

The Missoula Plan Work Shop
Presentation

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Bob Loube
Rhoads & Sinon Group, LLC
bobloube@earthlink.net

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
- Numbers vs. Revenue Contribution Mechanism

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
- 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 Wa 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

This slide contained information that may be confidential.

Qwest Wa Residential SLC Caps			
Steps	National Cap	Individual Rates	Average Rates
1	\$7.25	\$6.80	\$6.60
2	\$8.00	\$7.75	\$7.35
3	\$9.00	\$8.95	\$8.35
4	\$10.00	\$10.15	\$9.35
5	increases with inflation	no longer binding	no longer binding

Table 2	Qwest Wa SLC Changes and Access Shift Revenue					
	multiline business	preferred residential	residual residential	total	allowed revenue increases	Restructure Mechansim
number of lines	500,000	750,000	750,000	2,000,000		
Step 1 SLCs	\$6.23	\$6.40	\$6.80			
Step 1 acces shift revenue	\$2,280,000	\$4,950,000	\$8,550,000	\$15,780,000	\$15,780,000	-
Step 2 SLCs	\$6.61	\$6.95	\$7.75			
Step 2 access shift revenue	\$4,560,000	\$9,900,000	\$17,100,000	\$31,560,000	\$31,560,000	\$0
Step 3 SLCs	\$6.61	\$7.50	\$8.95			
Step 3 access shift revenue	\$4,560,000	\$14,880,000	\$27,900,000	\$47,340,000	\$47,340,000	\$0
Step 4 SLCs	\$6.61	\$8.21	\$10.00			
Step 4 access shift revenue	\$4,560,000	\$21,210,000	\$37,350,000	\$63,120,000	\$63,120,000	-
Step 5 SLCs	\$6.61	\$7.91	\$10.30			
Step 5 access shift revenue	\$4,560,000	\$18,510,000	\$40,050,000	\$63,120,000	\$63,120,000	\$0
Percent of Lines	25%	38%	38%			
Percent of Access Shift Revenue	7%	29%	63%			
SLC increase	\$0.76	\$2.06	\$4.45			

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
- If federal funding becomes excessive, the FCC may reduce support for state funds
- The Plan allocates only \$200 million for this Fund
- Will States that have rebalanced local rates to replace access decreases be able to recover revenue from the Early Adopter Fund?

Study Area		Missoula Plan High Cost Support	Current High Cost Support	Increase
M&L ENT. dba SKYLINE	WA	47,632	42,989	4,643
UTC OF THE NW-WA	WA	-	-	-
ASOTIN TEL - WA	WA	127,067	84,948	42,119
CENTURYTEL-WASHINGTO	WA	15,668,363	10,414,943	5,253,420
CENTURYTEL-COWICHE	WA	87,552	32,409	55,144
ELLENSBURG TEL CO	WA	1,259,087	677,233	581,854
HAT ISLAND TEL CO	WA	12,778	9,541	3,237
PEND OREILLE TEL.	WA	670,535	602,298	68,236
HOOD CANAL TEL CO	WA	202,403	153,621	48,782
INLAND TEL CO -WA	WA	833,273	738,651	94,622
KALAMA TEL CO	WA	543,894	436,063	107,831
LEWIS RIVER TEL CO	WA	54,065	-	54,065
MASHELL TELECOM INC	WA	845,950	718,698	127,253
PIONEER TEL CO	WA	448,647	419,776	28,870
ST JOHN TEL CO	WA	84,805	63,717	21,089
TENINO TELEPHONE CO	WA	859,673	738,175	121,498
TOLEDO TELEPHONE CO	WA	1,572,837	1,495,217	77,620
WESTERN WAHAKIACUM	WA	1,195,115	1,154,702	40,412
WHIDBEY TEL CO.	WA	1,568,009	1,132,139	435,869
YCOM NETWORKS, INC.	WA	1,467,783	1,052,087	415,696
MCDANIEL TEL CO	WA	255,200	134,538	120,662
Total	WA	27,804,668	20,101,745	7,702,923

Other Issues

- Average All Inter-Carrier Compensation Revenue on a Per-Minute Basis to determine the new inter-carrier rate
- Use E911 information to resolve VNXX and Phantom Traffic Issues

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.