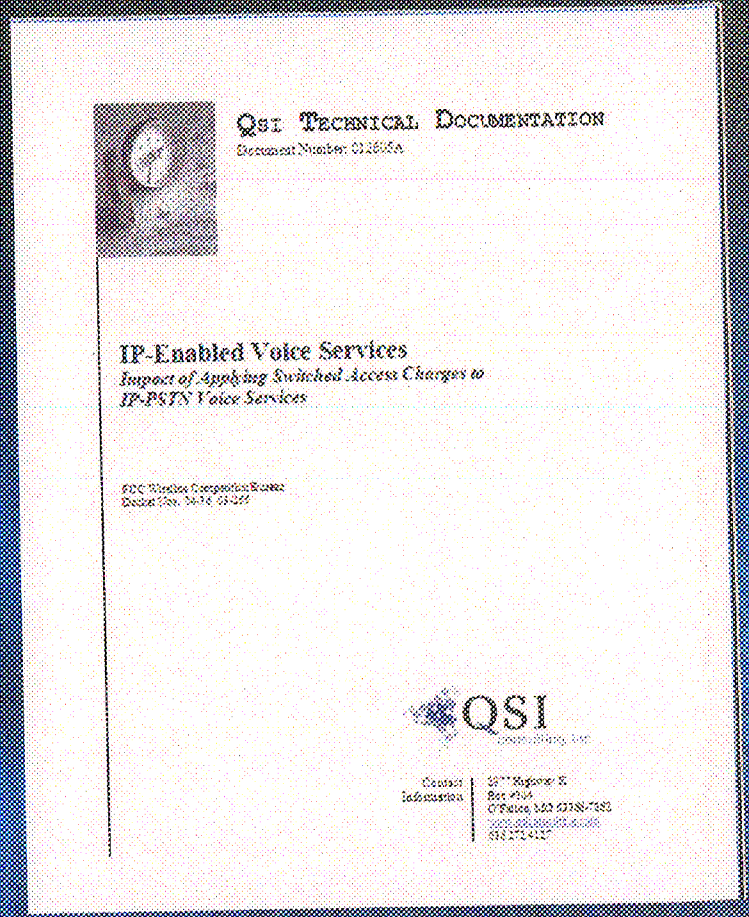
PRESENTATION

- the **Purpose**
- the **Results**
- the **Methodology**
- the **Conclusions**
- the **Model**
- the **Report**



QSI TECHNICAL DOCUMENTATION

Document Number: [illegible]

IP-Enabled Voice Services

Impact of Applying Switched Access Charges to IP-PSTN Voice Services

FCC Wireline Competition Bureau
Docket Nos. [illegible]

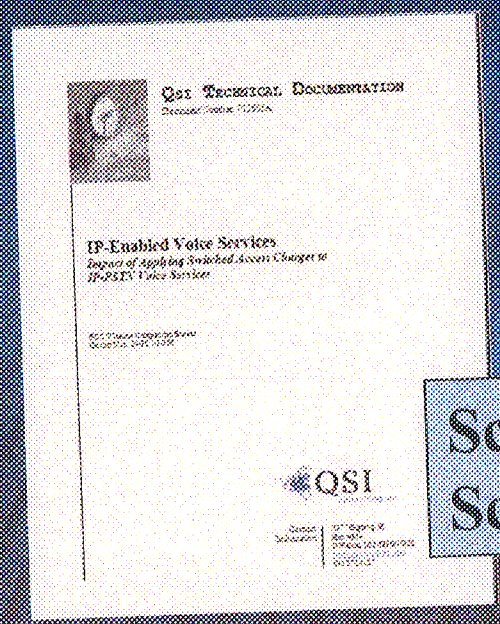
QSI

Contact Information

the Purpose

Level 3 Petition , page 49

Although access charges historically provided implicit support for basic local telephone service in rural and high cost areas, grant of this petition will not – as some ILECs are likely to suggest – lead to the demise of universal, affordable, and reasonably comparable telephone services in high-cost areas. In the first instance, the **IP-PSTN and incidental PSTN-PSTN Voice-embedded IP traffic will not increase quickly enough to present any significant near term threat to the flow of funds under existing access charge mechanisms.**


QSI Technical Documentation

IP-Enabled Voice Services

Impact of Applying Switched Access Charges to IP-PSTN Voice Services

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Quantify any impact on ILEC intercarrier revenues associated with applying switched access to IP-PSTN VoIP

Scenario 1: Reciprocal Compensation Applies

Scenario 2: Interstate Switched Access Applies

The Conceptual Assumptions

- Customers will increasingly use VoIP as a substitute for other technologies including both wireless and wireline local and toll.
- Reciprocal compensation applies to the majority of VoIP traffic today. Applying switched access would change the status quo and increase VoIP "production costs."
- Higher VoIP prices that would result from the application of switched access charges would suppress demand for VoIP and the broadband services that enable them.
- Early VOIP "adopters" are high volume users who are price-sensitive.
- Subsequent to the *Vonage Order*, if FCC imposes switched access on VoIP, interstate (not intrastate) switched access rates would apply.

the Impact Of Applying Access

Detailed Presentation of Results

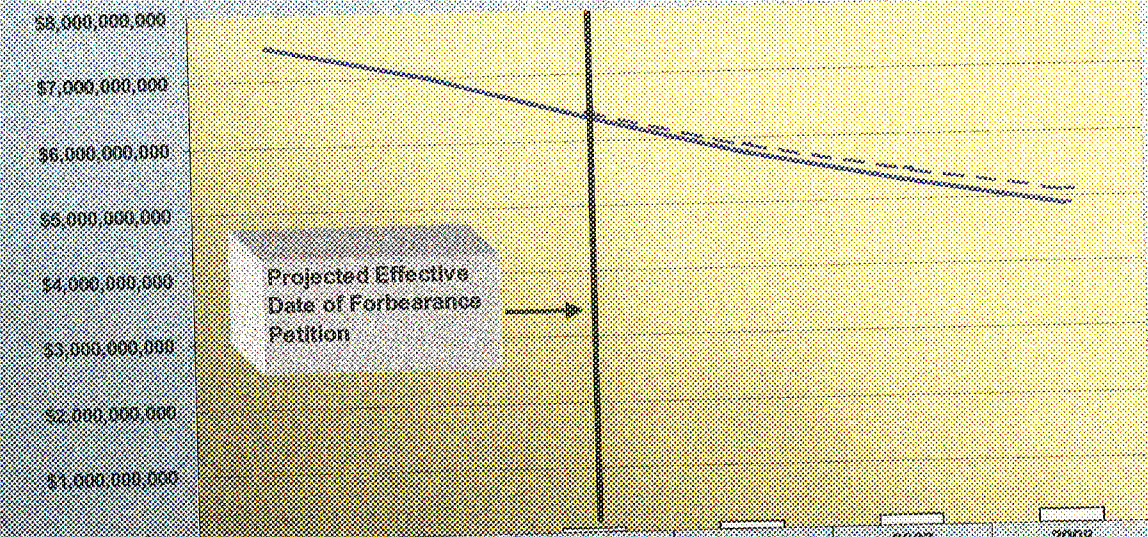
Impact - RBOC and Non-Rural other ILECs

	2005	2006	2007	2008
SCENARIO 1: Switched Access and Incremental DSL revenues assuming continued application of reciprocal compensation	$6,342,277,908	$5,765,305,551	$5,280,408,136	$4,872,334,444
SCENARIO 2: Switched Access and Incremental DSL revenues assuming application of interstate switched access rates	$6,417,219,221	$5,876,615,666	$5,440,397,936	$5,085,930,639
Impact on Switched Access Revenues	$114,056,833	$167,253,570	$236,022,613	$311,777,766
Impact on Incremental DSL Revenues	($39,115,520)	($56,943,455)	($76,032,812)	($96,181,572)
Overall Impact on Switched Access Charges and DSL Revenues Associated with Applying Switched Access Charges to VoIP	**$74,941,313**	**$111,310,115**	**$159,889,800**	**$213,596,195**

** assumes no reform or other FCC action prior to 2009; anticipated intercarrier compensation reform will reduce impact

The Impact Of Applying Access

Impact of Compensation Regime on ILECs' Total Non-Local Intercarrier Compensation Revenue (Access Charges vs. Reciprocal Compensation)



	2003	2004	2005	2006	2007	2008
Impact of Change in VoIP Intercarrier Compensation Regime on Total ILEC Non-Local Intercarrier Comp. Revenue with Incremental DSL Revenue (Access applied to VoIP)			$74,941,313	$111,310,115	$109,989,900	$213,998,195
Total Non-Local Intercarrier Comp. + Incremental DSL Revenues: VoIP under Recip. Comp. Regime	$7,502,256,765	$7,011,330,394	$6,342,277,908	$5,765,305,551	$5,280,408,136	$4,872,334,444
Total Non-Local Intercarrier Comp. + Incremental DSL Revenues: VoIP under Interstate Access Charge Regime			$6,417,219,221	$5,876,615,666	$5,440,397,836	$5,086,930,639

the Impact Of Applying Access

IMPACT IN PERCENTAGE TERMS

- RBOCs and Non-Rural other ILECs

		2005	2006	2007	2008
DSL + Switched Access Revenue Impact	Increase in Switched Access and DSL Revenue	$74,941,313	$111,310,115	$159,989,800	$213,596,195
	Total Switched Access and Incremental DSL Revenue (assuming interstate access applies to VoIP)	$6,417,219,221	$5,876,615,666	$5,440,397,936	$5,085,930,639
	Increase as a Percentage	1.17%	1.89%	2.94%	4.20%
Switched Access Revenue Impact	Increase in Switched Access Revenue (assumes switched access applies to VOIP)	$114,056,833	$167,253,570	$236,022,613	$311,777,766
	Total Switched Access Revenue (assuming interstate access applies to VoIP)	$6,260,757,141	$5,652,841,846	$5,136,266,687	$4,693,204,353
	Increase as a Percentage	1.82%	2.96%	4.60%	6.64%

the Primary Conclusions

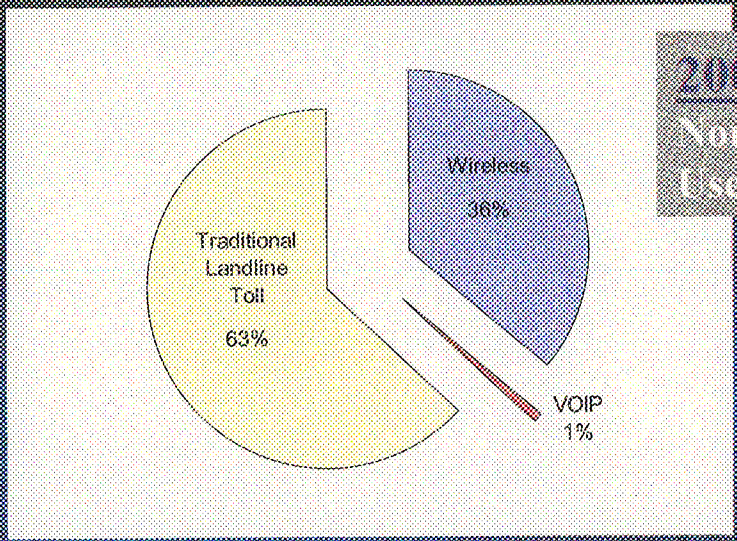
i. Technology substitution to wireless has had and will continue to have a greater impact on ILEC switched access revenues than will VoIP in the next four years.

ii. Even if the ILECs' own VoIP service revenues are ignored, the increased demand for DSL services caused by VoIP alone will substantially mitigate any differential in ILEC switched access revenues between Scenario 1 and Scenario 2.

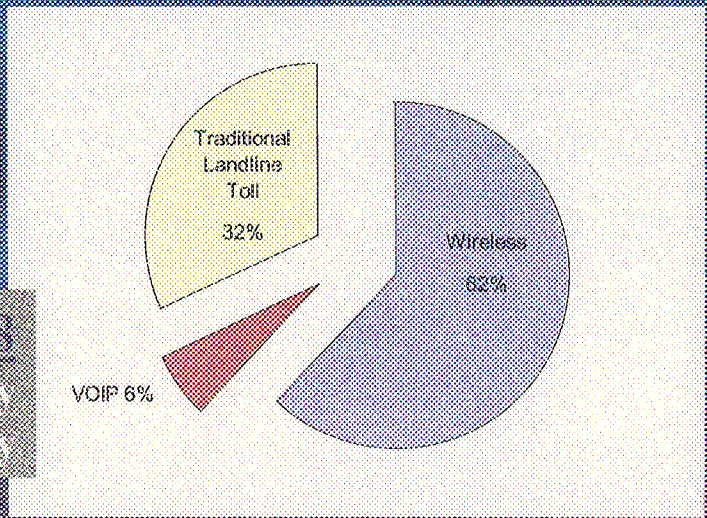
iii. The FCC and the industry have been working diligently over the past 10 years (or more) to remove implicit subsidies included in ILEC switched access rates. Confirming application of reciprocal compensation rates for VoIP traffic during the transition to more comprehensive reform simply extends this trend (albeit at a much less aggressive pace than past switched access reform initiatives, e.g., CALLS, MAG, etc.).

the Primary Conclusions

7. Technology substitution to wireless has had and will continue to have a greater impact on ILEC switched access revenues than will VoIP in the next four years.



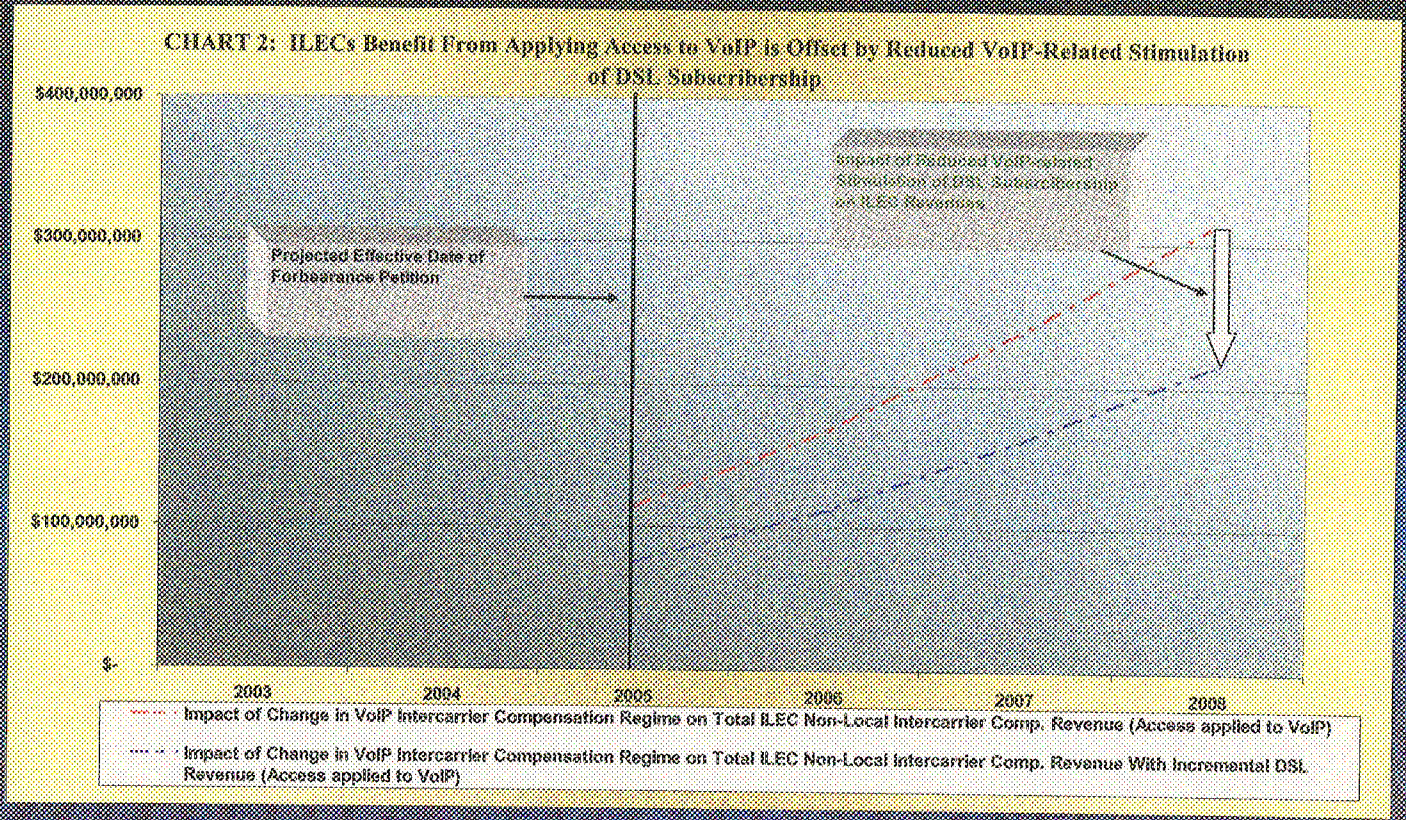
2003
Non-Local Minutes of Use by Technology



2008
Non-Local Minutes of Use by Technology

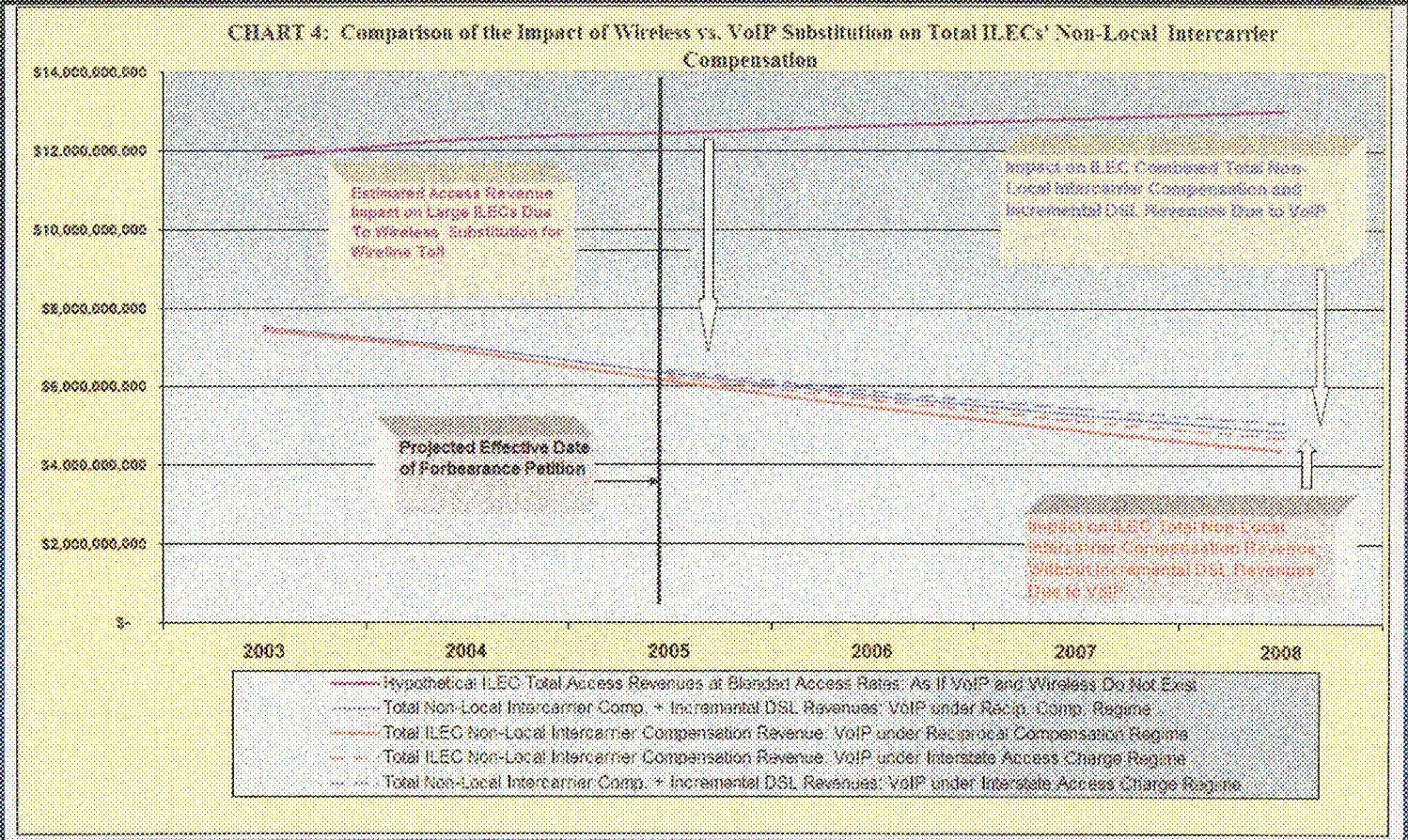
the Primary Conclusions

ii. Even if the ILECs' own VoIP service revenues are ignored, the increased demand for DSL services caused by VoIP alone will substantially mitigate any differential in ILEC switched access revenues between Scenario 1 and Scenario 2.



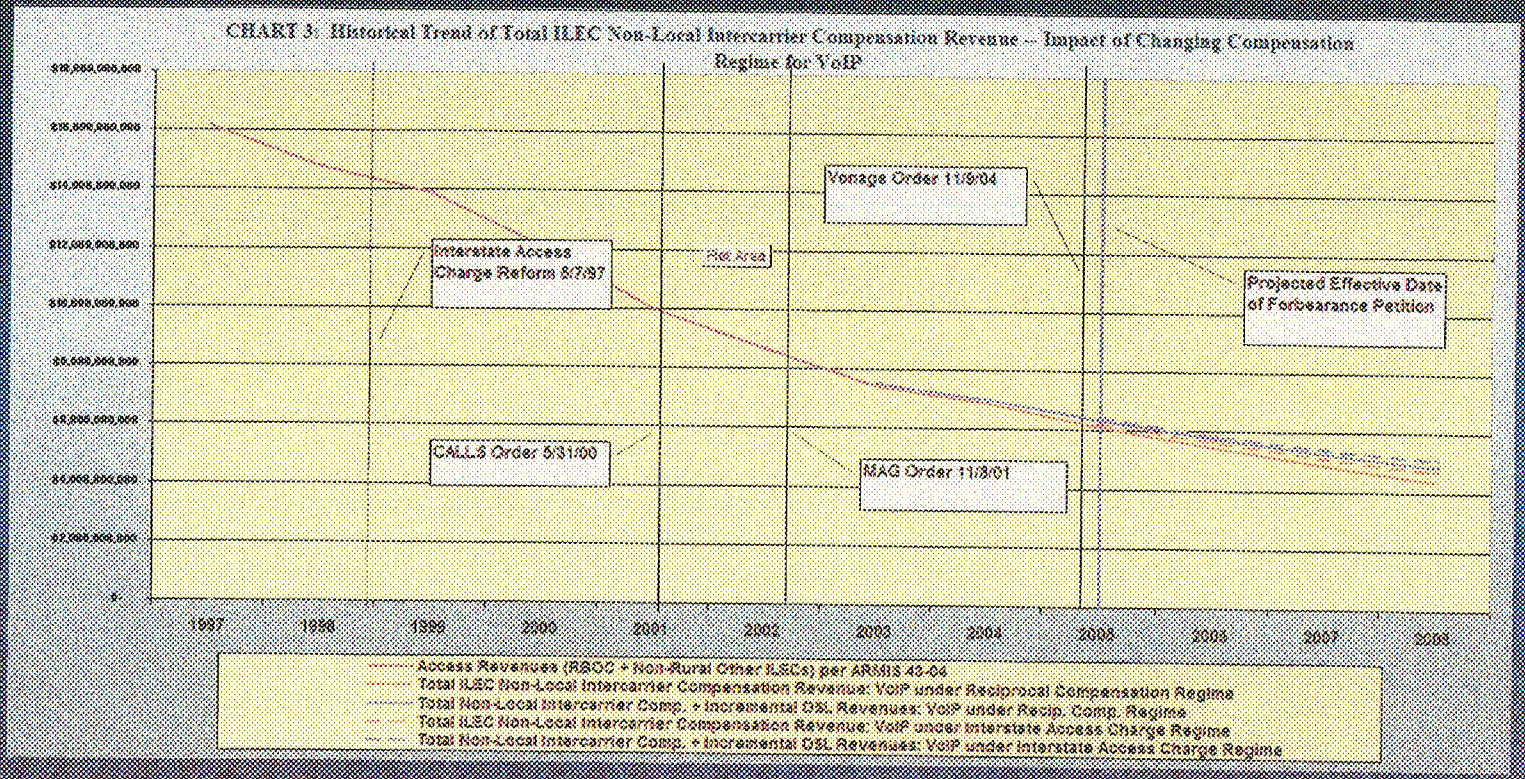
the Primary Conclusions

Slide 11

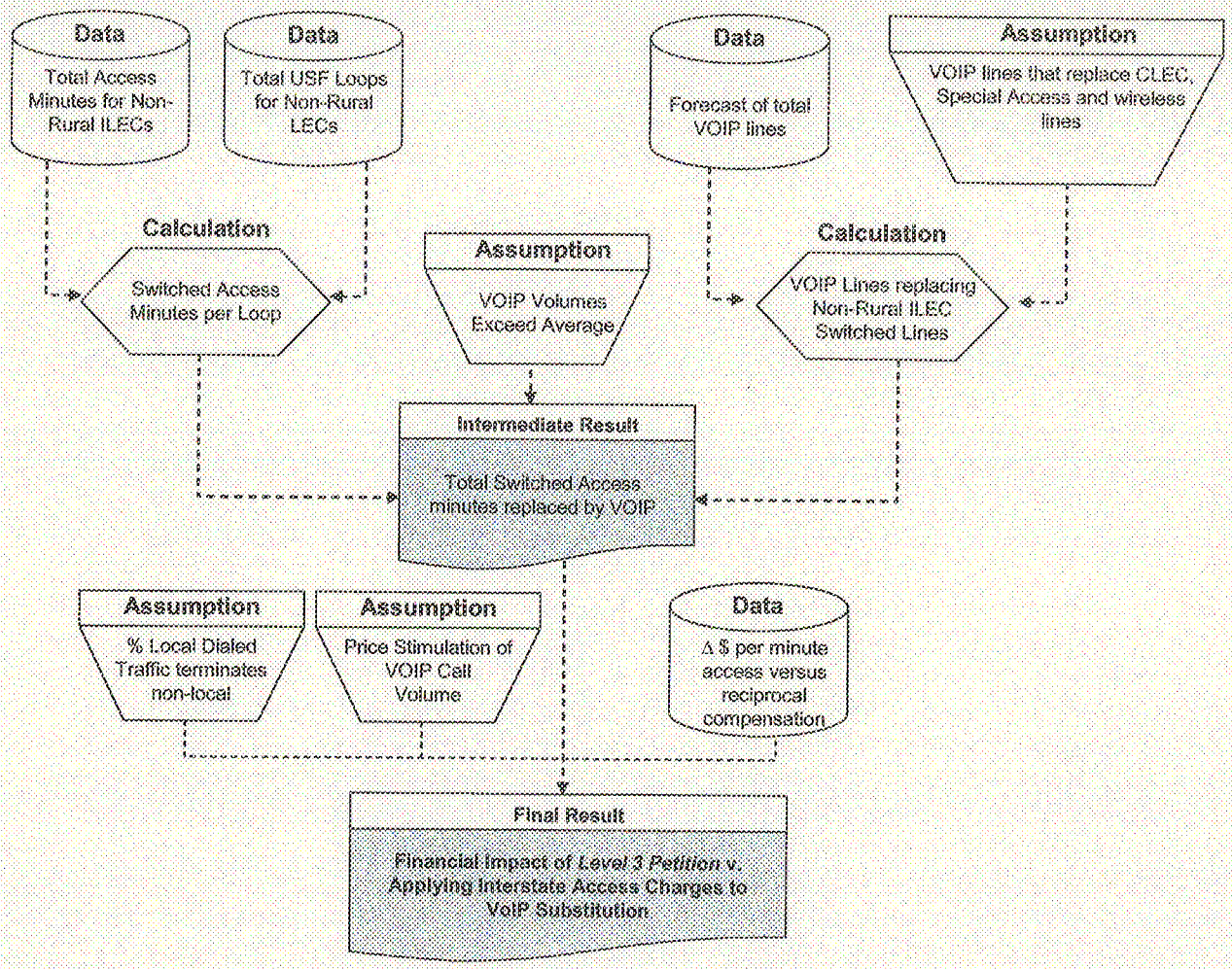


the Primary Conclusions

- The FCC and the industry have been working diligently over the past 10 years (or more) to remove implicit subsidies included in ILEC switched access rates. Confirming application of reciprocal compensation rates for VoIP traffic during the transition to more comprehensive reform simply extends this trend (albeit at a much less aggressive pace than past switched access reform initiatives, e.g., CALLS, MAG, etc.).



the MODEL LOGIC



the METHODOLOGY

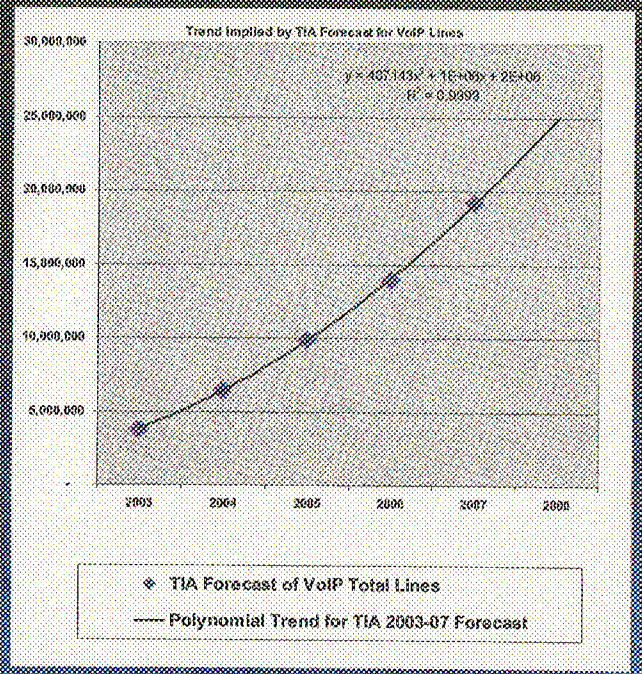
STEP 1:

Evaluate IP-Enabled Voice traffic (and consumer acceptance) growth

Non-Rural ILEC Interstate and Intrastate AMOUs		
Source	Measure	Value
NECA 2003 AMOU Report (by LEC)	Interstate AMOU	385,316,656,805
NECA Network Usage Reports	Interstate DEMs as % (Interstate + Intrastate DEMs)	57.18%
FCC Trends Report	Orig CCL MOU as % Total CCL MOU (interstate)	34.52%

ILEC Loops (NECA Submissions for 2003)		
Measure	LEC set	Value
USF Switched Loops	RBOCS & Non-Rural Other ILECs	152,563,845
USF Switched Loops	all LECs reporting to NECA	170,646,386
non-Rural LECs % of USF Loops		89%

User-Adjustable Inputs	
Factor by which VoIP customers exceed average originating toll patterns	2



STEP 2:

Retrieve RBOC and non-rural ILEC switched access volumes