

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Missoula Plan Workshop
Commission Docket M-00061972**

The Missoula Plan - Intercarrier Compensation Reform

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NARUC Task Force on Intercarrier Compensation

- **April 2003 – NARUC forms Task Force on Intercarrier Compensation – draws widespread participation from all industry segments**
- **NARUC Task Force conducts twelve workshops between July 2004 and January 2006**
- **4th quarter 2005 – NARUC Task Force asks for industry-driven plan**
- **March 2006 – Industry sub-group delivers *Missoula Plan* to NARUC Task Force**
- **April 21, 2006 – Industry participants “vote” on whether to support Missoula Plan**
- **Plan supporters develop additional Plan details and conduct outreach to broaden support**
- **Details of comprehensive Missoula Plan submitted to NARUC Task Force**
- **July 24, 2006 – NARUC files Missoula Plan with FCC**
- **July 25, 2006 – FCC seeks comment on Missoula Intercarrier Compensation Reform Plan**

Missoula Plan Supporters

Epic Touch

Global Crossing

Level 3 Communications

Iowa Telecom

The Rural Alliance (325+ rural telephone companies)

AT&T

Madison River Communications

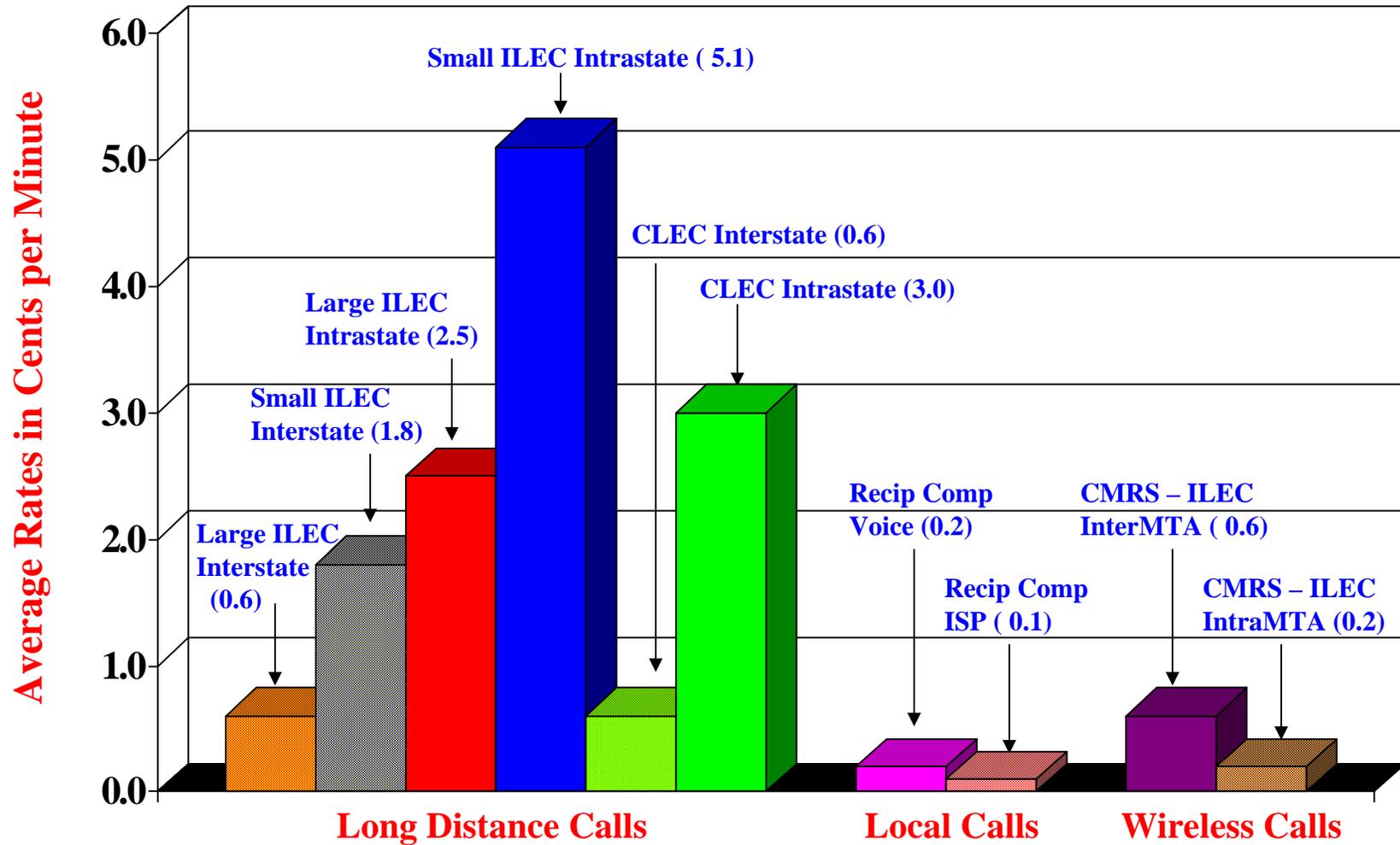
Consolidated Communications

BellSouth

Commonwealth Telephone Co.

Cingular Wireless

Current Intercarrier Compensation System is Broken



High (¢/min):	1.5	8.9	9.9	34.9	6.8	35.9	0.3	0.1	8.9	0.3
Low (¢/min):	0.5	0.3	0.4	0.7	0.2	0.4	0.0	0.0	0.2	0.0

Missoula Plan Overview

- **Six year plan unifies intercarrier charges for majority of nation's lines and moves *all intercarrier rates for all traffic* closer together**
- **Some parts of the Plan are discretionary for States, all others are mandatory**
- **Tailors reform based on three categories of carrier, or *Tracks***
- **Provides alternative sources for recovery through federal SLC increases and a new Restructure Mechanism**
- **Establishes uniform default interconnection rules**
- **Addresses phantom traffic and other intractable industry disputes such as VoIP-to-PSTN compensation, Virtual FX and IntraMTA wireless compensation**
- **Requires NPRMs at Steps 4 and 6 to determine whether additional reform is appropriate**
- **Provides additional funding to: insulate Lifeline customers from SLC increases; establish an Early Adopter Fund; and increase certain high cost funding**
- **Creates an incentive regulation option for qualifying rate of return ILECs**

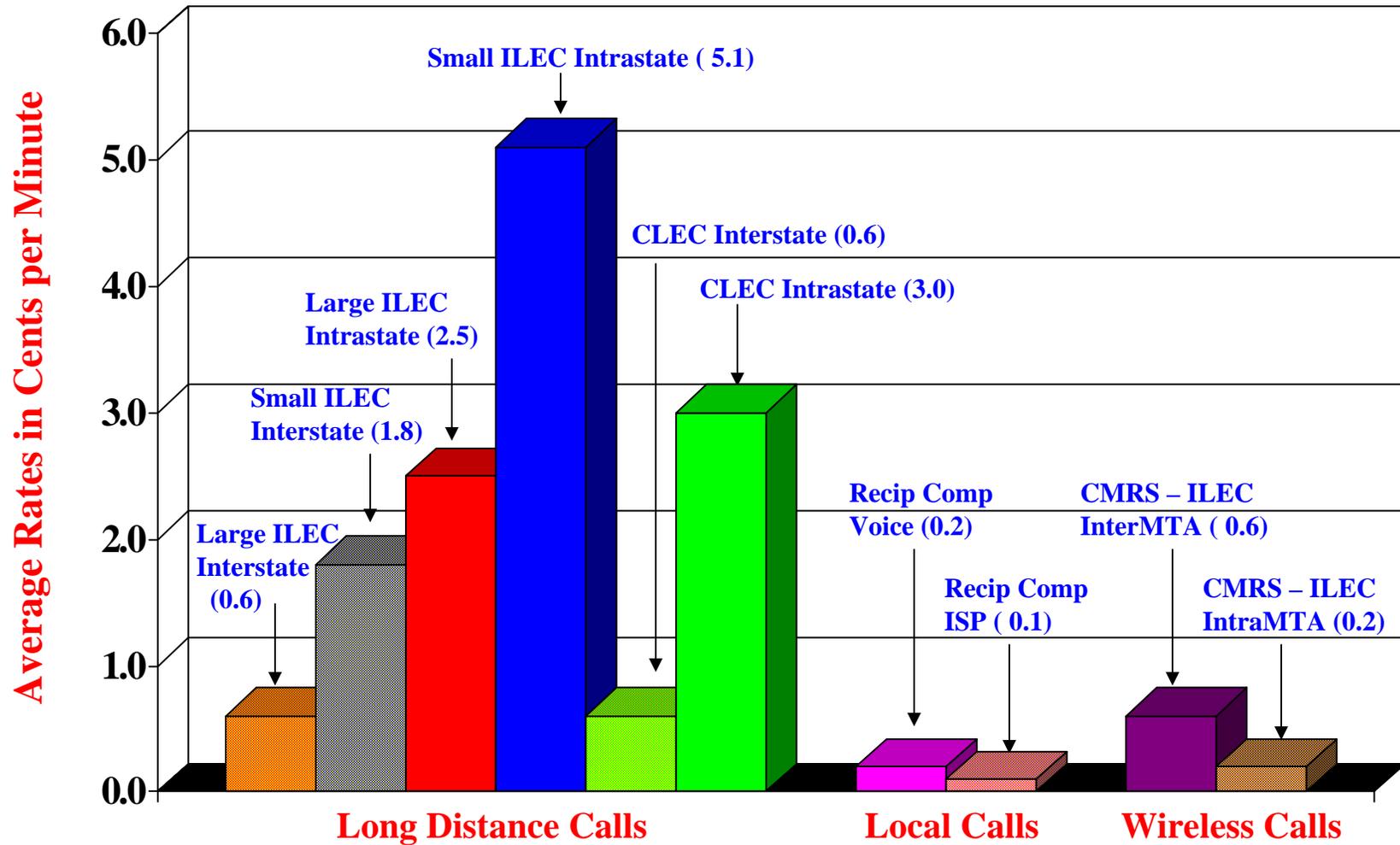
Carrier Categories

- **Missoula Plan creates three carrier categories, or *Tracks* – reform tailored for each Track**
- **Track 1 carrier category**
 - RBOC ILECs, all non-CRTC ILECs and all non-ILEC carriers, e.g., CMRS, CLEC and IXC carriers
 - Comprises 92 ILEC study areas with approximately 146.2M ILEC lines
- **Track 2 carrier category**
 - Most mid-size ILECs
 - Comprises 158 ILEC study areas with approximately 12.5M ILEC lines
- **Track 3 carrier category**
 - Smallest ROR ILECs
 - Comprises 1,185 study areas with approximately 7.3M ILEC lines
- **Carriers must meet the following definition of a Covered Rural Telephone Company (CRTC) to be treated as a Track 2 or 3 carrier**
 - Carrier must be an ILEC in a particular study area as of August 1, 2006, meet the definition of rural in the Act, not be owned by a BOC or its affiliate and serve less than 1M lines; or
 - Carrier must be an ILEC and qualify as a 2% carrier under the criteria contained in section 251(f)(2) in all study areas it holds as of August 1, 2006 and
 - ✓ must have a holding company average of less than 19 lines per square mile; or
 - ✓ must be non-rural, interstate ROR and select incentive regulation by December 31, 2006.

Intercarrier Compensation Transition

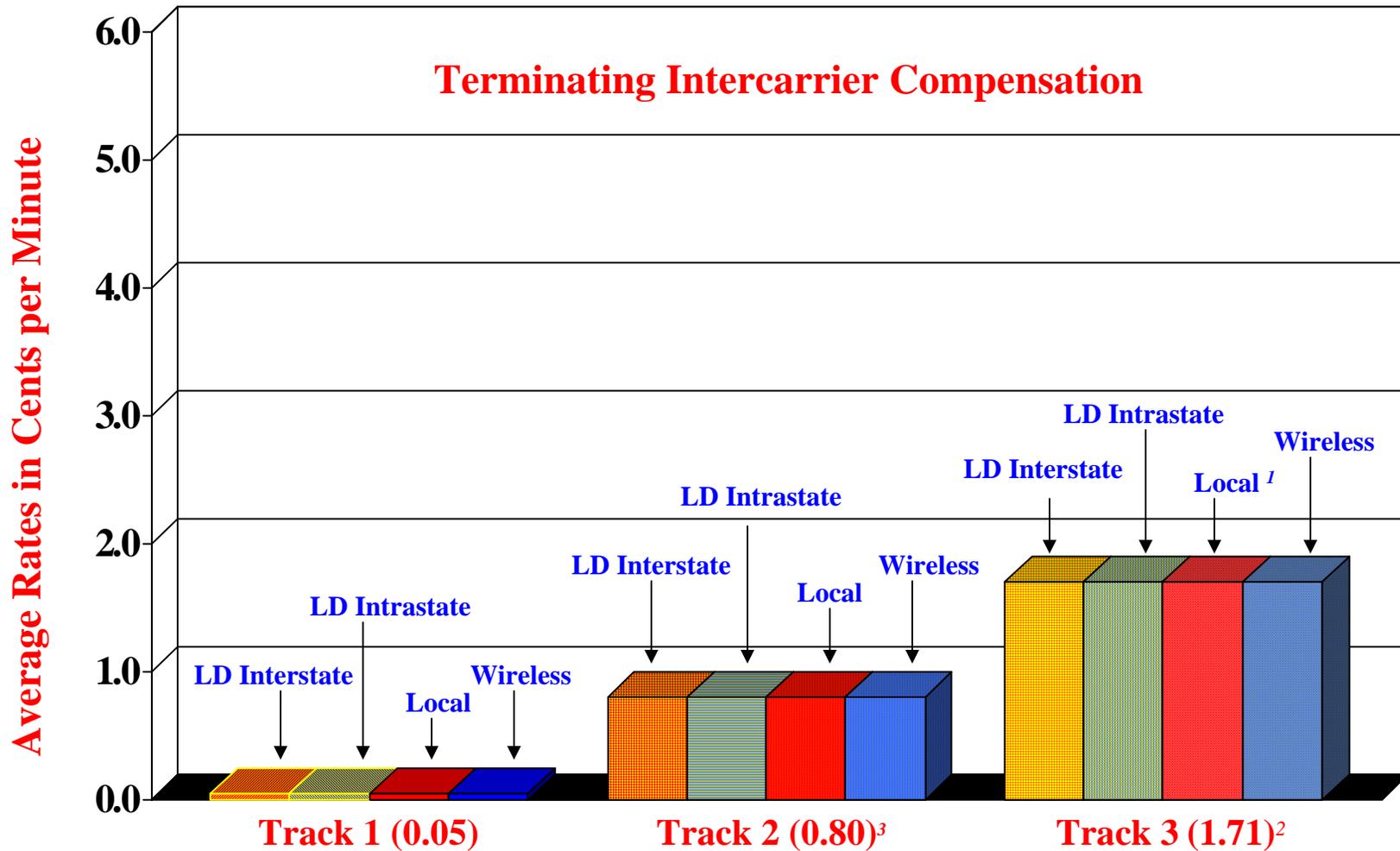
	Termination Charges		Origination Charges
	Reciprocal Compensation	Terminating Access	Originating Access
Track 1	<p>Step 3: <i>Termination</i> charges for all traffic unify at \$0.0007. <i>Transport</i> charges for dedicated transport unify at interstate direct trunk transport rate levels.</p> <p>Step 4: <i>Termination</i> charge decreases to \$0.0005.</p>		<p>Step 4: Charges unify as follows:</p> <ul style="list-style-type: none"> ➤ \$0.002 for end office switching; ➤ \$0.0025 for tandem switched transport; ➤ Interstate direct trunk transport rate levels for dedicated transport. <p><i>Or, carriers may eliminate originating access.</i></p>
Track 2	<p>Step 3: <i>Termination</i> charges for all traffic unify at \$0.0005. <i>Transport</i> charges for tandem switched transport unify at:</p> <ul style="list-style-type: none"> ➤ \$0.0105 for ROR study areas; ➤ \$0.0075 or \$0.0097 (when originating is eliminated) for price cap or incentive regulation study areas; ➤ Interstate direct trunk transport rate levels for dedicated transport. 		<p>Step 4: Charges unify as follows:</p> <ul style="list-style-type: none"> ➤ \$0.002 for end office switching and \$0.0105 for tandem switched transport in ROR study areas; ➤ \$0.002 for end office switching and \$0.0075 for tandem switched transport in price cap or incentive regulation study areas; ➤ Interstate direct trunk transport rate levels for dedicated switched transport. <p><i>Or, carriers may eliminate originating access.</i></p>
Track 3	<p>Step 1: <i>Transport</i> and <i>Termination</i> rates capped at interstate access levels. Existing EAS arrangements with other ILECs continue unchanged.</p>	<p>Step 4: Intrastate access charges unify at interstate access rate levels.</p>	<p>Step 4: Intrastate access charges unify at interstate access rate levels.</p>

Missoula Plan Replaces the Broken System



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Missoula Plan Intercarrier Compensation Solution



1. Compensation for EAS traffic remains under existing arrangements.
2. Reciprocal compensation rates for 251(b)(5) traffic capped at interstate access rate levels. Access traffic capped at interstate access rate levels.
3. Assumes end office switching rate of 0.05 (same as Track 1 rate) and 0.75 for common transport and tandem switching.

Alternative Sources of Revenue

- **As intercarrier compensation rates are reduced, carriers will have an opportunity to recover resulting lost revenues through SLC cap increases**
 - Track 1 SLC caps increase to \$10.00 over 4 steps
 - ✓ **Pricing constraint No. 1:** Average SLC rate may increase by no more than \$0.75 at Step 1, \$1.50 at Step 2, \$2.50 at Step 3 and \$3.50 at Step 4
 - ✓ **Pricing Constraint No. 2:** Individual residential and single-line business SLC rates may increase by no more than \$0.95 at Step 1, \$1.90 at Step 2, \$3.10 at Step 3 and \$4.30 at Step 4
 - ✓ Beginning at Step 5, the SLC cap rises with inflation each year
 - Track 2 residential & single line business SLC caps increase to \$8.75 over 3 steps – MLB increases to \$10.00 at Step 3
 - Track 3 residential & single line business SLC caps increase to \$8.75 over 3 steps
- **A new common line price cap basket structure and additional pricing flexibility will apply to all price cap carriers**
- **Restructure Mechanism provides for recovery of revenues, to the extent they aren't recovered through SLC cap increases**
 - The Plan supporters' current best estimate of the Restructure Mechanism at the end of the transition is approximately \$1.5B.

“Dialing In” Intercarrier Compensation Reform

	<u>Track 1</u>	<u>Track 2</u>	<u>Track 3</u>
Dial No. 1 --- Intercarrier Rates			
Origination	\$0.0045	\$0.0095	\$0.0171
Termination	\$0.0005	\$0.0080	\$0.0171
Dial No. 2 --- End User Rates			
Interstate SLC cap increases	\$3.50/Line/Month	\$2.25/Line/Month	\$2.25/Line/Month
Dial No. 3 --- Restructure Mechanism		\$1.500B	

Restructure Mechanism	\$1.500B	\$0.21
Early Adopter	\$0.200B	\$0.03
Universal Service Fund Adjustments	\$0.525B	\$0.06
Additional Lifeline	\$0.225B	
High Cost Fund Adjustments	\$0.300B	
Total ICR Support	\$2.225B	\$0.30
Total ICR Support recovered with a monthly (per connection unit) charge		

Interconnection Framework

- **The interconnection obligations and intercarrier compensation framework of the Missoula Plan operate on an *Edge* architecture**
 - An Edge is a location on a carrier's network where it receives traffic to perform the termination function.
 - To be designated an Edge, a location must satisfy the following requirements.
 - ✓ Physical interconnection must be available.
 - ✓ Direct and indirect interconnection must be available.
 - ✓ Terminates all types of traffic.
 - ✓ Number portability must be offered when requested, except where suspension has been obtained.
 - ✓ Meets the functional network definitions set forth in the Plan, e.g., end office, access tandem, MSC, trunking media gateway.
- **General interconnection obligation: *A carrier must permit other carriers with the financial obligation for interconnection to physically interconnect, directly or through a transit carrier, at its Edge***
- **The Plan specifies duties interconnecting carriers must satisfy to obtain interconnection**
- **The Plan establishes rules for procurement and provision of Tandem Transit Service**
 - Carrier with the financial obligation for transport chooses the transit carrier.
 - Indirectly interconnected carriers and the Tandem Transit Provider must exchange call detail records at no additional charge.

Intercarrier Compensation Framework

- **Each carrier has a financial obligation to *transport* its originating non-access traffic to the terminating carrier's Edge**
 - *Transport* is the transmission facilities a carrier requires to physically connect its network with the terminating carrier's edge.
 - Transport exceptions exist for out of balance traffic.
 - Interconnection between Track 1 carriers and CTRCs is governed by a specific transport framework.
- **Each carrier has a financial obligation for the *termination* of its traffic by the terminating carrier**
 - *Termination* is the acceptance of traffic by a terminating carrier at its Edge and the delivery of the traffic to the called party.
 - Termination charges cover any transport and end office switching a terminating carrier uses to deliver traffic from its Edge to the called party.
- **As a general rule, calling and called telephone numbers will be used to determine when traffic should be subject to switched access charges or reciprocal compensation charges**
 - Resolves wireless intraMTA intercarrier compensation disputes.
 - Resolves virtual FX and VoIP-to-PSTN intercarrier compensation disputes.
- **The Plan provides a mechanism governing how *all* carriers may obtain both interim and formal interconnection agreements – and companion reciprocal compensation arrangements – for the exchange of non-access traffic**

Comprehensive Solution for Phantom Traffic

- **Establishes call signaling rules that apply to all communications service providers and traffic identification obligations to help expeditiously resolve disputes**
 - With certain exceptions, every originating communications service provider must transmit telephone number of the calling party to intermediate and terminating carriers.
 - With certain exceptions, every intermediate communications service provider must transmit without alteration the telephone number information it receives from another provider.
 - When a provider's switch is equipped with SS7, it shall utilize SS7 when interconnecting directly with another provider's switch that is equipped with SS7.
- **Proposes an *industry-driven* uniform framework for the generation and exchange of call detail records**
- **Recommends an interim order, pending adoption of comprehensive intercarrier compensation reform, that will:**
 - Implement the call signaling rules.
 - Establish an interim process and, in certain circumstances, charges for the creation and exchange of call detail information.

Other Features of the Missoula Plan

- **Creates a federal Early Adopter Fund for States that have rebalanced intrastate access through explicit state funds**
 - Minimum of \$200M provided for the Early Adopter Fund.
 - Missoula Plan supporters commit resources to work with State Commissioners to help size this Fund and determine how it should work when States have rebalanced intrastate access through state funds or local rate increases.
- **Provides additional universal service support**
 - Provides approximately \$300M for several rural and non-rural high cost loop fund modifications.
 - Provides approximately \$225M in additional Lifeline support to insulate low income consumers from SLC increases.
- **ROR CRTC's will have an annual option to move to an incentive regulation program on a study area-by-study area basis**
 - Study areas for which incentive regulation is chosen will be treated as Track 2.
 - Existing ROR rules for switched services will be replaced by rules that regulate prices.
 - Interstate special access prices will be reinitialized to 11.25% ROR and subject to a price cap plan.

Voluntary vs. Mandatory

- **The Plan's supporters hope and expect the Missoula Plan will be implemented nationwide**
- **States will have discretion to decide whether to participate in certain aspects of the Plan**
 - **Reform for Tracks 1 and 2:** State implementation will be voluntary at Step 1 for *intrastate originating switched access*. The Plan will include incentives designed to encourage State implementation, e.g., SLC caps will increase even in States that do not adopt the Plan.
 - **Reform for Track 3:** State adoption of the Plan's Track 3 rate levels for *originating and terminating intrastate switched access* will be voluntary. The Plan will include incentives starting at Step 1 to encourage State participation.
- **In all other respects, the Plan's terms and the rules the FCC adopts to implement those terms, will be mandatory – the mandatory provisions of the Plan will include, for example:**
 - Transitioning all terminating rates for Track 1 and 2 carriers, including terminating intrastate switched access, to reciprocal compensation.
 - Implementation of call signaling rules, process to exchange call detail records, negotiation of formal interconnection agreements, Tandem Transit Service, the interconnection framework and the use of telephone numbers to determine the whether switched access or reciprocal compensation charges apply will be mandatory.
 - Establishment of the Restructure Mechanism, the Early Adopter Fund and an incentive regulation option.

Ubiquitous Broadband Essential to Strong U.S. Economy



“Girls, when I was growing up, my parents used to say to me, ‘Tom, finish your dinner — people in China and India are starving.’ My advice to you is: Girls, finish your homework — people in China and India are starving for your jobs.”

The World is Flat by Thomas Friedman