

EPG

PLAN FOR INTERCARRIER COMPENSATION

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THE EPG GROUP

- ❑ Started by small and mid-size rural LECs and industry consultants
- ❑ Dedicated to preserving three viable and sustainable revenue streams – end-user, intercarrier and USF
- ❑ Recognizes the evolution from a circuit-switched to a packet-switched network environment
- ❑ Phased implementation based upon market and technology drivers

INTERCARRIER COMPENSATION ISSUES

- Disparate charging mechanisms based on:
 - Jurisdiction (intrastate, interstate)
 - Nature of the call/technology (local, long distance, Internet)
 - Type of carrier (LEC, IXC, CMRS, ISP, end-user)

- System is neither economically rational nor sustainable
 - Disparities leading to arbitrage and/or fraud
 - Phantom traffic
 - Inability to differentiate between interstate, intrastate and local traffic

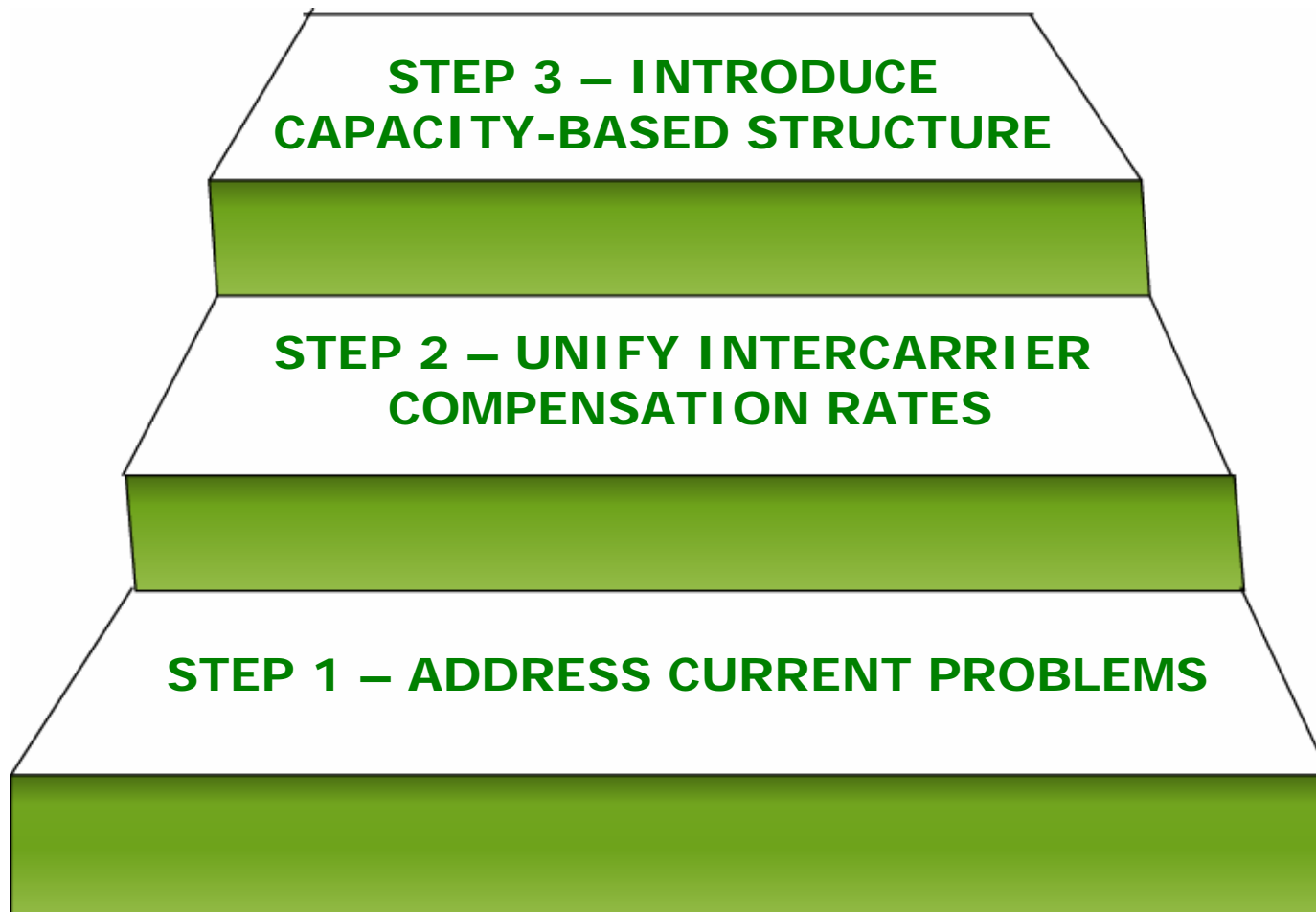
INTERCARRIER COMPENSATION ISSUES

- Fundamental nature of the network is changing
 - Current compensation mechanisms are premised on an analog, circuit-switched network
 - Rapid evolution towards a digital, packet-switched network
 - VoIP is coming on fast!
 - Intercarrier compensation must likewise evolve if rural consumers are not to be left behind

KEY CONCEPTS OF THE EPG PLAN

- ❑ Bill and Keep will not serve the interests of rural consumers and will stifle network investment
- ❑ Current intercarrier compensation mechanisms should converge
 - Address anomalies in current compensation mechanisms
 - Generally reduce intrastate switched and special access to interstate levels and structure
 - Move toward a capacity-based structure, including Ports and Links, to be consistent with the evolution toward packet-based networks
- ❑ A bulk-billed Access Restructure Charge (ARC) should replace lost revenues
 - Available only to regulated providers of access
 - Funded through an assessment on all working telephone numbers

EPG CAPACITY-BASED PLAN



STEP 1 - ADDRESS CURRENT PROBLEMS

- “Truth in Message Labeling” national policy articulated
 - Addresses issue of phantom traffic
- Clarify ESP Exemption to be dial-up only (i.e., not terminating)
 - Consistent with goals of original ESP Exemption
 - Avoids large-scale VoIP bypass of charges for use of PSTN
- Default termination tariffs adopted
 - Eliminate CMRS bypass of reciprocal compensation obligations

STEP 2 - UNIFY INTERCARRIER COMPENSATION RATES

- Reduce intrastate switched, special access and reciprocal compensation to current interstate levels and structure
 - Does not require development of new cost standard

- Introduce Access Restructure Charge (ARC) to replace lost rural LEC revenue
 - Preserves intercarrier revenue contribution to cost recovery and universal service goals
 - “Benchmark” assures equity among states
 - Collected based on assessment on working telephone numbers

STEP 2 - UNIFY INTERCARRIER COMPENSATION RATES

- Benchmark rate of \$21.07 for ARC computation
 - Benchmark components:
 - \$14.57 Nationwide average urban rate
 - \$6.50 RES/SLB SLC Cap
 - If company's rates are less than Benchmark:
 - Basic rate increase, or
 - Optional Variable Federal SLC (OVFS) charge
- Separations changes are not required
 - Frozen cost allocations remain in place
 - Uni-jurisdictional revenues allocated based on cost ratio

STEP 3 – Introduce Capacity-Based Structure for Dedicated Transport

- ❑ Two years following convergence of intercarrier mechanisms
- ❑ Migrate dedicated transport to Ports and Links structure consistent with cost drivers of a packet-switched network
- ❑ Common transport remains on minutes-of-use basis
- ❑ Carrier may migrate common transport to Port and Link structure based on market and technology drivers
- ❑ ARC maintains intercarrier revenue contribution

ADVANTAGES OF EPG PLAN

- ❑ Maintains balanced revenue flows among end user, intercarrier compensation and USF
- ❑ Promotes broadband deployment for rural consumers
- ❑ Requires no separations or legislative changes
- ❑ Requires no development of new costing methodologies
- ❑ Requires no increase in SLC caps
- ❑ Minimizes impact on current USF mechanisms
- ❑ Seeks appropriate balance between state and federal regulation
- ❑ Can be applied to all providers of access

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