The Alexicon/SCC Model: A Glance at a Common-Sense Rate-of-Return Alternative

Alexicon Telecommunications Consulting recently collaborated on a white paper exposing the numerous flaws of the FCC's Quantile Regression Analysis (QRA). The analysis, filed as an Ex Parte with the Commission [link], rejects benchmarking while promoting more logical, business-based cost-causative solutions.

To this end, the SCC, along with our consulting firm, Alexicon, has presented to the FCC an alternative model for rate-of-return regulation. While we realize that a model designed by actual telco experts and supported by the rural companies which it would regulate may fly in the face of "Beltway logic," we think such a "by-the-people" approach is indeed the most suitable for this particular situation.

The following list briefly describes the model and its abilities:

1. Rate of return is premised off of cost recovery, which the model uses as its premise.
2. Cost causation: 86-111; 64-901(b); Part 36.2 – All support the concept of cost-causation.
3. FCC retained Part 32, 36, 69, and USF algorithm; the model incorporates Part 36 categories into algorithm.
4. USF/ICC Order mandates broadband; the model incorporates and expands on this mechanism to include broadband categories.
5. The model offsets the MAG shift with additional incremental CAF received; this reduces pressure on NECA's tariff and also reduces end user rates.
6. The model works with a capped or uncapped fund; a capped fund works to constrain the overall fund size.
7. The model also incorporates ICC reforms via the MAG shift. The model will thus accommodate phasing out access charges to an end game reasonable rate.
8. The historical record is littered with the FCC stating that proxies do not work; a proxy is not used in the model.
9. All companies are on the exact same level playing field with the model.
10. The model provides predictable, stable funding.
11. The model takes a different angle on providing "incentives": if a company invests, it is incentivized through [capped] cost recovery from the new CAF; if a company opts not to invest, it doesn't get costs recovered.
12. The model accommodates various types and all sizes of ILECs (Co-ops; Tribal; Privately Held; Municipalities).
13. The model will accommodate corporate expense threshold limitations.
14. The model will remove Local Switching Support via the MAG adjustment.
15. The model recognizes and accommodates the needs that reforms should a) reflect the fundamental shifts in technology, consumer behavior, and competition; b) create proper incentives for carriers to invest in broadband technologies; and c) remove regulatory arbitrage opportunities that lead to phantom traffic and improper access stimulation.
16. The model modernizes traffic measurement and billing:
    - Solves phantom traffic and VoIP compensation issues;
    - Eliminates originating carrier fraud and non-payment;

- Addresses decreasing measurable/compensable minutes and increasing access rates.

17. The model is technology neutral and forward-looking:
    - Allows for seamless transition to all-IP network because traffic measurement issues are addressed;
    - Removes any disincentives to transition to IP networks.
18. The model efficiently leverages an existing explicit support mechanism:

Limited transition period required.

For a more in-depth look, please refer to the SCC's Ex Parte (filed with the FCC in September of last year) at http://www.smallcompanycoalition.com/members/files/SCC-Ex-Parte-9-18-12.pdf.