competitively or technologically neutral.
- No. 3 Current rules perpetuate the need for regulation.
- No. 2 Current rules and technology changes are destabilizing universal service.
- No. 1 Current rules impact consumers.

# ICF Process

- The industry group met for over 18 months to develop a comprehensive solution.
- Local, long distance, rural, wireless, competitive, and internet providers participated and provided significant input, which is fully reflected in the Plan.
- A single industry segment plan would have been quicker and easier to develop than the consensus ICF plan, but would not be balanced.

# ICF Core Objectives

- Establish uniform interconnection rules to govern the exchange of all traffic that originates or terminates on the PSTN.
- Establish a new unified intercarrier compensation regime that will facilitate a seamless transition to an all IP world and minimize arbitrage opportunities during the transition.
- Accommodate the unique circumstances of rural carriers.
- Preserve universal service.
- Provide a reasonable transition period.

# ICF Plan is a Comprehensive Solution

- Covers an eight year period.
- Unifies interstate switched access charges, intrastate switched access charges and reciprocal compensation under a new model.
  - Establishes a network edge interconnection architecture.
  - Establishes a unified intercarrier compensation structure that maintains some carrier transport and unifies transit charges.
  - Moves the *access functions*, e.g., end office switching and loop related elements, to end user recovery similar to the Internet model.
- Offsets intercarrier compensation revenues with federal subscriber line charge (SLC) increases and new universal service funding.
- Replaces the interstate end user telecommunications service revenues funding base with a new connections-based USF contribution methodology.

# ICF Plan: Interconnection Architecture

- Networks are assigned to three operational categories for interconnection purposes.
  - Hierarchical – A non-rural company access tandem network
  - Non-hierarchical – A network that is neither hierarchical nor rural, e.g., IXC, CMRS, CLEC
  - Covered Rural Telephone Company (CRTC) – A rural ILEC network
- Each carrier will designate an *edge*, which is the point at which it will receive traffic from other carriers. An edge must be:
  - a functional network location, e.g., access tandem, end office, MSC, POP;
  - capable of physical interconnection;
  - capable of direct and indirect interconnection;
  - capable of accepting all types of PSTN traffic.

# ICF Plan: Interconnection Obligations

- Two principles govern the ICF Plan's interconnection obligations:
  - the carrier with the financial obligation for transport must be allowed to interconnect either directly or indirectly through a transit service provider;
  - the carrier with the financial obligation for transport decides whether to interconnect directly or indirectly.
- The type of network determines the financial obligation for the transport that links the two networks.
  - Like networks – each network is responsible for transport to deliver its originating traffic to the other carrier's edge.
  - Hierarchical to Non-hierarchical – the non-hierarchical network is responsible for the transport in both directions between the two networks.
  - Rural ILEC to Non-rural carrier – the rural ILEC is responsible for transport to deliver its originating traffic to a meet point at its service boundary and the other network is responsible for all other transport between the two networks.

# Intercarrier Compensation

- Interstate switched access, intrastate switched access and reciprocal compensation are unified over the course of the ICF Plan.
- Each carrier will be responsible for the recovery of the following access functions from its own end user customers:
  - the end office switching and loop related elements associated with call origination and call termination;
  - the transport to carry traffic to and from the carrier's end user customers and its edge.
- A CRTC can charge a terminating transport charge to carriers that use its transport facilities to deliver their originating traffic from the meet point to its edge.
- Carriers will continue to sell transport services and transit services.
- This structure follows the Internet model where service providers recover the equivalent *access functions* from their end user customers.

# How does the ICF plan resolve the virtual FX debate?

- Establishes default rules for financial responsibility and establishment of interconnection transport between networks.
- Unifies rate structures and rates for all traffic types including virtual FX.

“We must move to a single unitary rate for all the different types of traffic – wireless, wireline, VoIP, local, long distance, interstate, intrastate. In today’s converging IP world, these distinctions are unsustainable and create opportunities for people to game the system.”

Chairman Martin

July 26, 2005

NARUC Summer Meeting – Austin, TX