Effect of Cloud Based Switching on Cost Recovery

Ready to retire that switch? Great news!

GigTel offers White Label cloud-based switching solutions for Telecoms, enabling you to brand our UCaaS service as your own. But what about switch support? Will a move to cloud-based switching cause you to lose it? Read on to find out more.

A Brief History

In 2011 the FCC introduced the USF/ICC Transformation Order. One of the many things the order accomplished was to effectively freeze local switching support at 2011 levels. The freeze was put into effect because with the introduction of soft switching, costs had decreased considerably. Additionally, with the reduction in cost, the FCC wanted to motivate switch consolidation across small ILECS when and where possible.

In order to ease the transition into the new order, Rate of Return carriers were allowed to implement an access recovery charge (ARC) on customers. In addition, funding in the form of CAF ICC (Connect America Fund Inter-Carrier Compensation) was made available. This was intended to make Rate of Return carriers whole, but only at the frozen 2011 levels. At the time of the order, the FCC announced this funding would intentionally be decreased by 5% per year, until it was essentially gone. With an annual reduction taking place year over year, the funding is now at about 65% of its 2011 level.

With the cost of labor and maintenance, coupled with looming deadlines on STIR/SHAKEN, CEOs and General Managers everywhere are beginning to consider replacing their switches entirely for cloud based UCaaS services like GigTel. But what happens to support when the changeover is made?

The good news is that the capped ICC based switch support is available to carriers whether or not they deploy local switching. Of course, in the long-term switch support will eventually be gone due to the 5% year over year ramp down. This means that over time, as support dwindles and companies look for more ways to cut switching costs, cloud switching implementation makes sense.

Each company has its own unique cost considerations, it's impossible to know exactly what is affected, and by how much. That said, a common consideration that must be evaluated is whether or not moving to a cloud-based switching solution triggers something called "double recovery", and if so, what that means for the company.

Double Recovery

The FCC indicated early on that double cost recovery could be triggered with either a switch consolidation or a move to cloud-based service. Cost companies will absolutely want to take this into consideration before deciding if a cloud-based solution is right for them. What is double recovery? Simply put, when a company adds cloud-based switching, existing assets are often repurposed to other areas in the cost study that receive support (for example, special access, high cost loop, or CAF BLS), and it may trigger a double recovery situation. This isn't necessarily a bad thing, it just needs to be evaluated. As noted above, rate of return companies will receive support based on the frozen ICC amount, whether or not the company currently has a local switch on the network. Retiring the switch itself does not trigger double recovery, rather it's the repurposing of the other associated assets (typically fiber, and sometimes electronics).

Your cost consultant should be able to provide you with an inexpensive cost analysis to determine if moving the assets in question triggers double recovery, and if so how that impacts support. When performing the analysis you should also factor in the offsets received by:

- Reduction of switch labor cost
- Elimination of maintenance cost on your current switch
- Elimination of expenses (and associated headaches) finding aged switch parts
- Financial impact regarding any future work required to become STIR/SHAKEN compliant
- Continued reduction of CAF ICC in coming years

Even if double recovery is triggered many ILECs will still come out ahead due to the offsets listed above. ILECs with multiple switches, host/remote setups, or multiple routes to the world will typically have a larger double recovery impact because they have vastly more cable & wire tying those facilities together. Companies in this position should re-assess every few years because the double recovery impact will become less over time.

About Us

Hometown values are at the core of the GigTel team. Based in Cloverdale, IN, as a part of Endeavor Communications, GigTel was built on the reputation of 75 years of being in the telecommunication business. Based on our own evolving needs, we recognized the demand for better communication solutions, leading us to launch GigTel.

GigTel offers a fully managed, unbranded platform that empowers you to sell residential landline replacement and business cloud-hosted services on your terms and without having technical resources in-house. In addition to Voice over IP (phone service), our Unified Communications as a Service (UCaaS) offering delivers Chat/SMS, Email to Fax, Corporate Presence, Video Collaboration, Contact Center, native integrations (e.g., CRM, Microsoft Teams, and Microsoft Outlook), plus more! By rebranding the GigTel platform, you have the power to upsell to existing customers, gain access to a new revenue stream, and have even more flexibility with the pricing for each of your services.