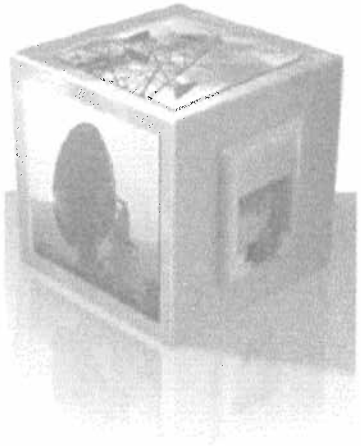
Michigan Internet & Telecommunications Alliance



ACD

Clear Rate Communications

CMC Telcom

DayStarr Communications

Grid 4

Arialink

iServ

JAS Networks

M-33 Access

Michigan Access

Michigan Online

TC3 Telecom

TelNet Worldwide

Three Rivers Telecom

Quick Communications

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HOUSE COMMITTEE ON
ENERGY AND TECHNOLOGY

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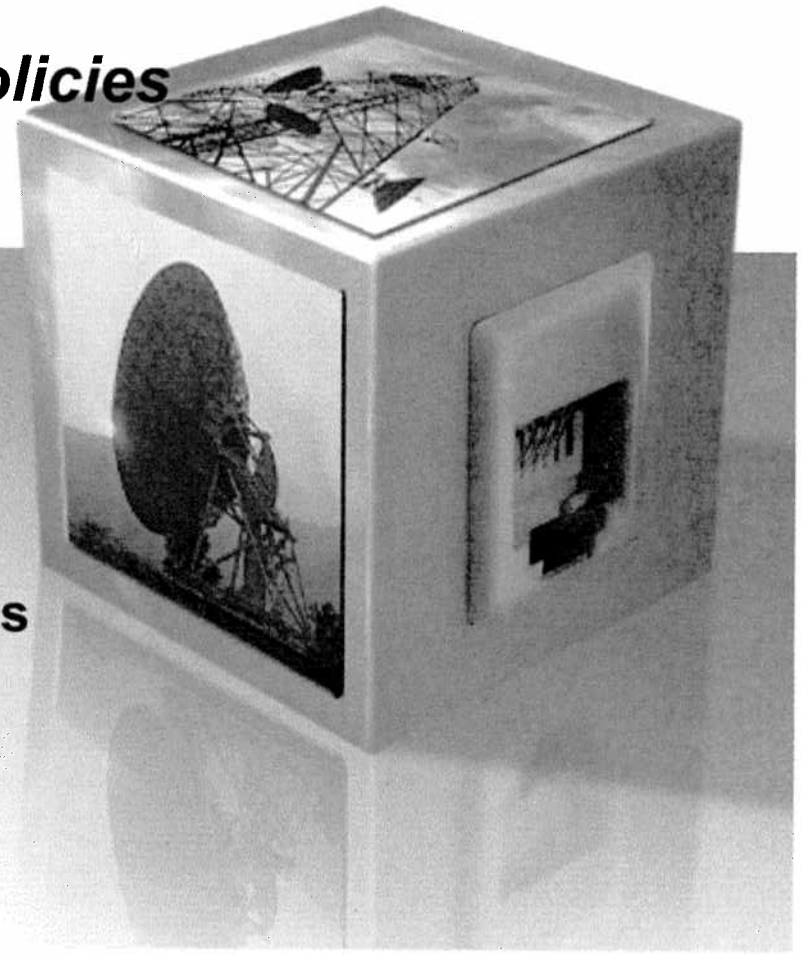
HB 4257
Switched Access Rates
A Discussion of Proposals and Policies

August H. Ankum, Ph.D.
QSI Consulting



On behalf of the
Michigan Internet & Telecommunications Alliance

August 25, 2009
Lansing, Michigan

Intercarrier Compensation Is A Complex Issue

In 1996, the United States Congress Passed the Pro-competition Telecommunications Act ("The Act of 1996")

- The Act of 1996 sought to introduce competition into telephone monopolies.
- The Act of 1996 requires incumbent telephone companies to open up their networks so competitors can enter the telecom business.
- The last 15 years have been a rumble tumble period with thousands of lawsuits and legal wrangling at both the state and federal level over the terms and conditions of interconnection.
- Switched access rates are but one small subset of hundreds of services carriers purchase from and deliver to one another.

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ILECs and CLECs Negotiate Interconnection Agreements ("ICAs")

- **ICAs are contracts between LECs that cover hundreds of network elements and services:**
  - Network elements, such as loops, transport, collocation, etc.
  - Interconnection services for exchange of traffic
  - Resale products
  - Operator services, etc.

Switched access services are but one small subset of all services between LECs

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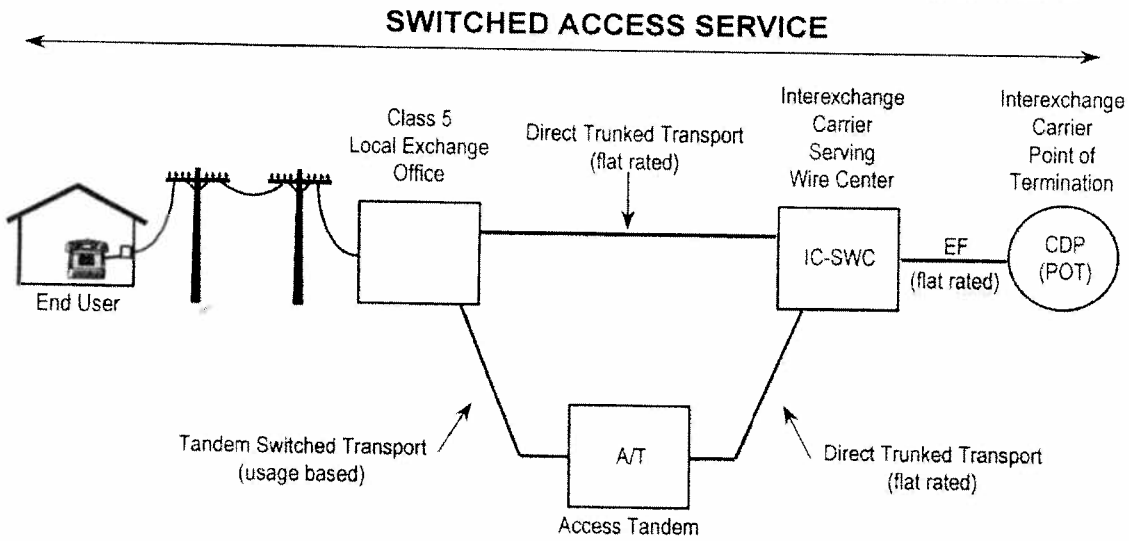
ICAs Set Rates for Many Physical Connections and Services



EO

EO - End Office Elements
- Local Switching
- Information Surcharge

LOCAL TRANSPORT

Tandem Switched Transport
- Tandem Switched Facility
- Tandem Switched Termination
- Tandem Switching

Direct Trunked Transport
- Direct Trunked Facility
- Direct Trunked Termination

EF - Entrance Facility

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HB 4257 – Deals Only With Intrastate *Switched* Access Rates

HB 4257 Does Not Address Special Access Rates

- Special Access rates are the rates that CLECs have to pay the telecom giants for high-capacity lines and transport.
- Special Access rates have skyrocketed over the past several years.
- The United States General Accounting Office – noting that the Federal Government purchases billion of dollars of this service – has demonstrated and complained to the FCC that Special Access rates are too high and should come down.

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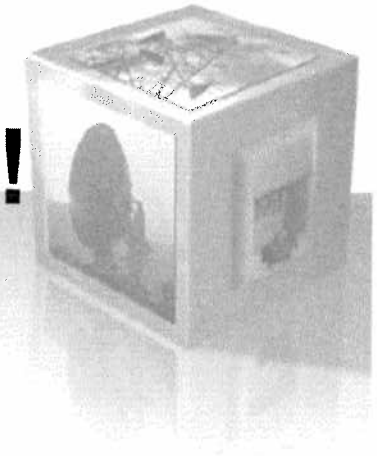
Special Access Rates should be looked at, too!



nochokepoints.org

- The Computer & Communications Industry Assoc
- New America Foundation
- Public Knowledge
- The Media Access Project
- Several companies including ***Google*** have complained to the FCC about "special access" rates

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Impact on Michigan CLECs

The Impact on Michigan would be adverse:

- It would force CLECs to lower their access rates from an average of $0.025 per minute in some cases to as low as $0.007 per minute. For many CLECs that could be as much as a 70% or greater reduction in revenues without offsetting cost reductions.
- In some cases 30% of a CLECs' annual revenues come from access charges. These companies went to the bank and borrowed money based on those revenue streams agreed to nearly 10 years ago.
- Broadband stimulus applications that include the current financial arrangements have been submitted.
- If enacted, millions of dollars per year would go from these Michigan CLECs to the big telecom giants.
- ***That's millions of dollars going out of the Michigan economy.***

Markets Not Government Should Pick Winners and Losers

There Is No Need to Interfere in Competitive Markets

- There is no compelling evidence that the current system is broken.
- HB 4257 would in essence give the interexchange carriers like AT&T and Verizon *steep discounts* – at the expense of CLECs.
- "Parity" or "one-size-fits-all" pricing for access rates ignores the different costs that telecom companies have.

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"One-Size-Fits-All" Doesn't Work

A"One Size Fits All" Pricing Ignores Critical Differences in Costs

- There are vast economic differences between AT&T, Verizon, Rural ILECs and CLECs
  - Economies of scale and scope
  - Network architecture
  - Density of customer base
  - Geography
- In fact, AT&T's and Verizon's rates are different and vary greatly from state to state

Costs and networks **differ from company to company and geography to geography**

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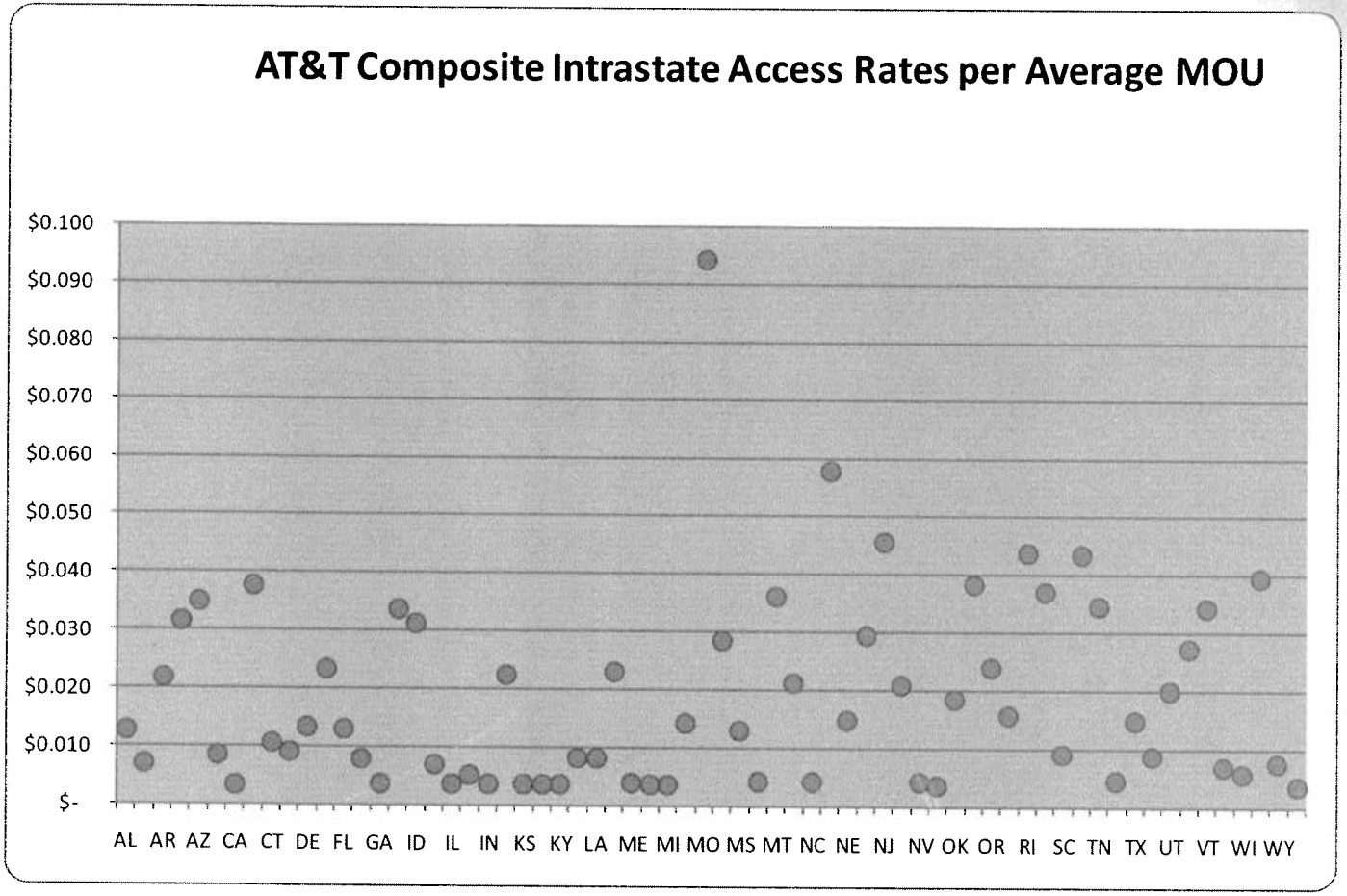
Uniform Access Rates Don't Exist

- **AT&T's Own Access Rates Are Not Uniform**



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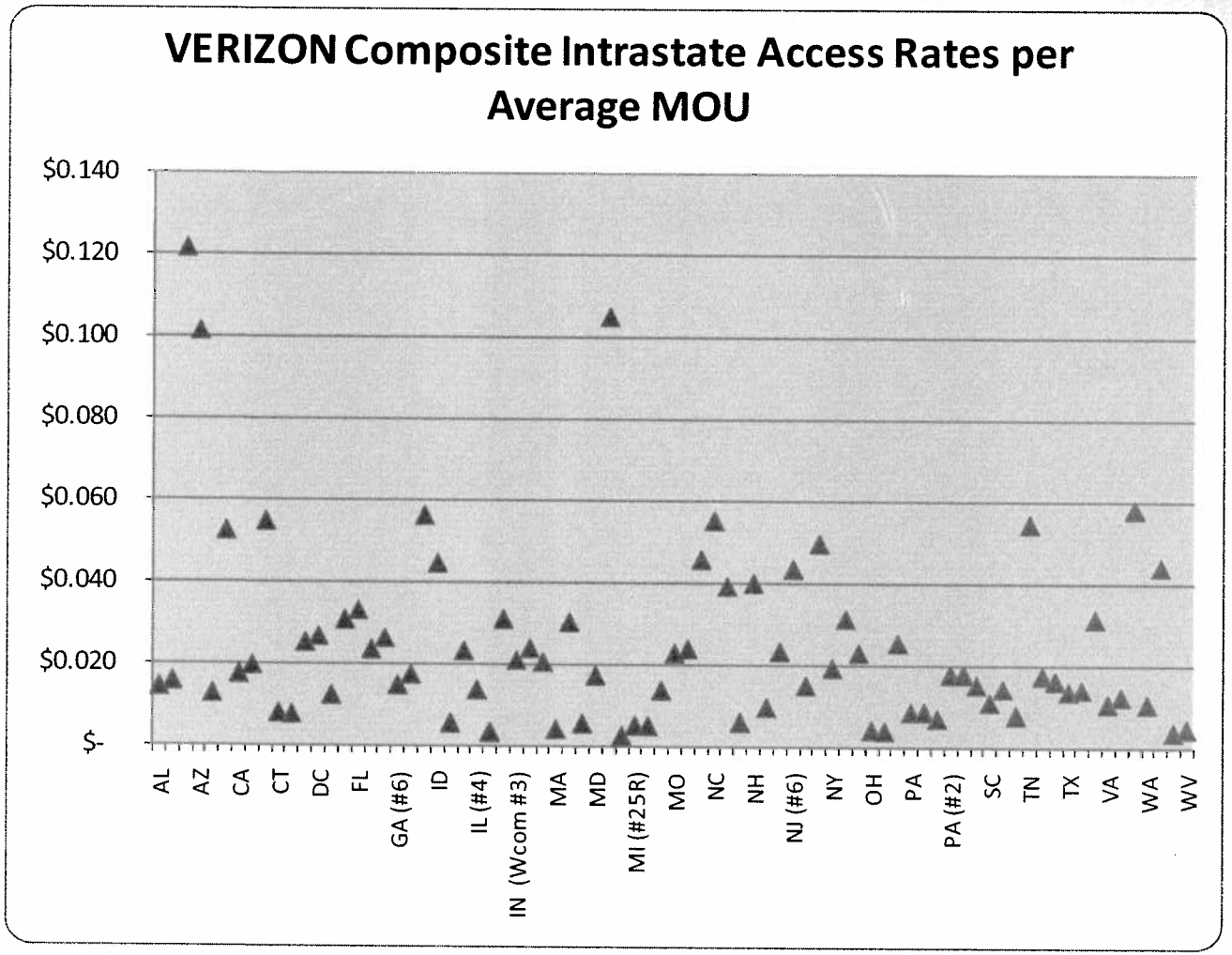
Uniform Access Rates Don't Exist

- **Verizon's Access Rates Are Not Uniform**



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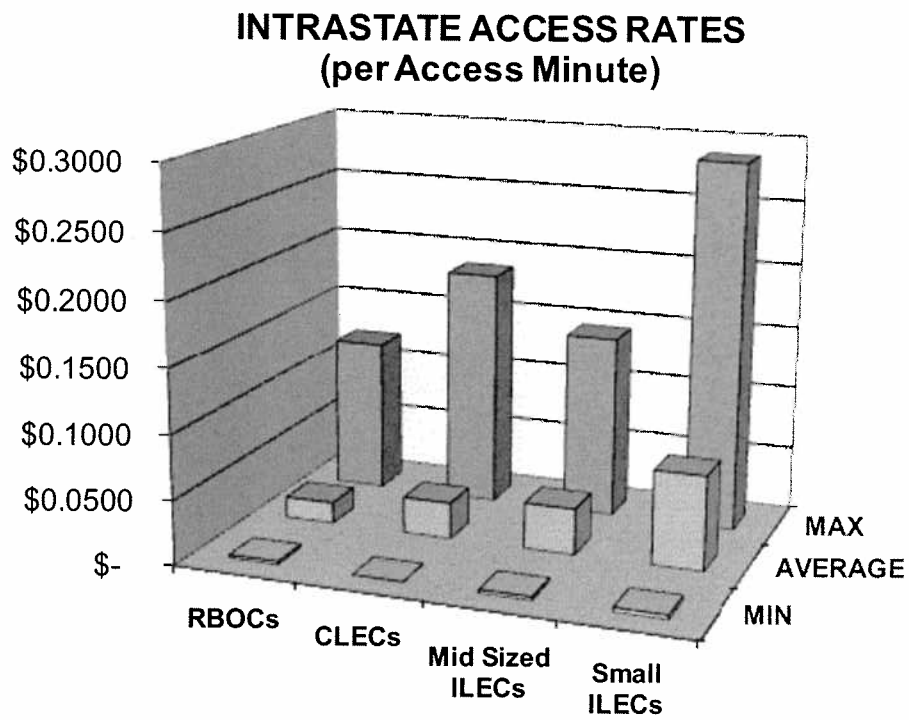
Uniform Access Rates Don't Exist

Mid-Sized and Smaller LECs and CLECs Have Higher Costs

- CLEC Rates Are Where They Should Be: In Between RBOC and Mid-Sized ILECs



	RBOCs	CLECs	Mid Sized ILECs	Small ILECs
MIN	$0.0025	$0.0002	$0.0027	$0.0033
AVERAGE	$0.017	$0.029	$0.036	$0.073
MAX	$0.121	$0.186	$0.144	$0.288

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Access Reform Will Hurt Michigan.

- It will hurt Michigan CLEC companies by taking away a revenue stream they depend on.
- It will decrease the number of high-tech telecommunications jobs in Michigan. These are the jobs of the new economy and the ones Michigan should encourage, not discourage.
- Michigan won't be as attractive as other states for telecom investment.
- It will hurt the Michigan economy by siphoning money out of the state. If passed, millions of dollars per year would go from Michigan CLECs to the big telecom giants;
- The FCC is the proper place to look at the whole picture of all components of intercarrier compensation; the FCC announced just last month that it has begun a "comprehensive review" of intercarrier compensation.

FCC Federal Communications Commission

FCC Home | Search | Updates | E-Filing | Initiatives | For Consumers | Find People

PPD site map

Last Updated: July 23, 2009

Intercarrier Compensation

Proceedings
Rules
Part 51
Section 332

Intercarrier compensation refers to the charges that one carrier pays to another carrier to originate, transport, and/or terminate telecommunications traffic. Although the same or similar facilities are used to originate, terminate and transport all types of traffic, the rates for intercarrier compensation vary based on several factors:

"Intercarrier compensation payments are governed by **a complex system of federal and state rules."**

in different states, and intrastate access charges apply to calls that originate and terminate in different local calling areas within the same state. The Commission oversees interstate access charge rates, and the states oversee intrastate access charge rates. Access charges do not apply to Internet service

"In response to these developments and the increasing strains placed on the existing intercarrier compensation regimes, **the Commission has undertaken comprehensive reform of intercarrier compensation."**

Federal Communications Commission
445 12th Street SW

Phone: 1-888-CALL-FCC (1-888-225-5322)
TTY: 1-888-TELL-FCC (1-888-835-5322)

- Privacy Policy
- Website Policies & Notices

http://www.fcc.gov/wcb/ppd/IntercarrierCompensation

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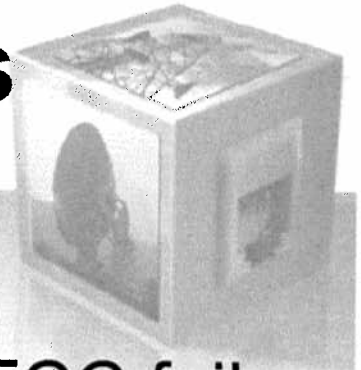
Let the FCC Complete its Comprehensive Review



- States should let the FCC do its job. If the FCC fails to take action, the legislature could come back and take a new look at it.
- These Michigan CLECs are on the threshold of massive broadband investment in this state.
- Now is simply not the time for the Michigan legislature to take any action on this complex matter.

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