EPG FCC Ex Parte

EPG Capacity Based Access Plan

May 11, 2004

Expanded Portland Group

- Portland Group first met May 5, 2003
  - Small & mid-size company effort with goal of solving arbitrage problems & maintaining intercarrier compensation for use of the network
  - Included representatives from consulting firms and associations
- “Expanded” in Nov 2003, becoming “EPG”
  - To focus on developing a detailed “Port & Link” or “capacity” plan
  - And to include a broad cross-section of rural carrier interests

Recent EPG Activity

- Developed capacity-based alternative plan
- Socializing plan with
  - Regulators
  - ILEC Trade Associations
  - Consumer Groups
  - Other telecom industry members
- The EPG plan is a conceptual alternative to B&K and has not yet been formally endorsed by any of the above groups

Intercarrier Compensation

- Disparate charging mechanisms based on:
  - Jurisdiction (intra/interstate)
  - Nature of the call/technology (local, long distance, Internet)
  - Type of carrier (LEC, IXC, CMRS, ISP, end-user)
- Current system is neither economically rational nor sustainable
  - Arbitrage, phantom traffic, differentiation between different types of traffic
- Fundamental nature of network is changing
  - Current compensation mechanisms are premised on a circuit switched network
  - Rapid evolution towards a packet switched network is occurring

Key Concepts of EPG Plan

- Converge and evolve current intercarrier compensation mechanisms
  - Address arbitrage issues
  - Accommodate evolution towards packet-based networks
- Balance revenue streams among USF, end users and access, which now includes a new “Access Restructure Charge” (ARC)
- Maintain and further universal service in high cost areas
- Promote broadband deployment for consumers in rural areas

Eliminating access creates problems

- Zeroing out access and recip comp may solve some problems for larger carriers, but creates new problems
- A unified intercarrier charging mechanism does not *require* a price of zero
  - Zero price for access sends false pricing signals resulting in inefficient network usage and new arbitrage opportunities
  - On average, rural carriers receive over 25% of their cost recovery from intercarrier compensation
  - Bill & Keep would place unnecessary strain on currently overburdened USF mechanisms and/or rural consumers
  - Rural carriers would lack the resources and incentives to meet customer demands and to deliver broadband services
- Rural networks are more costly to build due to longer distances and lower traffic volumes
- Those who invest to build rural networks must receive fair and predictable compensation for use of their property, if investment is to continue

Plan Overview

- Four-step, 10-year plan
  - Step 1 - Fix current arbitrage, and balance revenue streams and implement ARC
  - Step 2 - Implement new access structure
  - Step 3 - Stabilize rate levels
  - Step 4 - Stabilize ARC
- Plan could encompass all carriers

Step One - 7/1/2005
Address Current Problems

- Reduce intrastate access (switched and special) and reciprocal compensation to interstate levels and mirror interstate structure
  - Current average ROR intrastate rate = $0.055
  - Current average pooled interstate rate = $0.021 (with banding)
- Introduce Access Restructure Charge (ARC)
  - Initially recovers revenues shifted from intrastate access
  - Billed to carriers via NECA tariff based on working telephone number counts or other suitable mechanism
  - Available only to providers of regulated access
  - Not a universal service fund

Step One - 7/1/2005
Address Current Problems

- Implement “Truth in Message Labeling” national policy
- Clarify ESP exemption to be dial-up only (i.e., not for termination of traffic to PSTN)
- Adopt default termination tariffs for unlabeled traffic
- Create “State Restructure Credit” (SRC) to accommodate states that have reduced intrastate access through state universal service funds and/or basic rate increases

Intercarrier Revenue Requirement

- Intercarrier Revenue Requirement is the sum of:
  - Interstate access revenue requirement from cost study/average schedules
  - State net intercarrier revenues (access, net reciprocal compensation, state SLCs and state USF designed to reduce intrastate access)
- Change in intrastate intercarrier “revenue requirement” after year one tied to interstate change

ARC Calculation

- ARC initially equals the residual intercarrier revenue requirement not recovered by:
  - Net intercarrier revenues (i.e., ICC revenues received less ICC charges paid to other carriers)
  - Federal USF support (ICLS/LTS, LSS) and state USF designed to reduce access
  - Federal and state SLCs
- ARC is a new access charge, designed to recover access costs, not a new universal service fund

Step Two - 7/1/2006
Implement Capacity-Based Structure

- Convert switched access to capacity-based Port and Link structure
  - Link rates set to equal Step 1 special access rates
  - Port and link rates set to recover equivalent of Step 1 access rates
- Stability in access rate structure for remainder of 10-year plan

Step Three - 7/1/2007 - 7/1/2009 Stabilize Port and Link Rates

- True-up ARC to revenue requirement
- Evaluate additional Quality of Service rate elements consistent with a packet-based network architecture

Step Four - 7/1/2010 - 7/1/2015
Stabilize ARC

- ARC grows by inflation
- Port & Links residually priced

Preliminary Financial Estimates Rural Rate-of-Return Carriers Only

- Port and Link Rates:
  - NECA Port rate set at approximately $2,400 per month per DS1 Port
  - Revenue equivalent of 2.1¢ per minute
  - Link rate set at current NECA interstate special access levels
  - Estimated 42K DS1 Ports (based on current demand)
  - Creates revenue shortfall of approximately $900M for rural rate-of-return carriers
- Access Restructure Charge (ARC)
  - Assumes:
    - 180M ILEC and CLEC working numbers
    - 150M wireless working numbers
  - $900M equates to $0.23per number per month

Benefits of Plan

- Maintains balanced revenue flows among end user, intercarrier comp & USF
- Promotes broadband deployment for rural consumers
- Requires no separations or legislative changes
- Requires no additional universal service
- Requires no increase in SLC caps
- Can be applied to all providers of access