

ALLIANCE FOR RATIONAL INTERCARRIER COMPENSATION presents the

The FACTS

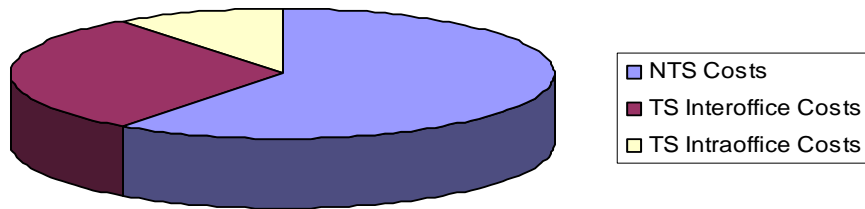
- Fair
- Affordable
- Comprehensive
- Telecom
- Solution

Summary of the FACTS Plan

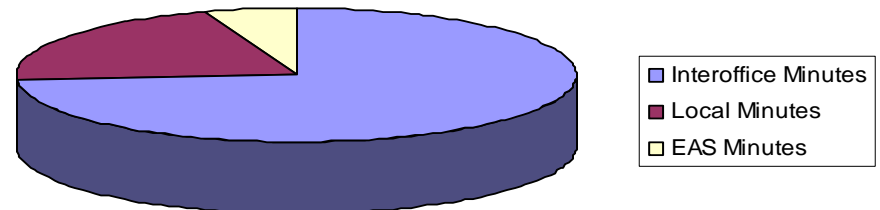
- Unifies Intercarrier Compensation.
 - Unifies rates based on each company's cost.
 - Reduces rates to cost.
 - Requires that carriers pay the costs of using the network.
- Equalizes Local Rates.
 - Requires local rates to be comparable across the country.
 - Establishes a local rate benchmark.
 - Equalizes SLCs so that the total rate is comparable.
 - Limits the impact on Universal Service Funds.
- Maintains Universal Service.
 - Maintains the current federal fund.
 - Establishes a new State Residual Funds.
- Establishes a comprehensive plan that addresses all issues.
- Recognizes cost recovery and interconnection issues in an IP environment.

Unifies Intercarrier Compensation Rates

Divide TS Unseparated Interoffice Embedded Costs by



Interoffice Minutes using the Network



- Unify all Intercarrier Compensation rates--state, interstate and recip comp.
- Charge Intercarrier Compensation for all interoffice network minutes.
- **Why?** Reduce arbitrage opportunities and provides a mechanism to bill for all traffic traversing the network.

ICC Rates are filed, then validated

- How?

- Initially, the joint process, including both the FCC and state commissions, will review the procedures and data necessary to determine ICC rates.
- Annually, rates are filed with both the FCC and the state commissions to be acted upon within 15 days.

- Why?

- Under the TA96, states have jurisdiction to approve reciprocal compensation rates.
- States also have authority over intrastate access rates.

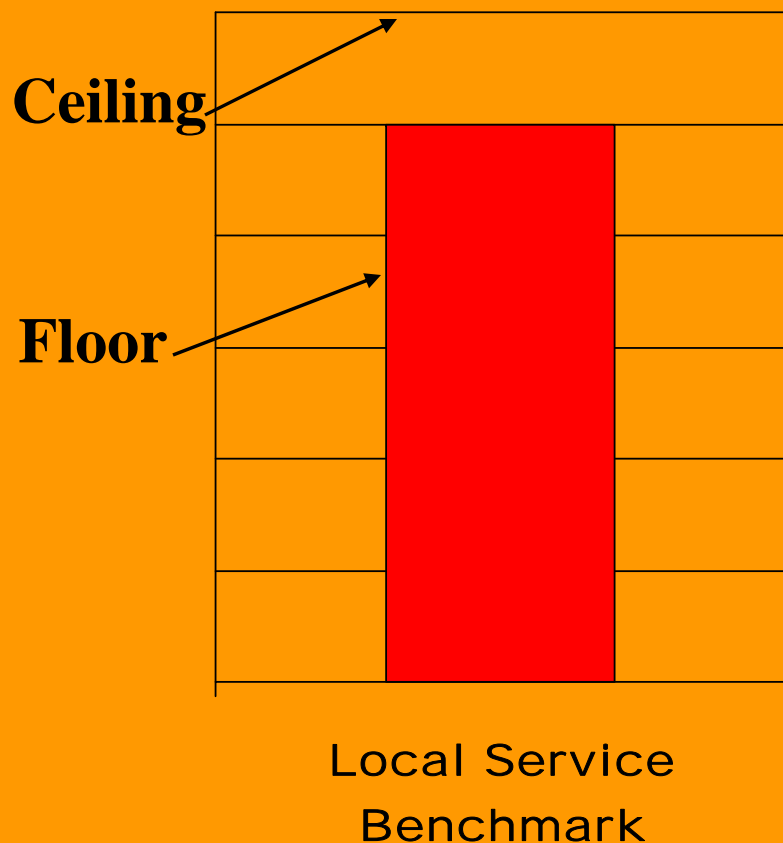
Who pays ICC?

- Retail Service Provider Pays (RSPP)

When a retail service provider uses the network functionality of another carrier, the retail service provider is obligated to pay compensation.

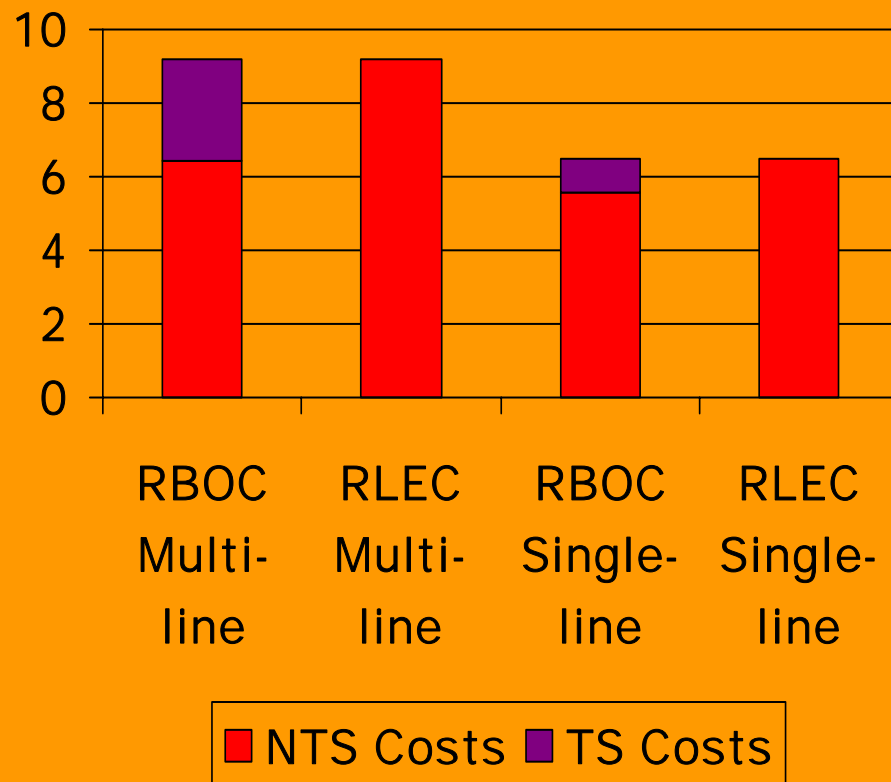
- RSPP does not inappropriately shift the obligation to pay for the use of the network to the end user.
- RSPP provides incentives to efficiently use the network because an RSPP pays for the network costs used.
- RSPP is consistent with today's (recip comp and access) compensation obligations. Costs are borne by the cost causer.
- RSPP also makes sense in the IP world.
- Under RSPP, transiting costs are billed to the retail service provider, who is usually the IXC.

Establishes Local Service Benchmarks



- A Joint Board will establish a benchmark floor and ceiling on either side of the nationwide average RBOC rate, currently \$14.61.
- Each state commission sets state benchmark(s) considering affordability and calling scope.
- Local rates transition to the benchmark over five years.
- Benchmark rates will be imputed in residual (USF) payments.
- **Why?** Equity and comparability of rates across the nation. Customers in high cost areas must pay a reasonable rate to minimize the impact on the size of the Universal Service Fund.

Equalizes SLCs



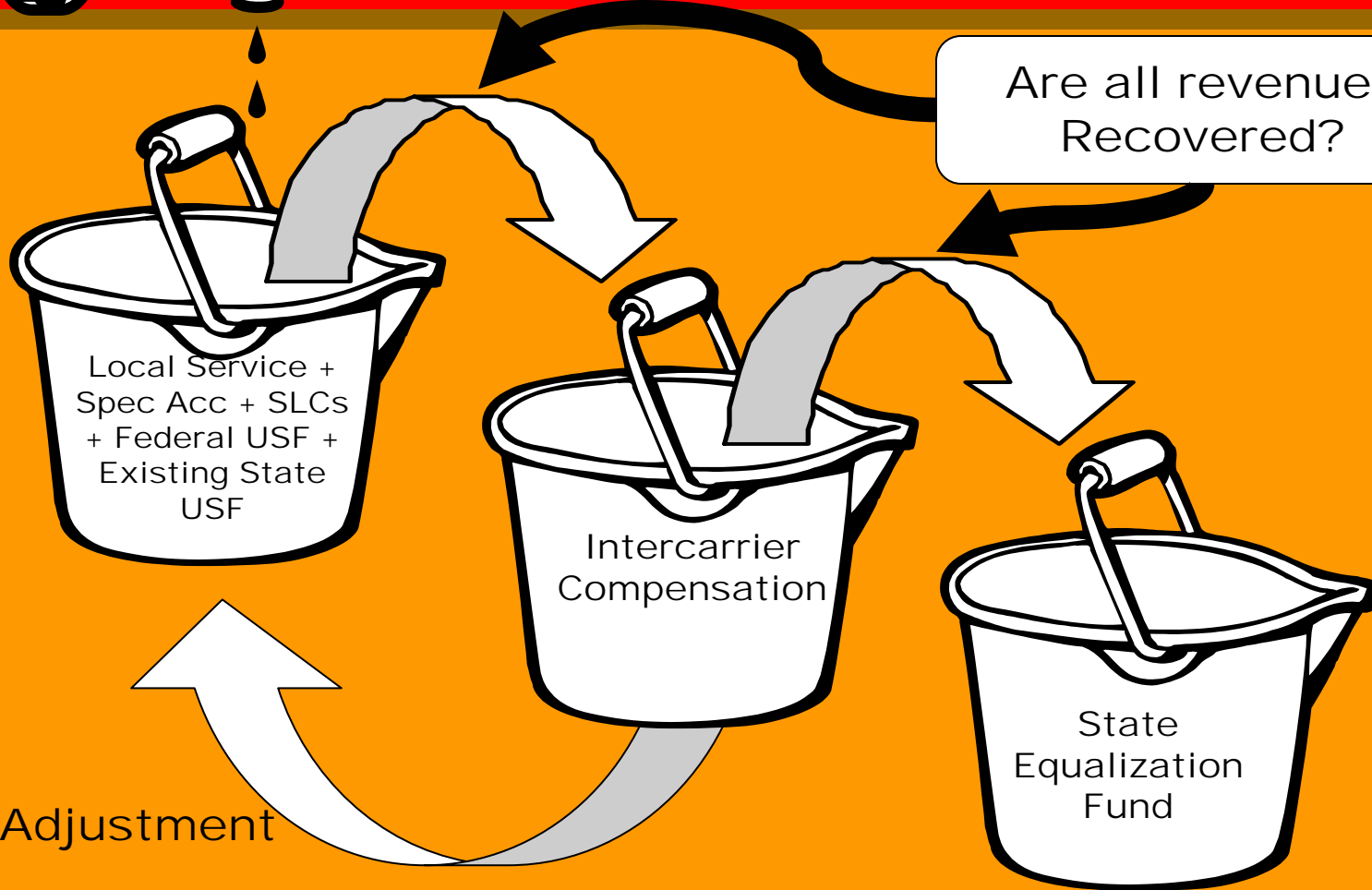
- The current SLC caps will continue.
- SLCs will be redefined to include recovery of both NTS and TS costs.
- Rural wireline carriers will bill SLCs at the average residential and business rates for the price cap carriers in each state.
- **Why?** Comparability between rural and non-rural LECs and overall comparability of local rates.

Retains Existing Federal USF

- Existing federal USF is calculated according to the current methodologies, with the following exceptions:
 - The current cap on HCL would be removed.
 - TIC recovered from rates rather than ICLS.

Residual revenues are recovered through a State Equalization Fund

Regulated Revenues



SLC Level Adjustment

State Equalization Fund (SEF)

- How?

- State commissions have control over SEF distributions.
- At the discretion of the state, existing state USF created for the same purpose may be merged into SEF.
- SEF recipients must be ETCs.

- Why?

- States should control disbursement of SEF funds since state revenues are being replaced with SEF.

SEF funding is shared between the jurisdictions

- How?

- Both state and federal sources contribute to SEF funding.
- Federal funding is contingent upon states reaching the benchmark floor and the state funding its share of the SEF.

- Why?

- Federal funding is desirable to limit the burden on rural states.
- Establishing local rates at or near the national average will limit universal support needs.
- State funding is desirable to encourage states to manage SEF size and limit federal USF growth.

If a state chooses not to establish a SEF...

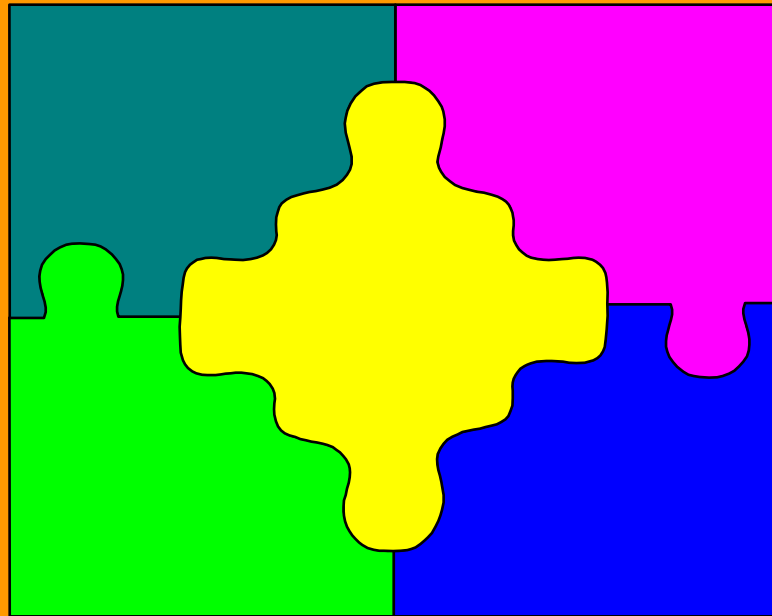
- How?

- All carriers, wireline and wireless, in the state collect or impute a statewide average "Access Equalization Charge" on each working number.
- Carriers remit the charge to NECA, who then redistributes the collections within the state based on an individual company's revenue shortfall.
- No federal funding is available when an Access Equalization Charge is implemented in lieu of a SEF.

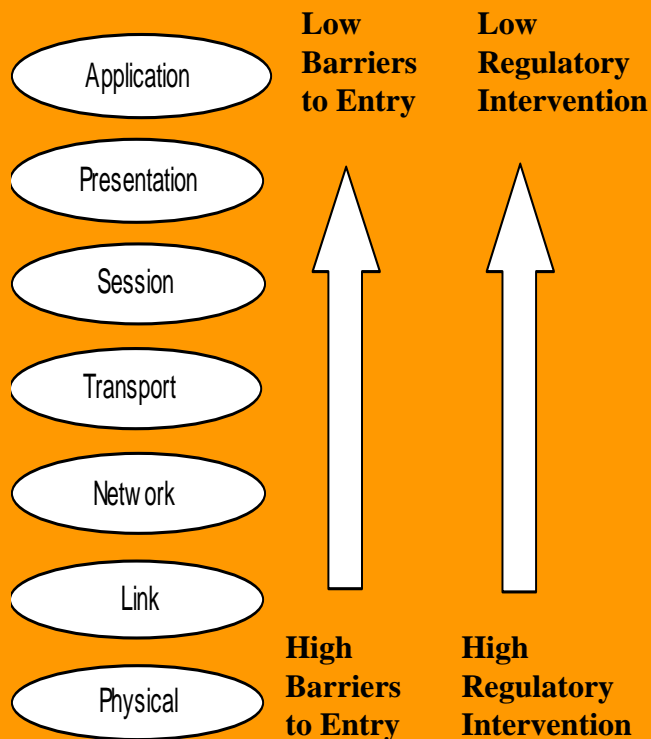
- Why?

- Companies in states that do not implement a SEF will have a means to recover lost revenues.

Appropriate Regulatory Policy in an IP World



"Layers" Approach to Regulatory Oversight



- The layers model shows that network functionality is separable from applications.
- There should be greater regulatory intervention when there is market power created by
 - high barriers to entry, and/or
 - market concentration, and/or
 - bundling across layers.

Vertical Integration Will Likely Lead to Market Power Abuse

- Vertically-integrated companies will own distribution facilities, ISPs, IP backbones and content sources becoming the *new* monopoly.
- Vertically-integrated entities will be *both* retail competitors and wholesale suppliers.
- Wholesale suppliers with retail interests have a *motive* to charge monopoly rents.
- Without constraints, these companies have the *opportunity* for market abuse.

Market Power Can Be Exerted by Restricting Interconnection

- Interconnection can be restricted by
 - closing local distribution facilities, or
 - refusing to peer/interconnect, or
 - charging monopoly rents for transit rates, or
 - degrading service levels.
- No rules exist to ensure independent ISPs' ability to interconnect in the IP world.

Interconnection Is Critical to Customers of Independent ISPs

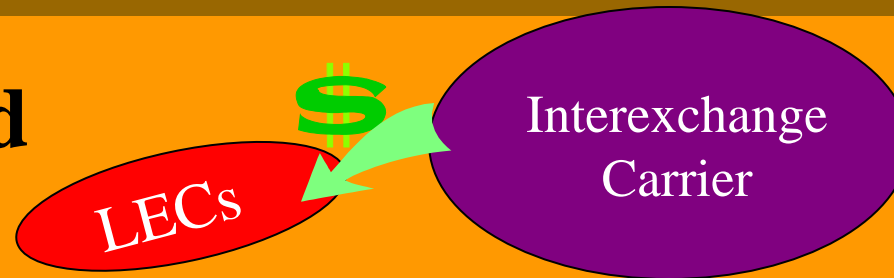
- Interconnection is critical. Without limits on entities with market power, monopoly rents will be charged to the detriment of consumers.
- Why is this important to customers?
 - Not regulating *local* interconnection will limit customers' choice of ISPs.
 - Not regulating *backbone* interconnection will disadvantage independent ISPs' customers and leave rural customers without affordable broadband access.
- Regulators must set rules for the game.

If a Laissez-Faire Interconnection Policy Is Pursued...

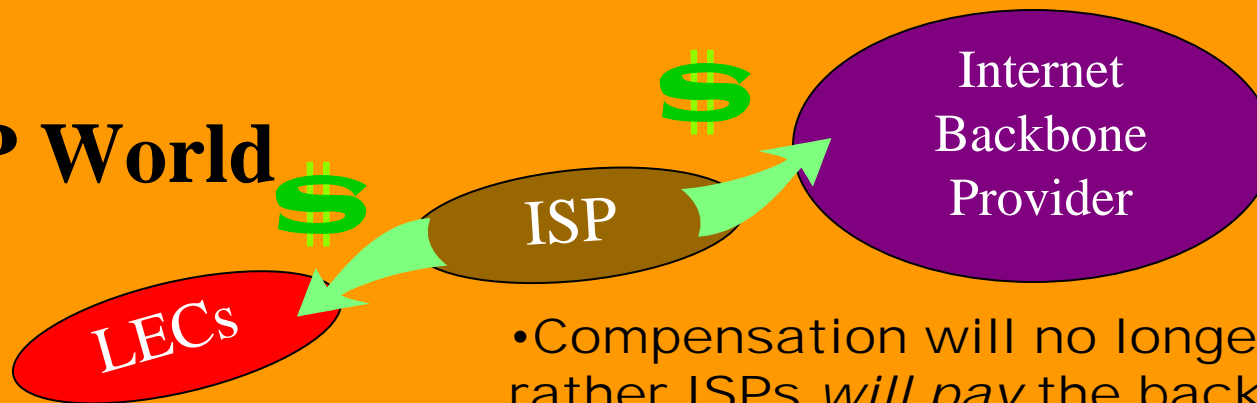
- History from the early 1900s will repeat itself (e.g. interconnection anarchy)
- Independent ISPs will be eliminated when networks are closed.
- Content availability will be controlled by vertically-integrated entities.
- A duopoly between the cable providers and the ILECs will exist in cities.
- Interconnection terms will be dictated by the largest players, not negotiated between equals.

Market Structure Changes Impact Compensation

PSTN World



IP World



- Compensation will no longer *be paid by IXC's*, rather *ISP's will pay* the backbone providers.
- *ISP's will also pay LEC's.*
- For many rural LEC's, the ISP and the LEC are affiliated companies.

Broadband Capability Depends on Infrastructure

- Market structure changes necessitate that USF be infrastructure based.
- Broadband infrastructure and capability will need to be universally available.
- IP uses circuit-switching infrastructure enhanced for broadband. "Last mile" facilities become even more expensive.
- 99% of broadband internet access is provided by DSL or cable modem service. There are no reasonable alternative technologies.

Support Should Be Re-targeted to Networks

- Today, services-based USF is targeted to customers, not networks.
- Without stable high-cost support to replace intercarrier compensation, rural companies will be reluctant to invest in long-term assets.
- Support should be directed to infrastructure outside city limits.
 - Separate funds for broadband and for mobility.
 - Funds would support infrastructure deployment up to and including the link layer. (Switching is excluded.)
 - Cities and towns will have infrastructure without funding.

Summary of ARIC's Proposal

- Local Rate Benchmarks
- Equalized SLCs
- Unified, Cost-based Intercarrier Compensation
- Current Federal USF and New State Residual Funds
- For the IP environment, the only plan to establish a comprehensive approach by:
 - Stabilizing and re-targeting high-cost support.
 - Basing technology-neutral regulation on the Layers Model.
 - Addressing barriers to entry and concentration of market power by maintaining open network access to IP backbone and local distribution.

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