INTERCARRIER COMPENSATION REFORM

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BASIS FOR INTERCARRIER COMPENSATION

The Retail Service Provider (IXC, Wireless Provider, RBOC, LEC, etc.) charges the customer for the service it provides and uses those customer revenues to recover its costs and to pay all carriers for the use of their facilities utilized by the service provider to complete its customers' calls.

As is the case in any business, an input to a retail service (in this case, network costs) should be paid for by the retail business or service provider.

There must be a recognition that the wireline network is essential and must be sufficiently funded, maintained and protected, not only for providing COLR universal service, but because virtually all intramodal and intermodal competitors use it to enable them to originate and/or terminate their data and voice calls.

BASIS FOR CHOOSING A REVISED INTERCARRIER COMPENSATION PLAN

- Does the solution eliminate or minimize arbitrage?
- Is the solution cost causative or economically efficient?
- Is the solution relatively simple and does it provide a smooth transition from the current compensation process (minimize discontinuities or abrupt changes)?
- Is the solution equitable for consumers, retail service providers and to providers of network facilities throughout the country?
- Is the solution legal and does it maintain existing Federal and State jurisdictions?
- Does the solution provide sufficient, sustainable and predictable revenues as required by the Act for the network providers to recover the costs of maintaining and upgrading networks that all retail service providers use?
- Does the solution minimize increases in the USF?
- Is the solution competitively neutral?
- Is the solution technologically neutral?

Solutions That Will Satisfy These Objectives

1. Process - FCC establish a framework for reform:

- Collaborative process with the Joint Boards – Maintains State role (input and decisions) and avoids preemption issues.

- Reasonable transition – Establish framework and do what can be done now, but allow time for (a) States to opt into federal framework, (b) Joint Boards to evaluate cost basis for intercarrier rates, benchmarks and whether additional USF should be all federal or joint federal/state,

  (c) States to establish intrastate USFs to recover revenue shortfall, if any, not recovered in the federal USF, (d) Phase in rate (intercarrier, local, SLC) changes.

Solutions That Will Satisfy These Objectives (Cont.)

2. Federal Framework – Adopt this year:

(a) Intercarrier Compensation Reform:

- Require users of network facilities (originating, transport and/or terminating) to pay for the use of those facilities.
- Validate that current network meet points and architecture are appropriate for interconnection.
- Require that embedded cost-based unitary intercarrier compensation will be maintained for ROR LECs. Joint Board will determine cost basis for unitary rate.
- Require that all retail carriers transmit CPN and CIC so that they cannot avoid compensation payments.

Solutions That Will Satisfy These Objectives (Cont.)

2. (Cont.) Federal Framework – Adopt this year:

(a) Intercarrier Compensation Reform:

- Clarify intraMTA rule - CMRS local calling area does not apply to LECs. Originating interexchange calls are handed to the customer's presubscribed carrier.
- Clarify that virtual NPA-NXX is not allowed.
- Clarify the ESP/ISP Exemption – Exemption is for dial-up traffic that originated on LEC's network when the ISP is directly or indirectly connected to the LEC. Traffic originating from a CLEC/ISP when terminating to a LEC is subject to intercarrier compensation and does not fall under the exemption.

Solutions That Will Satisfy These Objectives (Cont.)

2. (Cont.) Federal Framework – Adopt this year:

(b) Replacement of Net Revenue Lost With Intercarrier Compensation Reform:

- Require that rural SLC levels be comparable to the SLC levels of urban LECs.

- Establish the requirement for a local rate benchmark. The Joint Board would establish the level.

- Refer the development of a mechanism to recover the remaining shortfall to the Joint Board with the requirement that the phase-in of the mechanism match the phase-in of the intercarrier rate change and the commitment that the FCC will establish a federal mechanism consistent with the Joint Board's recommendation to recover 2/3 to 3/4 of the shortfall. The individual states would recover the remainder based on a mechanism consistent with the Joint Board's recommendation.

Solutions That Will Satisfy These Objectives (Cont.)

3. FCC should adopt a revised USF contribution methodology based on numbers and connections by carriers to the network for existing components of the USF.

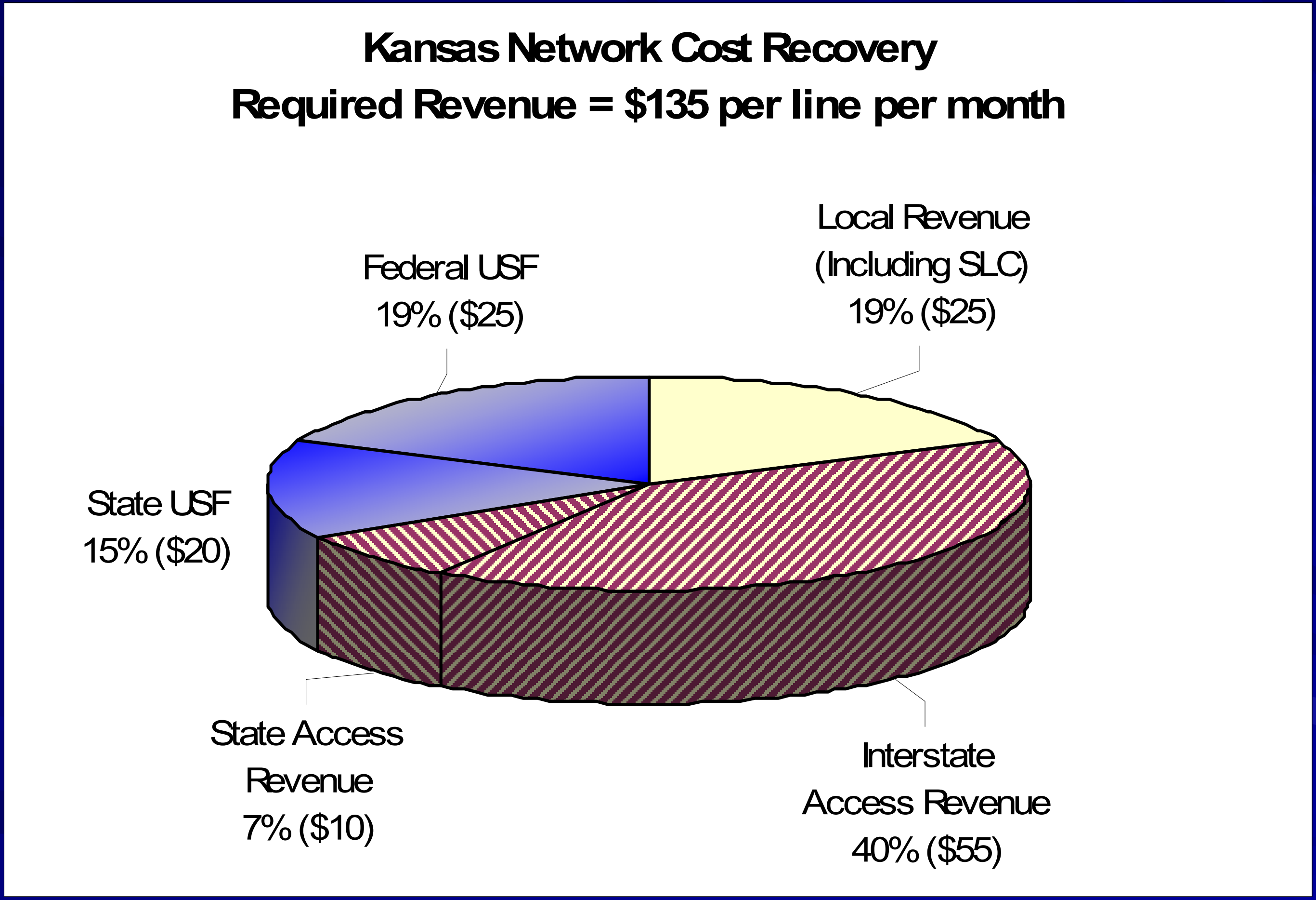
Bottom Line – This Solution:

- Resolves intercarrier compensation issues by establishing a comprehensive federal framework that is legally viable because states are involved in the decision making process.

- Will result in a stable intercarrier compensation and universal service regime that is (a) Equitable for consumers and carriers, (economically efficient), (b) Competitively and technologically neutral, (c) Relatively simple and (d) Minimizes arbitrage.

- Will provide predictable support levels while minimizing the impact on the USF.

We Care Because These Revenues are Essential To Provisioning and Maintaining Rural Networks Used by Customers and Carriers At Reasonable Rate Levels



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