NEWS

Federal Communications Commission
445 12th Street, S.W.
Washington, D. C. 20554

News media Information 202 / 418-0500
TTY 202 / 418-2555
Fax-On-Demand 202 / 418-2830
Internet: http://www.fcc.gov
ftp.fcc.gov

FOR IMMEDIATE RELEASE:
December 13, 2000

News Media contact:
David Fiske at (202) 418-0513

FCC RELEASES TWO STUDIES ON INTER-CARRIER COMPENSATION

Studies Propose New Approaches to Inter-Carrier Compensation For Carriers Interconnected with Local Telephone Networks

Washington, D.C. – The Federal Communications Commission's Office of Plans and Policy (OPP) today released two papers in its OPP Working Paper Series. OPP Working Paper No. 33, "Bill and Keep at the Central Office as the Efficient Interconnection Regime," was written by Patrick DeGraba, former Deputy Chief Economist of the Commission. OPP Working Paper No. 34, "A Competitively Neutral Approach to Network Interconnection," was authored by Jay Atkinson and Christopher Barnekov, economists in the Common Carrier Bureau's Competitive Pricing Division. Both papers propose new ways of analyzing inter-carrier compensation given the significant problems facing existing interconnection regimes as competition and new technologies are introduced.

OPP periodically issues working papers on emerging issues in communications in order to stimulate debate; these papers represent the individual views of their authors and do not necessarily reflect the views of the FCC, any FCC commissioner, or other staff.

Both papers challenge the traditional view of inter-carrier compensation, under which the calling party's carrier, whether local or long-distance, must pay the called party's local carrier to transport and terminate the call. While approaching inter-carrier compensation problems from different perspectives, both papers question the traditional economic analysis requiring inter-carrier compensation, and both provide alternative justifications for bill-and-keep arrangements.

DeGraba's analysis begins by focusing on who benefits from and who "causes" a call. Maintaining that, in general, both parties benefit from the call and that both parties are responsible for continuing a call, DeGraba argues that both parties should split the cost of the call. Based on this analysis, DeGraba proposes two default rules, which he calls "Central Office Bill And Keep," or COBAK, which would apply when two carriers cannot agree on the terms for interconnection. Under the first rule, a called party's carrier cannot charge an interconnecting carrier to terminate a call, but rather, like other bill-and-keep arrangements, it can only recover the cost of termination from its own customers. The second rule basically makes the calling party's carrier responsible for the cost of transporting a call to the central office serving the called party, whether it uses its own facilities or purchases transport from another carrier. DeGraba presents various policy justifications for COBAK, including showing that COBAK solves or reduces many of the most serious problems facing current inter-carrier compensation regimes.

Atkinson and Barnekov, taking a different approach, focus on identifying a competitively neutral interconnection regime that ensures that producers (carriers) make efficient entry and exit decisions and that consumers make efficient decisions about whether to subscribe or interconnect. Based on the analysis of several stylized models of the local network, they conclude that, for competitive neutrality, carriers should split only those costs that are solely incremental to interconnection, and that they should recover all remaining costs from their end-user customers. The authors develop conditions under which they believe the efficiency and competitive neutrality of bill-and-keep is unaffected by the balance of traffic between networks, and is applicable to networks dissimilar in size, geographic scope, technology, and quality of service.

Both papers are intended to stimulate an informed discussion of inter-carrier compensation in general, and to generate proposals to reform existing interconnection rules to meet the demands of increasingly competitive markets that are being transformed by new technologies.

The full text of each paper is available on the FCC's web site at www.fcc.gov.

\- FCC -