

The Missoula Plan Work Shop

Presentation

The Office of the Consumer Advocate

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The Missoula Plan creates new subsidies:

- Non-Traffic sensitive rates, Subscriber Line Charges are increased substantially and Traffic sensitive rates, per-minute switching rates are decreased substantially.
- Track One and Track Two rates are less than the incremental cost of service

The Missoula Plan increases the Universal Service Fund by \$2.25 billion or maybe more

- The \$2.25 billion increase represents a 32 percent increase in the federal universal service fund
- This increase includes a Restructure Mechanism of \$1.3-\$1.5 billion and an Early Adopter Fund of \$200 million
- Pennsylvania consumers and carriers will be required to increase their payments to the federal universal service fund by 32 percent
- Pennsylvania is responsible for 4.2 percent of the fund on a revenue basis or on a numbers basis.

The Missoula Plan protects the current ILEC revenues

- The Access Shift Per-Line reflects base period demand and is never reduced to reflect market trends
- For Track One and Two Carriers, the Access Shift Per-Line does not include additional net revenue associated with the reduction of reciprocal compensation rates
- Recovery of the Access Shift Per-Line is paid for by end-users and other telecommunications carriers

The SLC Cap increases allow Carriers to

- Charge excessively high and ever increasing SLCs
- If Verizon collects \$10 plus inflation from a significant portion of its customers, it may be able to over-collect its allowed revenue
- Shift the cost of the Plan on to Residential Customers and away from Business Customers
- Shift the cost of the Plan on to rural customers and away from urban customers

- The Residential SLC is ever increasing because it is tied to inflation
- The Multi-line Business SLC can be held constant and the Residential SLC can be increased to recover the entire allowed revenue increases
- Urban SLCs can increase slower than rural SLCs and beginning in Step 5, the difference between the rural and urban SLC can become very large.

Verizon Pennsylvania Residential SLC Caps			
Steps	National Cap	Individual Rates	Average Rates
1	\$7.25	\$6.85	\$6.65
2	\$8.00	\$7.80	\$7.40
3	\$9.00	\$9.00	\$8.40
4	\$10.00	\$10.20	\$9.40
5	increases with inflation	no longer binding	no longer binding
Verizon North Residential SLC Caps			
Steps	National Cap	Individual Rates	Average Rates
1	\$7.25	\$7.45	\$7.25
2	\$8.00	\$8.40	\$8.00
3	\$9.00	\$9.60	\$9.00
4	\$10.00	\$10.80	\$10.00
5	increases with inflation	no longer binding	no longer binding

## Mandatory and Voluntary Changes

- Mandates Track One and Two intra-state terminating rates
- Each state retains authority to establish its Track One and Two originating rates
- Each state retains authority to establish its Track Three Originating and Terminating rates

If the Commission opts out of the Plan

- SLC Caps for Track One and Track Two carriers still increase
- SLC Caps for Track Three Carriers will not increase

## If the Commission opts out of the Plan

- Carriers cannot obtain funds through the Restructure Mechanism
- The State cannot receive funds from the Early Adopter Fund

The Plan's Sponsors have not disclosed any of their back-up data or spreadsheets.

- Impact on individual carriers is not known
- Impact on individual states is not known
- The estimated impact of the adjustment to the high cost fund has been under-estimated by \$50 million.

## The Early Adopter Fund

- Provides support to states that have explicit universal service funds
- Pennsylvania could receive \$33m, the current Pennsylvania Universal Service Fund
- If federal funding becomes excessive, the FCC may reduce support for state funds
- The Plan allocates only \$200 million for this Fund

## Will Any Consumer Benefit from the Plan?

- There is no requirement for any carrier to flow through the access savings to end-users.
- All consumers will have rate and universal service contributions increased.
- The Welfare analysis presented by the Plan is dependent on 100% flow through and on calling plans that are no longer purchased.