



The Missoula Plan

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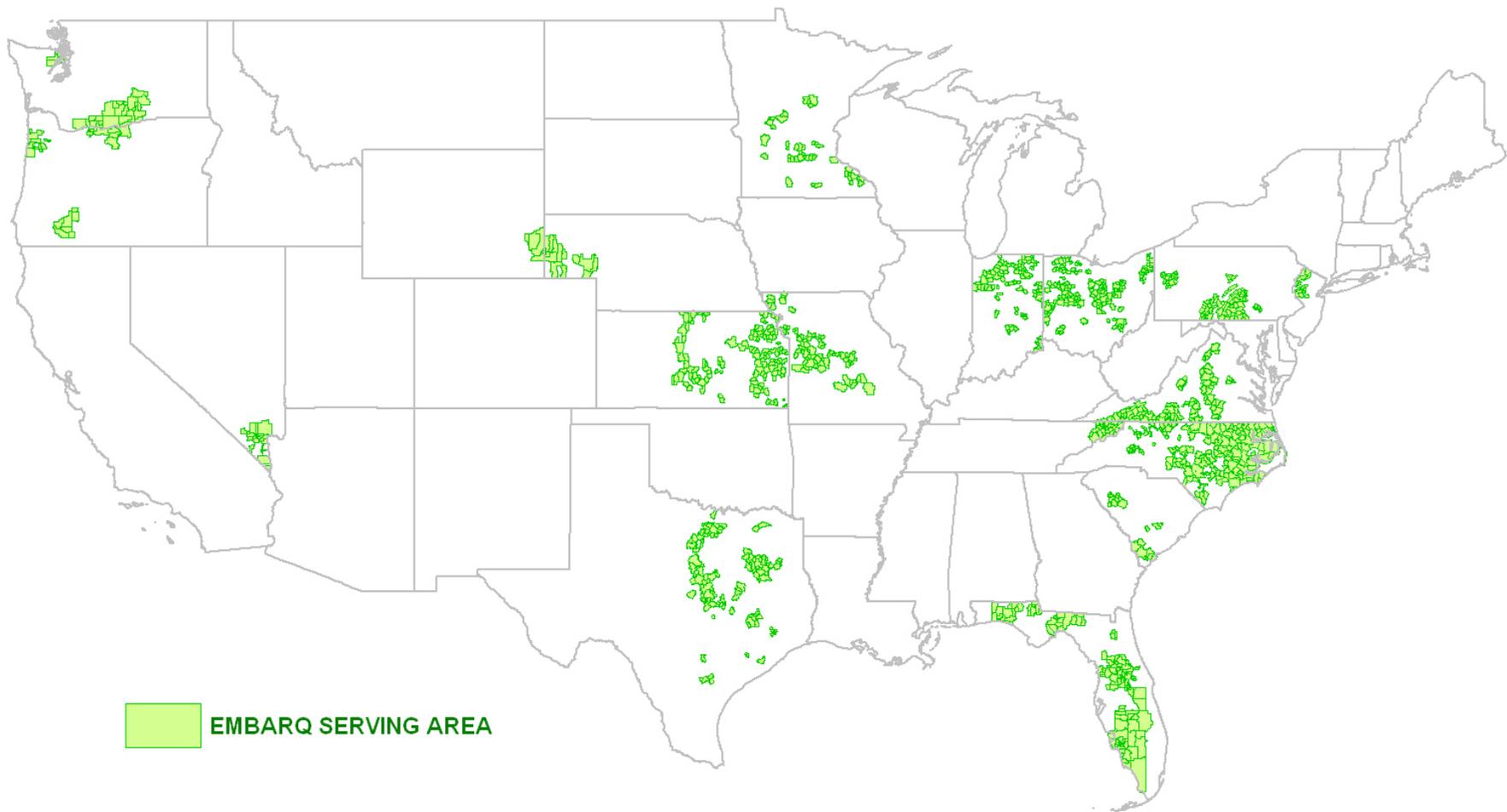
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Voice | Data | Internet | Wireless | Entertainment

Embarq Corporation Overview



- ▶ Over 7 million access lines in 18 states, serving 5% of U.S. households





Missoula Plan

...steps in the right direction

- ▶ Work of the NARUC Intercarrier Compensation Task Force is commendable.
 - Long, difficult process to balance myriad complex issues among a host of constituencies.
- ▶ Plan represents great progress “post-ICF.”
 - “Bill-and-keep” is no longer a viable concept.
- ▶ Plan attempts to unify rates for all traffic and eliminate the arbitrage incentives disrupting the industry as a result of current rate disparities.
- ▶ Plan includes clearer rules regarding network architecture and interconnection, particularly regarding Track 2 and 3 carriers.

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...steps in the right direction (cont'd)

- ▶ Plan creates a “restructure mechanism” to provide revenue recovery opportunities for foregone intercarrier compensation revenues.
- ▶ Plan attempts to recognize distinctions among carriers and creates different carrier classes.
 - Concept of multiple tracks
 - Reduced SLC increases
 - Higher residual intercarrier compensation
 - Covered Rural Telephone Company (“CRTC”) Transport Rule whereby CRTC’s transport obligations are reduced
- ▶ Plan incorporates interconnected VoIP traffic into the intercarrier compensation regime.
- ▶ Plan attempts to resolve the issue of Phantom Traffic.

Missoula Plan



... areas of opportunity:

- ▶ Plan contains arbitrary distinctions harmful to EMBARQ and its customers.
 - Although rural under the federal TCOM Act, the Plan treats EMBARQ's Florida and North Carolina (CT&T) properties like RBOCs.
 - Although large study areas, these companies meet the definition of "rural" and display characteristics dissimilar to RBOCs.
 - e.g., population density, loop lengths, % of business customers tend to differ from the RBOCs.
 - EMBARQ's rural customers could face higher SLC rates than the customers of neighboring rural ILECs.
 - These companies should be slotted into "Track 2" under the plan.
- ▶ Plan could be greatly simplified by removing Track 2.
 - For example, the RBOCs and all CLEC/CMRS carriers could be placed in Track 1 and all other ILECs could be placed in a separate track. This would place 88% of all ILEC access lines in Track 1 and the remaining 12% of ILEC access lines in Track 2.
- ▶ Although EMBARQ is still evaluating the plan, it appears that the plan may rely too heavily on end-user SLC increases and may not leave a sufficient level of intercarrier compensation in the system.
- ▶ Plan lacks clarity regarding restructure mechanism portability.

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...areas of opportunity (cont'd)

- ▶ Plan will compensate carriers who terminate ISP-bound traffic above current market rates in many cases, creating a windfall for some CLECs.
 - Many ISP-bound minutes are already under contract at a rate of \$0.0004.
 - EMBARQ supports Bill and Keep for ISP-bound traffic and any out of balance traffic.
 - EMBARQ originates more minutes to CLECs annually - mainly driven by arbitrage ISP-bound traffic - than its combined intra- and inter-state access minutes.
- ▶ Plan moves to a telephone numbers based methodology as opposed to basing compensation on physical endpoints:
 - Allows wireless traffic to be deemed local as long as NPA-NXXs are rated within MTA. Results in elimination of interMTA access revenue for ILECs.
 - Allows VNXX traffic to be deemed local.
- ▶ Plan maintains the parent-trap (§54.305 of the FCC's regulations) rule.
- ▶ Proposed Early Adopter Fund lacks clarity.