CenturyTel personal touch advanced communications

There's Nothing Wrong with the Missoula Plan….

that Can't be Corrected With Some Modifications

Washington Utilities and Transportation Commission

Intercarrier Compensation Workshop

October 3, 2006

Overall Assessment

- The Missoula Plan has some strong components and provides a good framework for reform
- However it needs some work—it is unrealistic to assume that just because 7 or 8 companies like what they did and agreed to sign on, that it cannot be improved or modified in any way
- Most modifications should focus on Track 2
- Goal should be to support the strengths and recommend modifications that will achieve meaningful ICC reform

Missoula Plan Positives

- Good conceptual groundwork
- Acknowledges the need for a phantom traffic solution
- Attempts to reward states that have already done some rate rebalancing
- Rural transport rule is a good network architecture for non-BOCs
- Attempts to resolve arbitrage
- Recognizes the need for access replacement mechanisms
- Incentive regulation component

Why CenturyTel Did Not Sign On…

- Overall rate/revenue structure lacks adequate balance
  - *Artificially low carrier rates shift too much reform to consumers in the form of RM and SLCs*
- Arbitrary Track assignments are more about reducing settlements than reforming present system
- Majority of total reform takes place in Track 2;
- Increased dependency on an increasingly uncertain USF model
- Increased complexity instead of less
- Rapid transitions with High Risk outcomes
  - *No time to assess impacts to consumers or companies*
- Still looking for the consumer benefits
  - *Potential urban vs. rural issues (more scrutiny needed)*

The Path to Reform

- Local rate affordability / minimize consumer impact
- Viability and sustainability of universal service by finalizing contribution methodology
- A simpler, more balanced rate structure
- Clarity regarding roles between state and federal regulators
- Reasonable transition with check points to monitor for unintended consequences
- Investment/improvements incentives in rural infrastructure
- A transition instead of a flash cut

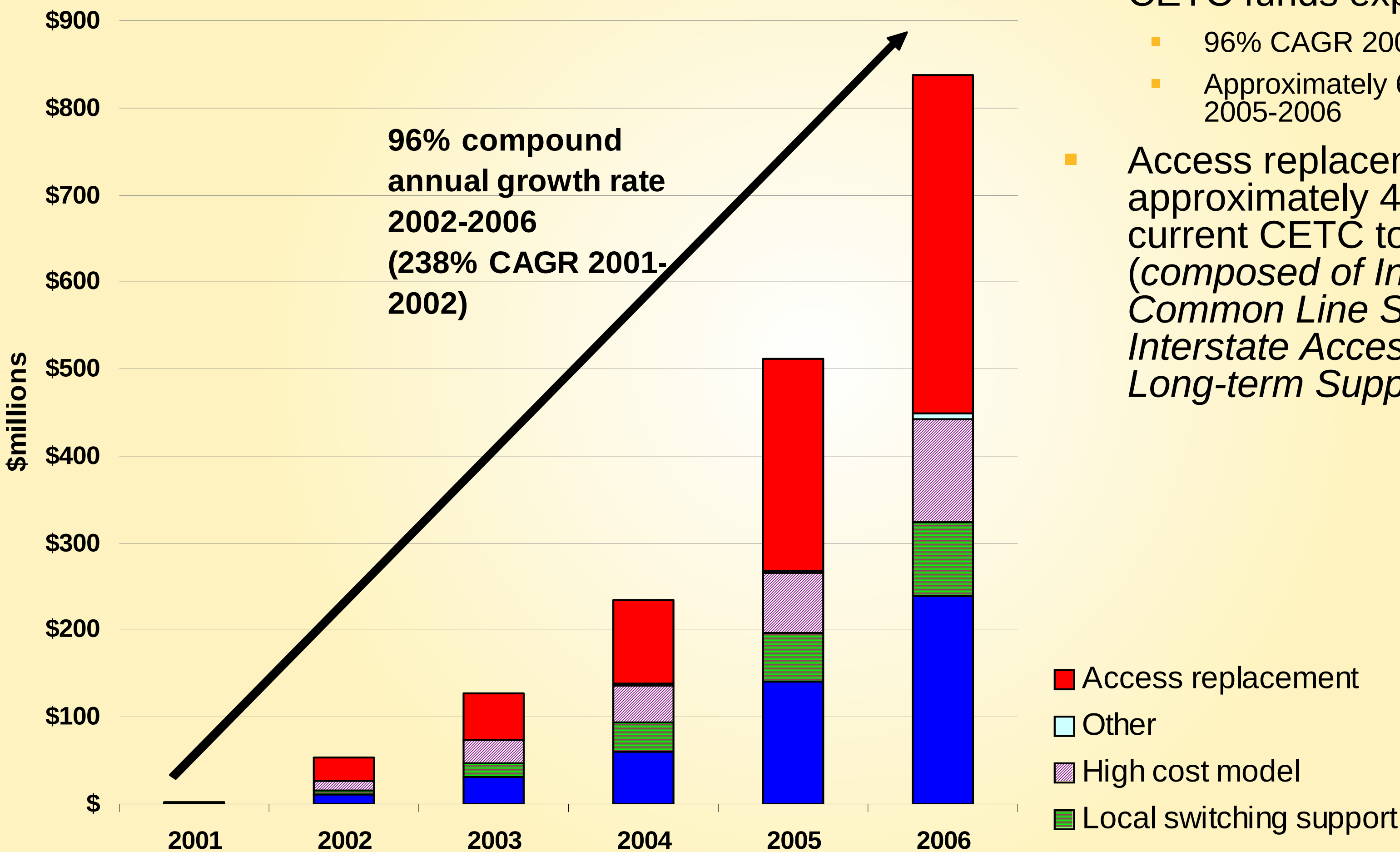
An Incremental Approach

- Establish a 5-year plan for stability
- Resolve Phantom Traffic first
- Targeted reduction across the board in terminating rates;
- CRTCs would bring interstate and intrastate terminating access and recip comp rates into parity with a single target terminating rate for all CRTCs, achieved over the course of 3 years
- Any rates currently below the target rate by agreement between carriers would remain in place for the duration of existing contracts
- So-called reciprocal compensation for ISP-bound traffic would be excepted
- At the end of 3-5 years, the impact of this shift would be reevaluated
- Combine Tracks 2 and 3

More Scrutiny Needed Here….

- Phantom Traffic Should be Resolved First
  - It is a huge disserve to residential customers to willfully increase their SLC rates without first enabling companies to collect for existing billable minutes by addressing phantom traffic on the front end of the process.
- Tracks
  - For simplicity, combine Tracks 2 and 3. Present distinction is arbitrary and punitive
  - There is no difference between the ROR lines in Track 3 and those forced into Track 2
  - The lack of companies that will sign on to Track 2 is telling
- Rate Structure
  - In order to maintain local rate affordability and preserve universal service, it may be necessary for the FCC to consider higher intercarrier compensation rates for Tracks 1 and 2 than those proposed in the Missoula Plan. Such action will become necessary if the universal service fund is capped or reduced
- Restructure Mechanism: Good Concept—Difficult to Sustain
  - Policy makers are focused today on reducing the overall size of the universal service fund
  - Any RM should not be part of universal service but instead fall under Sec 201 (access)
  - Under no circumstances should the RM be portable

CETC Annual Funding by Fund Element



Source: Universal Service Administrative Company Quarterly appendices HC01 (only eligible and ETC-approved funding); Balhoff & Rowe, LLC.

- CETC funds exploding
  - 96% CAGR 2002-2006
  - Approximately 61% growth 2005-2006
- Access replacement is approximately 46% of current CETC total (*composed of Interstate Common Line Support, Interstate Access and Long-term Support*)