

## **INTERCARRIER COMPENSATION: THE WIRELESS PERSPECTIVE**

April 2006

### **WIRELESS INDUSTRY SUPPORTS INTERCARRIER COMPENSATION REFORM**

Intercarrier compensation (ICC) are payments by and among telecommunications carriers for the exchange of their respective telecommunications traffic. The regulations that govern this complicated series of payments establish prices that carriers pay to each other for originating and terminating switched telephone calls. The ICC regime includes, for example, access charges, interconnection and reciprocal compensation.

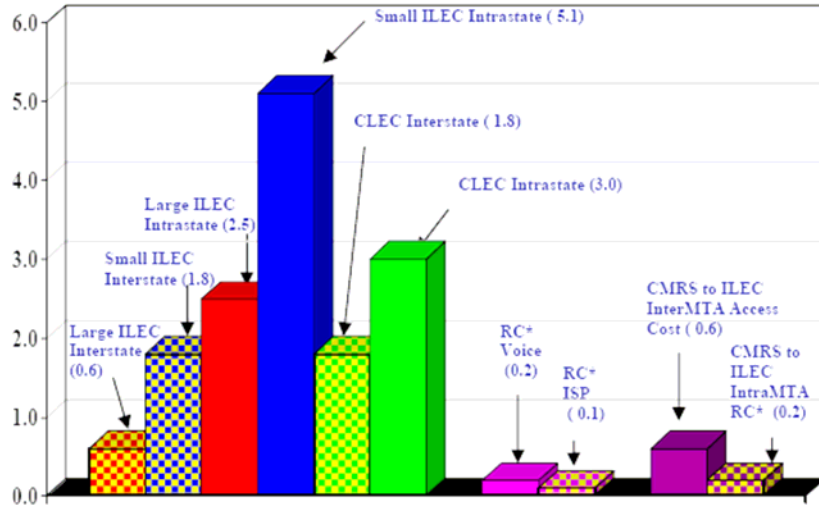
ICC is a major cost of doing business for the wireless industry. **In 2003, CTIA estimates that the CMRS industry paid \$3 to \$4 billion for interconnection alone.** The current ICC system is weighted heavily in favor of wireline carriers – for example, rural wireline carriers impose charges for the origination and termination of wireless traffic on their networks that are significantly higher than their costs. To the extent costs of intercarrier compensation are disproportionately borne by the wireless industry, wireless carriers are constrained from competing on an even footing with wireline – particularly in rural areas.

On May 18, 2005, CTIA filed a proposal with the FCC urging fundamental reform of intercarrier compensation, as well as Universal Service. The proposal calls for simplifying the administrative complexity of the system, eliminating the arbitrary and uneconomic regulatory distinctions between different technology platforms, and creating incentives for service providers to lower, rather than maximize costs.

Key items of the proposal include:

- Encourage parties to continue exchanging traffic pursuant to validly negotiated and approved interconnection agreements;
- Transition to a Mutually Efficient Traffic Exchange (“METE”) system that would eliminate distinctions between different types of technologies, providers, and traffic, and encourage efficiency;
- Establish non-discrimination points of interconnection;
- With the exception of cost-based transport and/or transit charges, the proposal eliminates compensation between interconnected carriers;
- Give wireline carriers flexibility to recover more of their costs from their own end-user customers (instead of from intercarrier compensation or universal service);
- Reform universal service by transitioning to one unified high-cost support mechanism that encourages and rewards efficiency; and,
- Provide for a transition of no more than three years to the new system.

### Average Intercarrier Compensation Rates in Cents per Minute



	LONG DISTANCE CALLS						LOCAL CALLS		WIRELESS CALLS	
High (c/min):	1.5	8.9	9.9	34.9	6.8	35.9	0.3	0.1	8.9	0.3
Low (c/min):	0.5	0.3	0.4	0.7	0.2	0.4	0.0	0.0	0.2	0.0

\* RC = Reciprocal Compensation Source: Intercarrier Compensation Forum, August 16, 2004, FCC