July 18, 2006

Dear Chairman Baum:

We are pleased to transmit today the Missoula Plan, a comprehensive proposal for reforming intercarrier compensation rules. We have included, in addition to the Plan itself:

- A list of the supporters of the Plan;
- An executive summary that provides a concise synopsis of the Plan's major provisions and a quantification of the proposed Restructure Mechanism;
- A policy and legal overview that explains the consumer benefits of the Plan and the legal basis for implementing it; and
- A set of illustrative customer impact charts and a consumer-welfare analysis by AT&T economists.

We would like to thank you and all those who have served on the NARUC Task Force for Intercarrier Compensation, including Commissioners Burke, Jones, Landis, Murray, and Stamp. Over the past two years, the Task Force has demonstrated great leadership, perseverance, patience, passion, and commitment. Without your focus and discipline, we would not have reached this historic moment.

Today, with the transmission of this Plan, carriers throughout the industry have come together, despite their exceptionally diverse positions and interests, to propose a workable means of managing the transition from the old narrowband world to a new world of widely available broadband connectivity. The winners will be consumers and the American economy as a whole. We urge you to support the Plan and submit it for consideration to the Federal Communications Commission.

We thank you again for giving us this opportunity.

Sincerely yours,

The Missoula Plan Supporters

Attachments: List of Missoula Plan Supporters
Executive Summary of Missoula Plan
Legal and Policy Analysis of the Missoula Plan, including:
Consumer Impact Charts, prepared by AT&T
Consumer Welfare Analysis, prepared by AT&T
The Missoula Plan for Intercarrier Compensation Reform

The Missoula Plan Supporters:

AT&T Inc.
BellSouth Corp.
Cingular Wireless
Commonwealth Tel. Co.
Consolidated Comm.
Epic Touch
Global Crossing
Iowa Telecom.
Level 3 Comm.
Madison River Comm.
The Rural Alliance

The Rural Alliance has received input from rural telecommunications associations and advisors in its efforts on behalf of the rural incumbent telecommunications industry. The following rural telephone companies support the efforts of the Rural Alliance:

Agate Mutual Tel. Coop. Assoc.
Albany Mutual Tel. Assoc.
Alenco Comm.
Allendale Comm.
Alliance Comm. Coop., Inc.
Andrew Tel. Co.
ARK Comm.
Arkansas Tel. Co.
Arlington Tel. Co.
Armour Indep. Tel. Co.
Armstrong Tel. Co.
Arthur Mutual Tel. Co.
Atlas Tel. Co.
Ayersville Tel. Co.
Ayrshire Farmers Mutual Tel. Co.
Bascom Mutual Tel. Co.
Beehive Tel. Co.
BEK Comm. Coop.
Beresford Municipal Tel. Co.
Big Bend Tel. Co.
Blair Tel. Co.
Bloomingdale Tel. Co.
Blue Valley Tele-Comm.
BPS Tel. Co.
Brazos Tel. Coop., Inc.
Bretton Woods Tel. Co.
Bridgewater-Canistota Indep. Tel. Co.

Bristol Bay Tel. Coop.
Butler-Bremer Comm.
Calavaras Tel. Co.
Cambridge Tel. Co.
Cameron Comm.
Campti-Pleasant Hill Tel. Co.
Canadian Valley Tel. Co.
Canby Tel. Assoc.
Cap Rock Tel. Coop., Inc.
Carnegie Tel. Co.
Cascade Comm. Co.
Central Oklahoma Tel. Co.
Central Texas Tel. Coop., Inc.
Chazy Westport Tel.
Cherokee Tel. Co.
Cheyenne River Sioux Tribe Tel. Authority
Chickasaw Tel. Co.
Chippewa Tel. Co.
Cimarron Tel. Co.
Citizens Mutual Tel. Coop.
Citizens Tel. Corp. (Indiana)
Citizens Tel. Coop.
City of Brookings Utilities
City of Faith Tel. Co.
Clarks Telecom. Co.
Clay County Rural Tel. Coop., Inc
Coleman County Tel. Coop., Inc.
Colo Tel. Co.
Colorado Valley Tel. Coop., Inc.
Columbus Tel. Co.
Comanche County Tel. Co., Inc.
Community Tel. Co., Inc.
ComSouth Telecom.
Consolidated Comm.
Consolidated Tel. Co.
Consolidated Telco, Inc.
Consolidated Telecom, Inc.
Cooperative Tel. Co.
CopperValley Tel. Co.
Cordova Tel. Coop.
Council Grove Tel. Co.
Craigville Tel. Co.
Craw-Kan Tel. Coop.
Cross Tel. Co.

Crown Point Tel. Co.
Cumberland Tel. Co.
Cumby Tel. Coop., Inc.
Cunningham Tel. Co.
Curtis Tel. Co.
Dakota Central Telecom. Coop.
Danville Mutual Tel. Co.
Darien Tel. Co.
Daviess-Martin County Rural Tel.
Dell Tel. Coop., Inc.
Dickey Rural Tel. Co.
Diller Tel. Co.
Direct Comm. Rockland
Dixville Notch Tel. Co.
Dobson Tel. Co.
Doylestown Tel. Co.
Ducor Tel. Co.
Dumont Tel. Co.
Dunbarton Tel. Co.
East Buchanan Tel. Coop.
Eastern Nebraska Tel. Co.
Eastern Slope Rural Tel. Co.
Eastex Tel. Coop., Inc.
Egyptian Tel. Co.
Empire Tel. Corp.
Enhanced Telecom. Corp.
ENMR Tel. Coop., Inc.
Etex Tel. Coop., Inc.
F&B Comm.
FairPoint Comm., Inc.
Farmers Coop. Tel. Co.
Farmers Mutual Coop Tel. Co.
Farmers Mutual Tel. Co. (Bellingham, MN)
Farmers Mutual Tel. Co. (Nora Springs, IA)
Farmers Mutual Tel. Co. (Shellsburg, IA)
Farmers Tel. Co.
Federated Tel. Co.
Fenton Coop. Tel. Co.
Five Area Tel. Coop., Inc.
Flat Rock Tel. Coop
Franklin Tel. Co.
Ganado Tel. Co., Inc.
Genesco Tel. Co.
Georgetown Tel. Co.

Germantown Indep. Tel. Co.
Gervais Tel.
Glandorf Tel. Co.
Glenwood Tel. Co.
Golden Belt Tel. Assoc.
Golden West Telecom. Coop
Goldfield Tel. Co.
Gorham Tel. Co.
Granite State Tel. Co.
Great Plains Comm., Inc.
H&B Comm., Inc.
Hancock Rural Tel. Co.
Harrisonville Tel. Co.
Hartington Telecom. Co.
Haviland Tel. Co.
Heart of Iowa Comm. Coop.
Hershey Coop. Tel. Co.
Hiawatha Tel. Co.
Hinton Tel. Co.
Home Tel. Co.
Hospers Tel. Co.
Hubbard Coop Tel. Assoc.
Humboldt Tel. Co.
Huxley Comm. Coop.
Industry Tel. Co.
Interstate Comm.
Interstate Telecom. Coop.
James Valley Coop. Tel. Co.
JBN Tel. Co.
Jefferson Tel. Co.
K&M Tel. Co.
Kadoka Tel. Co.
KanOkla Tel. Assoc.
Kennebec Tel. Co.
Kingdom Tel. Co.
La Ward Tel. Exchange, Inc.
LaHarpe Tel. Co.
Lake Livingston Tel. Co.
Laurel Highland Tel. Co.
Leaf River Tel. Co.
Lennon Tel. Co.
Le-Ru Tel. Co.
Liberty Comm.
Ligonier Tel. Co.

Lincoln County Tel. System
Lipan Tel. Co., Inc.
Livingston Tel. Co.
Lone Rock Coop Tel. Co.
Lost Nation / Elwood Tel. Co.
Madison County Tel. Co.
Madison Tel.
Margaretville Tel. Co.
Mark Twain Rural Tel. Co.
Marne & Elk Horn Tel. Co.
Matanuska Tel. Assoc. Coop.
McClure Tel. Co.
McCook Coop. Tel. Co.
McNabb Tel. Co.
Mechanicsville Tel. Co.
Medicine Park Tel. Co.
Middle Point Home Tel. Co.
Middleburgh Tel. Co.
Mid-Plains Rural Tel. Coop., Inc.
Midstate Comm., Inc.
Midstate Tel. Co.
Midway Tel. Co.
Millry Tel. Co.
Minburn Telecom., Inc.
Minerva Valley Tel. Co., Inc.
Missouri Valley Comm., Inc.
Modern Coop Tel. Co.
Montrose Mutual Tel. Co.
Moultrie Indep. Tel. Co.
Moundridge Tel. Co., Inc.
Mt. Rushmore Tel. Co.
Mutual Tel. Co. (Iowa)
Mutual Tel. Co. (Kansas)
Nebraska Central Tel. Co.
Nemont Tel. Coop., Inc.
New Knoxville Tel. Co.
New Lisbon Tel. Co., Inc.
New Port Tel. Co.
Nortex Comm. - Tel. Operations
North Dakota Tel. Co.
North Penn Tel. Co.
North Pittsburgh Tel. Co.
Northeast Missouri Rural Tel. Co.
Northeast Nebraska Tel. Co.

North-Eastern Pennsylvania Tel. Co.
Northern Arkansas Tel. Co.
Northwest Comm. Coop.
Northwest Tel. Coop
Northwest Tel. Coop. Assoc.
Nushagak Electric & Tel. Coop.
Ogden Tel. Co.
Oklahoma Western Tel. Co.
Ontonagon County Tel. Co.
Oran Mutual Tel. Co.
Oregon-Idaho Utilities
Oregon Farmers Mutual Tel. Co.
Ottoville Mutual Tel. Co.
Palmer Mutual Tel. Co.
Panhandle Tel. Coop., Inc.
Panora Comm. Coop.
Park Region Mutual Tel. Co.
Partner Comm. Coop
Pattersonville Tel. Co.
Peetz Coop.
Peoples Tel. Coop., Inc.
Peoples Telecom.
Perry-Spencer Rural Tel. Coop., Inc.
Pierce Tel. Co.
Pine Drive Tel. Co.
Pine Tel. Co., Inc.
Pinnacle Comm.
Pioneer Comm.
Pioneer Tel. Assoc., Inc.
Pioneer Tel. Coop., Inc.
Plains Coop. Tel. Assoc.
Plains Co-Operative Assoc.
Poka Lambro Tel. Coop., Inc.
Polar Comm.
Ponderosa Tel. Co.
Pottawatomie Tel. Co.
Prairie Grove Tel. Co.
PrairieWave Community Tel., Inc.
Premier Tel. Co.
Preston Tel. Co.
Project Tel. Co.
Pulaski/White Rural Tel. Coop.
Rainbow Tel. Co-op
Randolph Tel. Co.

Range Tel. Coop.
RC Comm., Inc.
Red River Tel. Co.
Reservation Tel. Co.
Ringsted Tel. Co.
River Valley Telecom.
Riviera Tel. Co., Inc.
Roberts County Tel. Coop. Assoc.
Rochester Tel. Co., Inc. (Indiana)
Rock County Tel. Co.
RTC Comm.
Rural Tel. Service Co.
Rye Tel. Co.
S & A Tel. Co.
S & T Tel. Coop.
Salina-Spavinaw Tel. Co.
Sandwich Isles Comm., Inc.
Santa Rosa Tel. Coop., Inc.
Santel Comm. Coop.
Schaller Tel. Co.
Shidler Tel. Co.
Sioux Valley Tel. Co.
Siskiyou Tel. Co.
Skyline Tel. Co.
South Arkansas Tel. Co.
South Central Tel. Assoc. (Kansas)
South Central Tel. Assoc. (Oklahoma)
South Park Tel. Co.
South Plains Tel. Coop., Inc.
Southern Kansas Tel. Co.
Southern Montana Tel. Co.
Southwest Arkansas Tel. Co.
Southwest Oklahoma Tel. Co.
Spencer Municipal Utilities
SRT Tel. Co.
Stanton Tel. Co.
Star Tel. Co.
State Long Distance Tel. Co.
Stockholm-Strandburg Tel. Co.
Stratford Mutual Tel. Co.
Sully Tel. Assoc.
Surry Tel. Membership Corp.
Swayzee Tel. Co.
Swisher Tel. Co.

Sycamore Tel. Co.
Taylor Tel. Coop., Inc.
TDS Telecom
Tel. Service Co.
TelAlaska
Tenino Tel. Co.
Terral Tel. Co.
The Ft. Jennings Tel. Co.
Three River Telco
Titonka-Burt Comm.
Toledo Tel. Co., Inc.
Topsham Tel. Co.
Totah Comm., Inc.
Triangle Tel. Coop.
Tri-County Telecom, Inc.
Tularosa Basin Tel. Co.
Twin Valley Tel., Inc.
Union Tel. Co.
United Tel. Assoc.
Valley Telecom. Coop.
Valliant Tel. Co.
Van Buren Tel. Co., Inc.
Van Horne Tel. Co.
Venture Comm. Coop.
Vermont Tel. Co.
Vivian Tel. Co.
Volcano Tel. Co.
Waitsfield and Champlain Valley Telecom.
Wamego Telecom.
West Kentucky Rural Tel. Coop.
West River Coop. Tel. Co. (Bison, SD)
West River Telecom.
West River Telecom. Coop. (Hazen, ND)
West Texas Rural Tel. Coop., Inc.
Western New Mexico Tel. Co., Inc.
Western Tel. Co.
Wes-Tex Tel. Coop., Inc.
Westphalia Tel. Co.
Wheat State Tel.
Wiggins Tel. Assoc.
Wilson Tel. Co.
Winneabago Tel. Coop.
Woodstock Tel. Co.
XIT Rural Tel. Coop., Inc.

Yukon Tel. Co.
Zenda Tel. Co.

EXECUTIVE SUMMARY

This document summarizes a multi-year plan for intercarrier compensation reform. The Plan is the product of months of negotiation by companies from all segments of the industry. The Plan does not necessarily reflect the policy positions of any individual or company. Each of the working group participants compromised on certain issues in order to achieve this Plan and advance important public policy goals.

The Plan is a significant step forward in reforming yesterday's regulations — designed for the legacy narrowband world — to accommodate today's intermodal, competitive, and increasingly Internet-oriented communications environment. The main winners are consumers. In the short term, the Plan's deep reductions in intercarrier charges will generate reductions in many end-user rates. As a result, many consumers' overall bills will drop for a given level of usage. In the longer term, by reducing or eliminating regulatory disparities between intercarrier rate levels (*e.g.*, wireline vs. wireless, interstate vs. intrastate, and VoIP vs. circuit-switched telephony), the Plan will minimize arbitrage opportunities and competitive distortions, facilitate the provision of bundled all-you-can-eat services, and productively focus carriers' attention on competing to sell consumers better, less costly services rather than on exploiting or closing regulatory loopholes. And the Plan will help remove the artificial regulatory barriers to broadband deployment throughout America's myriad communities by increasing regulatory certainty, encouraging greater capital investment, and reducing administrative and litigation costs. These consumer benefits are discussed in more detail in the Policy and Legal Overview and in the AT&T-developed consumer impact charts attached to that Overview.

In concrete terms, the Plan unifies intercarrier charges for the majority of lines, and moves all intercarrier rates charged for all traffic closer together. It also moves the industry away from its historical reliance on intercarrier revenues by reducing the highest intercarrier compensation rates, yet recognizes the differences among carriers by ensuring that certain rural carriers will not be required to reduce their intrastate access charges below their current rate levels for interstate access charges, which those carriers view as cost-based. The Plan gives carriers an opportunity to recover lost intercarrier compensation revenues through supplemental sources of recovery. These sources include increased subscriber line charges ("SLCs") as well as a new Restructure Mechanism, which is designed specifically to replace switched carrier-to-carrier revenues lost by carriers participating in the Plan and not otherwise compensated for that loss through end-user charges.

To deliver the benefits of the Plan to all of the disparate service areas of the country, the Plan divides carrier lines into three categories, or "Tracks," based on the size and regulatory classification of a company and tailors the intercarrier compensation reform and the pace of such reform for each of the three Tracks. Roughly speaking, Track 1 includes the lines of all RBOCs and other non-rural carriers (*e.g.*, CLECs, IXCs and CMRS carriers) and covers 146.2 million ILEC loops; Track 2 includes the lines of most mid-sized rural carriers and covers 12.5 million ILEC loops; and Track 3 includes the lines of the smallest, rate-of-return-regulated rural carriers and covers 7.3 million ILEC loops. Ultimately, the Plan produces, for each of Tracks 1 and 2, a unified intercarrier compensation structure and unified rates. The intrastate switched access rates

for Track 3 carriers, which serve many of the more costly areas of the nation, are reduced to the levels of interstate switched access charges.

While the Plan is not the last word in intercarrier compensation reform, it is a major step forward that will provide essential relief to a fractured industry. Once the industry has put in place the various measures envisioned by the Plan, the Commission will use that as the starting place for assessing whether additional steps beyond those set forth in the Plan are necessary to complete reform. Specifically, the Commission will conduct a proceeding at Step 4 of the Plan to review the results of intercarrier compensation reform and to determine whether adjustments to the compensation structure or rate levels are needed.[1] For example, the Commission will examine, among other things: whether the uniform rates set out in the Plan should stay the same or be adjusted up or down; whether the interconnection structure should be modified; whether carriers should move to a capacity-based structure; and whether originating switched access, transport, and termination charges should be replaced with recovery from end users.

All of the Plan rules are default rules. Carriers may agree to alternative arrangements as part of their interconnection negotiations.

While the parties hope and expect that the States will implement all provisions of the Plan, the States will have discretion to determine their participation in certain aspects of the Plan. Specifically, State implementation of the Plan will be voluntary as to the following measures:

Reform for Tracks 1 and 2: In Step 1 of the Plan, State implementation of the provisions relating to reform of *intrastate originating* access rates will be voluntary. The Plan will include incentives designed to encourage and support State implementation of this aspect of the Plan, but States will retain the authority to determine whether or not to opt in. SLC caps will increase for Track 1 and Track 2 carriers even in States that do not adopt the Plan. At Step 2, but not before, carriers may petition the FCC to preempt State authority over Track 1 and 2 carriers' intrastate originating access rates in order to fully implement all of the Plan's terms for those carriers.

Reform for Track 3: State adoption of the Plan's Track 3 rate levels for originating and terminating intrastate access traffic will be voluntary, but the Plan will establish incentives starting at Step 1 to encourage State participation. The Plan recommends that, in the rulemaking conducted at Step 4 to consider what further steps are needed to reform intercarrier compensation, the Commission consider whether to require States to implement all Plan rates for Track 3 carriers, and whether to take steps to achieve that result.

In all other respects, the Plan's terms — and the rules the FCC adopts to implement those terms — will be mandatory.

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[1] The Plan provides a transition to the new regime through a series of "Steps." Each Step is one year. Thus, when a provision of the Plan is scheduled to go into effect "at Step 1," it will go into effect on the effective date of the Plan as determined by the FCC; "at Step 2" means at the beginning of year two, etc.

Finally, to the extent Congress adopts legislation designed to reform various provisions of the Communications Act, the Plan supporters advocate the adoption of provisions that would explicitly authorize the FCC to implement the Plan. While the Plan supporters believe that the FCC already possesses such authority, legislative affirmation of that authority would eliminate all doubt on this issue, reduce the risk of time-consuming challenges, and provide further certainty with respect to the Plan's implementation. Indeed, Plan participants would support a legislative mandate for comprehensive reform of intercarrier compensation and interconnection within a defined, and short, time frame. Any legislation also should specifically provide for sufficient revenues to ensure that carriers and their customers are not harmed by such reform. The availability of such revenues was a specific condition for many participants' support of intercarrier reform; legislation that affirmatively *precludes* the necessary funding could endanger such reform and thus universal service.

I. Intercarrier Compensation Framework

The Plan addresses all types of traffic: traffic currently exchanged pursuant to section 251(b)(5) compensation rules, transit traffic, ISP-bound traffic, and traffic currently exchanged under intrastate and interstate access tariffs.

For Tracks 1 and 2, the Plan seeks to reduce and unify all terminating intercarrier charges, and to reduce originating charges (terminating charges are reduced more quickly than other charges to reduce arbitrage). Carriers in Tracks 1 and 2 also have the option of eliminating originating charges altogether. These reforms are achieved differently, and to different degrees, for each Track. In Track 3, intrastate access charges will be reduced to a company's interstate levels and structure for both originating and terminating traffic; reciprocal compensation rates for transport and termination will be capped at interstate levels, but will remain subject to existing rules and negotiated interconnection agreements. To eliminate disputes concerning intercarrier compensation obligations, the Plan adopts rules dictating which types of compensation shall be due, and to which carriers, in various situations. The Plan also requires carriers to provide signaling information to facilitate call identification and proper application of intercarrier compensation charges, and facilitates negotiation of interconnection agreements for all carriers.

To replace the revenues historically earned through higher intercarrier charges, the Plan allows carriers to raise the SLC and provides for a Restructure Mechanism.

A. Phase Down of Intercarrier Charges for Each Track

Recognizing the vast differences among carriers, the Plan creates three different transition schedules for intercarrier compensation rates. Carriers will have some flexibility to move up a Track (*i.e.*, Track 2 and Track 3 carriers can make a binding election to be treated as Track 1 or Track 2 carriers, respectively) and, within each Track, among different intercarrier compensation levels. A carrier's election affects, among other things, the carrier's eligibility for

the "full" or "modified" Rural Transport Rule, which recognizes the need for different rules in rural areas.[2]

Overview. Under Tracks 1 and 2, terminating rates (*i.e.*, rates for tandem switching, transport, and end office switching) will converge into a single rate schedule (within each of those Tracks) for all traffic that had previously been subject to access charge and section 251(b)(5) reciprocal compensation rules. That unification will occur in three steps. Under Tracks 1 and 2, originating access rates will be reduced in four steps or, at a carrier's option, eliminated altogether. Under Track 3, intrastate access charges will be reduced in four steps to the level of interstate access charges, but the resulting unified access charge level will nonetheless remain distinct from reciprocal compensation levels, which will be capped at interstate access levels but remain subject to existing rules and negotiated interconnection agreements.

1. Track 1

- Starting at Step 1, a Track 1 carrier's intrastate and interstate *terminating* access rates will be reduced in three equal steps to the carrier's Step 3 unified termination rate. At Step 3, a Track 1 carrier's usage-sensitive terminating rates for all types of traffic (including ISP-bound traffic and traffic now subject to reciprocal compensation) will be unified at a rate of $0.0007. At Step 4, that unified rate will be reduced to $0.0005. When the carrier's usage-sensitive terminating rates are unified at Step 3, dedicated transport provided for interconnection will be available at interstate dedicated switched transport prices.

- Beginning at Step 3, Track 1 carriers will reduce their intrastate and interstate *originating* access charges. By Step 4, intrastate originating access charges (for carriers that elect to retain them) will equal, and match the structure for, interstate originating access charges. The rates will be no higher than $0.0025 for originating tandem switching and common transport and no higher than $0.002 for originating end office switching. Also by Step 4, carriers will eliminate intrastate carrier loop charges; intrastate direct trunk transport and entrance facilities will be available at interstate rate levels.

2. Track 2

- Starting at Step 1, a Track 2 carrier's intrastate and interstate *terminating* access rates will be reduced in three equal steps to the carrier's ultimate unified terminating rates. At Step 3, a Track 2 carrier's usage-sensitive terminating rates for all types of traffic (including ISP-bound traffic and traffic now subject to reciprocal compensation) will be unified.

- Also beginning at Step 1, a Track 2 carrier's intrastate and interstate *originating* access rates will be reduced in *four* equal steps to the carrier's ultimate originating rates.

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[2] The full Rural Transport Rule allows rural carriers to deliver their non-access traffic at the meet-point with non-rural carriers. The modified Rural Transport Rule requires the non-rural carrier to pay some portion of the transport costs beyond the meet-point. *See* Section I.C.1 below.

- The maximum originating and terminating rates for a Track 2 carrier at the end of those transitions will vary depending on the regulatory classification of the carrier.
    - *A price-cap carrier or a carrier electing incentive regulation:*
        - must charge *originating* rates no higher than $0.0075 for tandem switching and common transport and no higher than $0.002 for end office switching;
        - must charge *terminating* rates no higher than $0.0075 for tandem switching and common transport plus a rate of $0.0005 for end office switching, *unless* it elects to reduce its *originating* rates to *zero*, in which case it may charge *terminating* rates no higher than $0.0097 for tandem switching and common transport plus a rate of $0.0005 for end office switching; and
        - is entitled to the *full* Rural Transport Rule.[3]
    - *A rate-of-return carrier:*
        - must charge *originating* rates no higher than $0.0105 for tandem switching and common transport and no higher than $0.002 for end office switching;
        - must charge *terminating* rates no higher than $0.0105 for tandem switching and common transport plus a rate of $0.0005 for end office switching; and
        - is entitled to the *modified* Rural Transport Rule, *unless* it elects to charge originating and terminating rates no higher than the maximum rates for Track 2 price-cap and incentive regulation carriers, in which case the rate-of-return carrier will be entitled to the *full* Rural Transport Rule.
- When all of the carrier's usage-sensitive terminating rates are unified at Step 3, dedicated transport provided for interconnection will be available at interstate dedicated switched transport prices. By Step 4, carriers will eliminate intrastate carrier loop charges; intrastate direct trunk transport and entrance facilities will be available at interstate rate levels.
- Under Track 2, the unified termination charges will apply to all traffic terminating on the PSTN, specifically including EAS traffic. Existing EAS arrangements will be modified to reflect this aspect of the Plan.

[3] *See* Section I.C.1 below for a discussion of the full and modified Rural Transport Rules.

3. Track 3

Under Track 3, intrastate switched access charges will be reduced to the level of interstate access charges in four steps, and the resulting unified access charge level will be used as a cap for reciprocal compensation rates if those rates would otherwise exceed interstate access charges. Track 3 carriers whose intrastate switched access rates are at or below interstate levels will maintain intrastate rates at the existing levels for the duration of the Plan. In some instances, Track 3 rate level reductions will be the most significant in the Plan; however, Track 3 carriers will maintain switched access rates at levels higher than the unified rates of companies under Tracks 1 and 2.[4] Carriers that would otherwise fall into Track 3 may elect to be designated as Track 2 carriers.

Existing mandatory and optional local calling arrangements between Track 3 ILECs and other ILECs will remain unchanged. To the extent EAS traffic is bill and keep under such arrangements, the Track 3 ILEC will offer to exchange traffic with CLECs and CMRS providers at bill and keep for those carriers' telephone numbers assigned to Track 3 ILEC rate centers in the mandatory or optional local calling area. In most circumstances, the Track 3 carrier's interstate access rates will serve as a ceiling for reciprocal compensation charges. The Plan establishes rules for how carriers can obtain interconnection agreements.

The Plan's rules for Track 3 carriers are based upon the following principles:

- Revisions to the existing intercarrier compensation framework should recognize distinctions applicable to companies that are subject to rate-of-return regulation.

- Unless and until the Commission decides otherwise, rural rate-of-return companies should be entitled to establish cost-based intercarrier compensation rates that recognize the value that other carriers receive when they utilize rural networks to originate and terminate traffic.

- To the extent that changes in intercarrier compensation rates result in displaced revenue and additional costs for rural rate-of-return companies, these rural carriers should receive recovery of the displaced interconnection revenue and increased costs from SLC increases and a new sustainable Restructure Mechanism.

B. Opportunity to Raise SLC To Recover Access Revenues

The Plan provides that, as intercarrier compensation rates are reduced and carriers replace the revenues those rates historically have provided, carriers will have the opportunity to recover

[4] Rate-of-return carriers will continue to have the option to file their own tariffs or participate in the NECA tariff with rate banding. Under the Plan, the NECA pool can be utilized as a way of unifying access rates for Track 3 carriers. Track 2 carriers' pooled rates will be those prescribed in the Plan. Any Track 2 rate shortfall will not affect the Track 3 pooled intercarrier compensation rates.

their revenues to some extent through increased end-user rates. Under the Plan, the federal SLC may be increased gradually and to different degrees depending on a carrier's Track classification.

- **Under Track 1**, SLC caps will rise to $10.00 in a four-step transition. The Plan places limits on the extent to which various SLC caps may increase.[5]
    - The primary residential/single line business (*i.e.*, primary line) SLC cap increases by $0.75 each year in Steps 1 and 2 and by $1.00 each year in Steps 3 and 4.
    - The non-primary residential SLC cap increases by $0.25 in Step 1, by $0.75 in Step 2, and by $1.00 each year in Steps 3 and 4.
    - In Step 4, the multi-line business SLC cap will increase to $10.00.
    - The average residential SLC rate and the average non-residential SLC rate can increase by no more than $0.75 each year in Steps 1 and 2 and by no more than $1.00 each year in Steps 3 and 4.
    - Individual residential and single-line business SLC rates can increase by no more than $0.95 each year in Steps 1 and 2 and by no more than $1.20 each year in Steps 3 and 4.
    - Starting in Step 5, the SLC cap rises with inflation each year.
- **Under Tracks 2 and 3**, the residential and single-line business SLC cap will be increased by $0.75 (per line) in each of Steps 1, 2, and 3 of the Plan, amounting to a total increase of $2.25 over three years. For Track 2, the multi-line business SLC cap rises in Step 3 by $0.80, to $10.00; the existing $9.20 multi-line business SLC cap does not change for Track 3 carriers.
- For all price-cap carriers, whether in Track 1 or Track 2, the Plan outlines pricing flexibility and price-cap rules for the SLC. Among other things, the rules would allow for geographic deaveraging of the SLC, and would permit carriers to charge different SLC rates based on different types of purchases or different customer segments.

C. General Intercarrier Compensation Rules for Non-Access Traffic

1. Elements of and Responsibility for Terminating Charges

The Plan provides details on the rate elements that terminating carriers may charge and that originating carriers owe in various scenarios. It permits carriers to maintain originating

[5] When a Track 1 carrier makes significant reductions to its access charges in Steps 1 through 3 of the Plan, the carrier may make slightly larger increases to its SLC rates in those Steps, pursuant to specific rules set forth in the Plan. In no circumstance, however, may the carrier increase an individual SLC rate above the Step 4 nationwide SLC cap of $10.00.

charges for access traffic as set forth in the transition plans above. For terminating traffic, the Plan:

- Details elements of transport and termination charges.

- Sets out the general guidelines for determining non-access transport and termination charges. After rates in Track 1 are unified, compensation for traffic exchanged between non-ILECs will be symmetrical at the Track 1 rates; traffic between any two ILECs will be charged by each carrier at the rates applicable to its Track; and traffic exchanged between an ILEC and a non-ILEC will be symmetrical, with the non-ILEC charging the ILEC's rates for performance of comparable functions.

- Unifies the transport and termination of ISP-bound traffic with other types of terminating traffic at Step 3 for Track 1 and Track 2 carriers. For Track 1 and 2 carriers, the mirroring rules are eliminated when rates are unified. The parties have not reached resolution concerning the timing for elimination of the mirroring rules for Track 3 carriers.

- Creates a specific transport framework for exchange of traffic between Track 1 carriers and CRTCs. As noted above (*see* n.1), this "Rural Transport Rule" requires the Track 1 carrier to bear all of (or, in the case of the *modified* Rural Transport Rule, some of) the financial obligation for provisioning the interconnection transport for the capacity to carry traffic in both directions between the Track 1 carrier's network and the CRTC's meet point.

2. Rules for Application of "Switched Access" vs. "Reciprocal Compensation" Charges

The Plan imposes rules designed to be implemented at the start of the Plan to resolve disputes over when traffic should be subject to switched access charges and when reciprocal compensation charges should apply until such time as those charges are unified. The rules also determine which jurisdiction's access charges apply to access traffic in various scenarios. As a general rule, telephone numbers are used as the basis for determining the category of charges that will be applied.

Specifically, the Plan provides detailed, default rules concerning the following:

- Originating compensation for *wireline-to-wireline* traffic and *wireline-to-CMRS* traffic, and the means for determining which jurisdiction's rates apply to various types of calls;

- Terminating compensation for traffic between a LEC and a non-CMRS carrier; VoIP-originated traffic; CMRS-to-wireline traffic; wireline-to-CMRS traffic; and traffic between an IXC and a CMRS carrier. The rules determine which jurisdiction's rates apply;

- When traffic shall be terminated as ISP-Bound Traffic at the applicable ISP-Bound rates.

D. Rules Facilitating Intercarrier Compensation

To ensure that carriers will be able to implement and apply these rules, the Plan provides a mechanism for all parties to obtain interconnection agreements and establishes rules designed to eliminate phantom traffic. Specifically:

- The Plan establishes default rules governing how carriers may obtain both interim and formal interconnection agreements — and companion reciprocal compensation arrangements — for the exchange of non-access traffic.
    - A carrier terminating non-access traffic from any indirectly connected carrier may establish an *interim* interconnection arrangement with the originating carrier simply by sending a notification letter. Both carriers may begin collecting intercarrier compensation 15 days from the date of the letter.
    - Carriers may request a *formal* interconnection agreement from any other carrier for the exchange of non-access traffic. Such a request invokes the negotiation and arbitration procedures in section 252 of the Communications Act of 1996.
- In order to ensure that traffic can be properly identified and classified for purposes of the intercarrier compensation provisions of the Plan, the Plan establishes compromise rules intended to alleviate the problem of phantom traffic.
    - With certain defined exceptions, explained below, the Plan requires that every originating communications service provider deliver accurate telephone number and other signaling information to both intermediate and terminating providers.
    - With certain defined exceptions, explained below, every intermediate communications service provider must transmit without alteration telephone number and other information that it receives from another provider.
    - When a provider's switch is equipped with SS7 signaling protocol capability, it must use SS7 protocol when interconnecting directly with another provider's SS7-capable switch.
    - The Plan requires that all providers work cooperatively to resolve disputes concerning the call signaling rules; requires direct interconnection for providers that chronically violate the rules while indirectly interconnected; and advocates an expedited, rigorous enforcement process with serious consequences for providers who fail to comply with these signaling rules.
    - The Plan protects those providers that are unable to comply because of technological limitations on their networks. The Plan lists standard technology-related limitations that exempt providers from complying with the call signaling rules. Providers may claim additional technology-related exceptions, but they must provide notice of any such claim and will bear the burden of supporting the claim.

- The Plan also offers an industry-driven uniform framework for the generation and exchange of call-detail records[6] for traffic that is not covered by the Multiple Exchange Carrier Access Billing (MECAB) process.[7] The framework created by the industry, including the interim solution discussed below, will be filed with the Commission within 60 days after the filing of the comprehensive Plan.

- Adoption of the Plan and issuance of the Commission orders that the Plan proposes will resolve many phantom traffic issues by reducing the importance of the jurisdictional nature of traffic and establishing comprehensive rules for the exchange of traffic. In the interim, however, the parties supporting the Plan have agreed on a phantom traffic solution that will remain in effect until the Commission has issued an order adopting comprehensive intercarrier compensation reform. This interim solution is a compromise and is contingent on parties' continued support for the Plan as a whole.

    - After the industry proposal for creation and exchange of call-detail records has been filed with the Commission, the parties supporting the Plan will advocate for immediate release of a Commission order addressing phantom traffic during the interim period before entry of an order adopting comprehensive intercarrier compensation reform. The Plan supporters will request that this interim order:

        - Implement the proposals discussed above concerning call signaling and enforcement.

        - Confirm that the originating provider is responsible for paying the terminating provider applicable intercarrier charges, if any, when traffic is delivered through an indirect interconnection arrangement; and

        - Establish an interim process and, in certain circumstances, charges for the creation and exchange of call-detail information[8] for traffic not covered by the MECAB process.

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[6] Carriers will require a reasonable transition period to modify systems, *e.g.*, AMA recording and message processing, to implement the proposed phantom traffic solution. However, implementation should begin at Step 1 whenever possible.

[7] The MECAB process governs the provision of call-detail information for jointly provided switched access traffic (*i.e.*, traffic exchanged between IXCs and multiple local exchange carriers).

[8] Carriers will require a reasonable transition period to modify systems, *e.g.*, AMA recording and message processing, to implement the proposed phantom traffic solution during the interim period.

II. Interconnection Framework

A. Interconnection for Non-Access Traffic

The Plan sets out detailed rules for the exchange of non-access traffic, including both reciprocal compensation traffic and ISP-bound traffic. It does not affect traffic exchanged directly between IP networks through public or private peering or IP transit arrangements. Similarly, the Plan generally does not affect interconnection for private line services, access, or special access services.

Under the Plan, a carrier must allow other carriers to physically interconnect at specified points, or "Edges," in the carrier's network. Each carrier must associate each of its end user customers with one of its Edges within each LATA. (In Alaska, which has no LATAs, local calling areas substitute for LATAs.)

The Plan:

- Defines an Edge as the point on a carrier's network at which the carrier must offer to receive traffic in order to perform the termination function, and specifies those functional network locations that qualify as an Edge

- Requires a carrier to bear the transport obligation to deliver its originating traffic to the terminating carrier's Edge; a carrier may provide transport itself or via a third party's facilities or services, including Tandem Transit Service, discussed below

- Specifies that a tandem can serve as an Edge in tandem-based networks

- Requires Edge owners to provide physical interconnection, including the termination of fiber optic or electrical cables

- Allows the carrier with the financial obligation for interconnection to determine whether interconnection should be direct or indirect, via Tandem Transit Service

B. Tandem Transit Service

The Plan provides that a carrier may satisfy its financial transport obligation by using a third party's tandem transit service. The rules for the procurement and provision of such transit service are set forth in the Tandem Transit Service section of the Plan. Those rules are as follows:

- All ILECs that are providing tandem transit service on the day before the Plan begins will provide that service during the term of this Plan.

- The Tandem Transit Provider must deliver the traffic to the terminating carrier's Edge, subject to certain traffic volume limitations. The Plan dictates means of addressing tandem exhaust.

- Non-access transit is immediately subject to the Plan's terms and conditions. Switched tandem transport that Track 1 and 2 ILECs provide in connection with jointly provided access becomes subject to the Plan at various steps depending on carrier rate elections and the type of access.

- At Step 2 of the Plan, the rate for Tandem Transit Service will be capped at $0.0025 per MOU, and will increase annually by inflation starting at Step 5. Traffic over a certain volume may be assessed a premium rate.

- The carrier with financial responsibility for transport chooses the transit carrier. As the Ordering Carrier, it must deliver traffic to the point specified by the Tandem Transit Provider and pay the Tandem Transit Fees.

- Indirectly interconnected carriers and the Tandem Transit Provider must exchange call-detail records at no additional charge, as described in the Uniform Process for the Generation and Exchange of Call-Detail Records section of the Plan's Comprehensive Solution for Phantom Traffic.

At Step 4, the Plan removes the cap on Tandem Transit Service for intraMSA transit traffic. The FCC will conduct a proceeding to determine competitive triggers for eliminating the nationwide rate cap for Tandem Transit Service provided to end offices located outside an MSA.

III. Other Mechanisms for Recovery of Interstate and Intrastate Revenues

The Plan provides for a Restructure Mechanism designed to replace the revenues that are eliminated in connection with the Track 1, Track 2, and Track 3 transitions, to the extent such revenues are not recovered through restructured intercarrier charges or increased SLCs. The Plan also makes changes to a number of existing universal service mechanisms, including the rural and non-rural high-cost-loop support mechanisms and the safety-valve support mechanism. In addition, the Plan creates an "Early Adopter Fund" to provide support for states that have reduced access rates through an explicit state fund by the time the Plan is adopted.[9] This mechanism will enable states to recover some of the funding that they have distributed to carriers that have reduced their intrastate access rates. The Early Adopter Fund will be used solely to decrease the size of state recovery mechanisms. Implementation of the Early Adopter Fund will help ensure that consumers in these states are not disproportionately burdened when the

[9] The Missoula Plan supporters are committing resources to work with State Commissioners to help size the Early Adopter Fund and to determine how that Fund should work when States have rebalanced access rates through State funds, local rate increases, and/or new line items. In no event should these ongoing efforts delay the FCC from reaching a decision on the Plan. To the extent that the Missoula Plan supporters and the State Commissioners reach agreement on these issues within ninety (90) days of the filing of the Plan at the FCC, the Missoula Plan supporters will file the agreement as an amendment to the Plan for the FCC's consideration, and the Missoula Plan supporters and the relevant State Commissions shall support the entire Plan as amended.

intercarrier compensation reforms and the new Restructure Mechanism are implemented nationwide under the Plan.[10]

The Plan supporters' current best estimate of the size of the Restructure Mechanism at the end of the transition is approximately $1.5 billion,[11] which includes an estimate for distributions to CLECs. The supporters plan to update this figure in subsequent submissions and to provide an estimate for the potential range of high and low figures.[12]

IV. Incentive Regulation

All CRTC study areas that are regulated as rate of return for interstate operations may be converted to incentive regulation study areas. Rate-of-return CRTC study areas for which the carrier has elected incentive regulation will immediately be considered Track 2 study areas for purposes of the Plan.

- Each year, carriers will have an opportunity to elect incentive regulation by study area. Absent an FCC waiver, a carrier's election of incentive regulation for a particular study area is permanent.

- The incentive regulation option recognizes that rate-of-return carriers have limited options to opt into price-cap regulation in the current environment. The Plan creates an incentive regulation option for rate-of-return companies.

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[10] The Missoula Plan supporters are committing resources to work with State Commissioners to evaluate how Plan mechanisms involving acquisitions can be used to encourage carriers to invest in rural areas. To the extent that the Missoula Plan supporters and the State Commissioners reach agreement on any of these issues within ninety (90) days of the filing of the Plan at the FCC, the Missoula Plan supporters will file the agreement as an amendment to the Plan for the FCC's consideration, and Missoula Plan supporters and the relevant State Commissions shall support the entire Plan as amended.

In addition, the Missoula Plan supporters are committing resources to work with State Commissioners to (a) evaluate how other mechanisms, such as the Universal Service Fund, may be used to encourage carriers to invest in rural areas and (b) evaluate the feasibility of implementing various options, given their effect on the size of support funding. To the extent that the Missoula Plan supporters and the State Commissioners reach agreement on any of these issues prior to February 1, 2007, the Missoula Plan supporters will file the agreement as an amendment to the Plan for the FCC's consideration, and Missoula Plan supporters and the relevant State Commissions shall support the entire Plan as amended.

In no event should these ongoing efforts delay the FCC from reaching a decision on the Plan.

[11] This figure is an average of two independent modeling efforts; one reached an estimate of $1.4 billion and the other reached an estimate of $1.6 billion.

[12] The Plan supporters currently estimate increases of approximately $225 million for Lifeline support and $300 million for high-cost fund modifications. The Early Adopter Fund will be $200 million or whatever greater amount the Commission finds to be an appropriate percentage of state access reduction funds that should be recovered through the Early Adopter Fund.

- In study areas subject to incentive regulation, total revenue and support will no longer be determined based on cost or revenue requirements. Instead, the existing rules will be replaced by an incentive plan that regulates prices.

- For switched services, prices and Restructure Mechanism amounts will be set to generate revenue that, when expressed per subscriber line, does not exceed a permitted revenue cap per subscriber line. This per-line revenue cap will be determined using a baseline calculation of revenue the carrier received prior to its incentive regulation election from state switched access charges; local switching support; interstate switched access charges (including common line revenue computed at an 11.25 percent rate of return); net settlements; and net reciprocal compensation.

- For special access in incentive regulation study areas, interstate prices will be reinitialized to produce no more than an 11.25 percent rate of return. Rate-of-return regulation will be replaced with a price-cap plan that includes a productivity offset equal to inflation. Separate price-cap baskets will be established for broadband and non-broadband services with pricing flexibility that allows annual rate increases of no more than 10 percent on rate elements.

- In addition, in a study area subject to incentive regulation, amounts drawn from the current high cost loop fund will be converted from a cost-based mechanism to a per-line amount.

- Participation will allow carriers to eliminate annual cost-based tariff filings for special access and will allow companies to choose to eliminate jurisdictional cost studies altogether.

THE MISSOULA PLAN: POLICY AND LEGAL OVERVIEW

Introduction

The United States stands at the threshold of a bold new era in electronic communications. Once limited to a single narrowband wireline connection, more and more consumers today rely on broadband connections and mobile wireless networks to communicate with each other and explore the wealth of information available on the Internet. This transition from the old world to the new promises unparalleled consumer benefits and opportunities for economic growth.

With this transition, however, comes a pressing regulatory responsibility: a responsibility to reform *yesterday's* regulations, designed for the legacy narrowband world, to accommodate *today's* intermodal, competitive, and increasingly Internet-oriented communications environment. The stakes are enormous. America's global preeminence depends on keeping pace with the rest of the developed world in the ubiquitous deployment of broadband technology. America cannot remain an economic superpower unless it removes the artificial regulatory barriers to broadband deployment in all of America's far-flung communities, from Alaska to Utah to Maine.

Those barriers include today's incongruous patchwork of disparate intercarrier compensation schemes. Throughout the United States, wireline carriers are increasingly losing minutes of use—and associated revenues—to wireless and VoIP providers. And, in general, these carriers are losing minutes faster than they are losing lines to competition. The reason is two-fold. First, today's non-cost-based distinctions in the assessment of intercarrier charges create arbitrage opportunities that erode traditional sources of network cost recovery and, at the same time, create enormous investment uncertainty. Second, despite recent reforms, state and

federal rate regulation schemes still rely excessively on the recovery of carrier costs through minute-of-use intercarrier charges.

Left unchecked, these two regulatory anachronisms will leave America's telecommunications providers without adequate revenues to maintain their existing networks and bring the benefits of broadband to more rural communities. The Missoula Plan resolves these concerns by rationalizing current regulatory distinctions and shifting a portion of network cost recovery from intercarrier charges to a combination of (i) modestly higher subscriber line charges and (ii) a new revenue recovery mechanism. The result will be a far more efficient and stable means of covering network costs today and paying for tomorrow's expansion of broadband availability to all Americans.

More generally, consumers will be the Plan's main beneficiaries, both in the short term and in the longer term. In the short term, although the Plan allows limited increases to subscriber line charges, deep reductions in intercarrier charges will generate significant reductions in many other end user rates. As a result, many consumers' overall bills will stay the same or even drop for a given level of usage; for example, the rates of Lifeline customers—the neediest users of the network—will decrease significantly. These consumer benefits are examined in detail in the attached consumer impact charts, which illustrate how the Plan would affect consumers' bills for wireline telephone service, wireless service, VoIP, DSL, cable modem service, and multiple-service plans. *See* Exh. 1.

In the longer term, the Plan will increase regulatory certainty, encourage greater capital investment, and reduce administrative and litigation costs throughout the industry. By eliminating arbitrary regulatory distinctions between service types (*e.g.,* wireline vs. wireless, interstate vs. intrastate, and VoIP vs. circuit switched telephony), the Plan will minimize

arbitrage opportunities and competitive distortions, facilitate the provision of bundled all-you-can-eat services, and productively focus carriers' attention on competing to sell consumers better and cheaper services rather than on exploiting or closing regulatory loopholes. The Plan will aid rural customers by ensuring long-term, predictable revenues to build and maintain rural networks to provide basic and advanced services. And, by reducing the reliance of rural carriers on switched access charges, the Plan will remove regulatory disincentives for the creation of larger local calling areas.[1]

* * *

In the FCC's pending rulemaking proceeding, many of the Plan's supporters advocated divergent approaches to intercarrier compensation. In this Plan, however, we have come together with a proposal that will garner support across the industry. As we recognize, any reform plan must promote consumer interests, acknowledge the vast differences among types of carriers, and account, in particular, for the unique needs of rural customers and the carriers that serve them. The Missoula Plan proposes comprehensive solutions for some of the hardest intercarrier compensation problems facing the industry while providing a stable cost-recovery mechanism that does not unduly burden rural consumers. The Plan also sets straightforward and balanced interconnection rules that should eliminate many intercarrier disputes. The Plan would thus create greater regulatory certainty and allow carriers to concentrate on investing in their networks and deploying new services for the benefit of their customers. In short, it presents the best opportunity for long-term success and for broad and willing State participation.

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[1] In addition, AT&T has prepared an economic analysis by economists Richard N. Clarke and Thomas J. Makarewicz, who estimate that adoption of the Plan could produce a total economic benefit of more than $50 billion within an eight-year time horizon and could create more than 18,000 new jobs. *See* Exh. 2.

Legal Justification

The Plan is designed as a cooperative effort between the FCC and the States. Although parts of the Plan are mandatory and will be implemented by the Commission, States will be free to adopt or reject other parts. To encourage State participation in those voluntary provisions, the Plan contains incentives that will benefit those States that adopt the Plan in its entirety.

I. Mandatory vs. Voluntary Aspects of the Plan.

The States will be critical partners in working with the FCC to implement the Plan, and the Plan cannot succeed without the States' cooperation in effectuating its main provisions. While the parties hope and expect that the States will implement all of the Plan's provisions, the States will have discretion to decide whether to participate in certain aspects of the Plan. Specifically, State implementation will be voluntary as to the following measures:

- ***Reform for Tracks 1 and 2:*** In Step 1 of the Plan, State implementation of the provisions relating to reform of *intrastate originating* access rates will be voluntary. As discussed below, the Plan will include incentives designed to encourage and support State implementation of this aspect of the Plan, but States will retain the authority to determine whether or not to opt in. At Step 2, but not before, carriers may petition the Commission to preempt State authority over Track 1 and 2 carriers' intrastate originating access rates in order to implement all of the Plan's terms for those carriers.

- ***Reform for Track 3:*** State adoption of the Plan's Track 3 rate levels for originating and terminating intrastate access traffic will be voluntary (and the SLCs of Track 3 carriers will remain constant in States that have not adopted those rate levels). The Plan will nonetheless establish incentives starting at Step 1 to encourage State participation in these aspects of the Plan. In the rulemaking conducted at Step 4, the Commission will have an opportunity to consider what further measures, if any, are needed to reform intercarrier compensation, including measures to implement all Plan rates for Track 3 carriers.

In *all other* respects, the Plan's terms — and the rules that the FCC adopts to implement those terms — will be mandatory. After describing the Commission's authority to implement the

mandatory portions of the Plan, we turn in Part II below to a discussion of the Plan's incentives for State participation in the voluntary portions.[2]

Central to the Plan are the mandatory provisions capping intercarrier compensation rate levels for Tracks 1 and 2. *See also* note 4, below (regarding rules needed to facilitate Track 3 rate provisions). The FCC will need to adopt assertive new legal strategies to implement those provisions and, in particular, to establish uniform rates for all traffic terminated by carriers in those Tracks, including traffic traditionally characterized as "local" and "intrastate access." Attachment A discusses the Commission's authority to implement those provisions.

The Commission has straightforward authority to implement the Plan's remaining mandatory provisions.[3] *First*, the Commission may plainly mandate the Plan's approach to carrier interconnection. Section 251(c)(2) requires an ILEC to provide other carriers with "interconnection . . . at any technically feasible point within the carrier's network." 47 U.S.C. § 251(c)(2). Nothing in the Plan denies any carrier the right of physical interconnection at any such point, and in fact, the Plan imposes a broad interconnection obligation on all carriers. Instead, the Plan merely defines the points in the terminating carrier's network at which the originating carrier can drop off traffic without incurring a separate transport charge. Indeed, defining such points is essential for any approach to prescribing the compensation terms for transport and termination of traffic.

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[2] As used here, the term "voluntary" means voluntary *for the States*, not for carriers. Once a State has opted into these voluntary provisions, those provisions will be mandatory for the affected carriers.

[3] This discussion is not meant to be comprehensive. The coalition supporting the Missoula Plan will address, as they arise, any additional questions about the Commission's authority to implement particular provisions of the Plan.

Second, the Plan's provisions imposing various signaling obligations fall squarely within the Commission's authority to facilitate appropriate jurisdictional characterization of traffic, including the diverse types of traffic that fall within the scope of the Commission's rulemaking authority under sections 201 and 251 and the principles of *AT&T Corp. v. Iowa Utilities Board*, 525 U.S. 366, 377-80 (1999). In that respect, the signaling requirements resemble the FCC's well-established ARMIS rules, which similarly require carriers to classify, record, and report information based on interstate and intrastate classifications in order to ensure proper accounting and recovery. *See also* Memorandum Opinion and Order, *Determination of Interstate and Intrastate Usage of Feature Group A and Feature Group B Access Service*, 4 FCC Rcd 8448, 8449-50 ¶¶ 2, 10-13 (1989) (establishing rules for determining the jurisdiction of Feature Group A and B access traffic and explaining that a consistent jurisdictional allocation of traffic is essential to ensure proper billing and cost separations).

Third, for the same reasons, the Commission has full authority to implement the Plan's rules regarding the jurisdictionalization of traffic for compensation purposes by, for example, relying on telephone numbers as proxies for the locations of each end of a call. *Cf.* Declaratory Ruling, *Thrifty Call, Inc.*, *Petition for Declaratory Ruling Concerning BellSouth Telecommunications, Inc.*, 19 FCC Rcd 22240, 22242-44 ¶¶ 5-11 (2004) (basing the application of access charges on Commission-defined percentage of interstate use (PIU) factors). While the Commission has relied on geography as the basis for jurisdictionalizing traffic, it also has relied on proxies for geography where appropriate. *See, e.g.*, First Report and Order, *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, 11 FCC Rcd 15499, 16017-18 ¶ 1044 (1996) ("*Local Competition Order*") (using proxies for the geographic location of a caller with respect to wireless traffic). Given ongoing disputes in the industry regarding the

geographic end points of various classes of traffic (*e.g.*, VoIP, CMRS), the increasing difficulty of identifying such end points, and the need to resolve these disputes in order to accomplish the broader objectives of the Plan, the Commission is fully authorized to adopt a numbers-based proxy for all traffic, particularly as an interim measure.

Fourth, the Commission has clear jurisdiction to enforce the Plan provisions requiring all carriers to negotiate interconnection agreements under section 252. In its recent *T-Mobile Order*, the Commission authorized any ILEC to "request interconnection from a [wireless] provider and invoke the negotiation and arbitration procedures set forth in section 252 of the Act," and ordered that the wireless provider "must, if requested, submit to arbitration by the state commission." Declaratory Ruling and Report and Order, *Developing a Unified Intercarrier Compensation Regime, T-Mobile et al. Petition for Declaratory Ruling Regarding Incumbent LEC Wireless Termination Tariffs*, 20 FCC Rcd 4855, 4864-65 ¶ 16 (2005). Nothing in the *T-Mobile Order* or the Act justifies limiting the Commission's authority to impose section 252 negotiation obligations on wireless carriers (as opposed to other non-ILECs). Rather, the Commission has full authority under section 201 and the principles of *Iowa Utilities Board*, 525 U.S. at 377-80, to implement section 252 to require all carriers to negotiate interconnection agreements, particularly when those agreements are critical to effectuation of the Commission's substantive rules regarding intercarrier compensation.

II. Incentives for State Implementation of the Plan's Voluntary Components.

To encourage full State participation in *all* aspects of the Plan, including the voluntary ones, the Commission will condition payments from the Early Adopter Fund and the Restructure Mechanism on a State's compliance with each of the Plan's provisions, including those

applicable to carriers in Track 3.[4] Consumers in a State that complies with the Plan will thus enjoy lower intrastate charges, and the only increases those consumers will see is the higher federal Subscriber Line Charge. As a practical matter, this incentive will likely lead most States to adopt the Plan's terms, even in the absence of direct compulsion.[5]

Providing these incentives to the States is perfectly consistent with the principle of dual jurisdiction. The federal government has broad authority to condition the extension of federal support on a State's adherence to the terms of a federal program. *See generally South Dakota v. Dole*, 483 U.S. 203 (1987). This principle applies as well to the Commission's relationship with the States under section 254. *See Qwest Corp. v. FCC*, 258 F.3d 1191, 1203-04 (10th Cir. 2001) (holding that the FCC has not just the authority but the *obligation* to give the States "carrot and stick" inducements to ensure their compliance with federal universal service goals); *Texas Office of Public Util. Counsel v. FCC*, 183 F.3d 393, 444 (5th Cir. 1999) ("*TOPUC I*") (holding that the Commission may place conditions on the States' receipt of federal universal service funding).

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[4] To remove any potential statutory obstacles to voluntary State compliance with the rate provisions applicable to Track 3 carriers, the Commission can modify its rules implementing sections 251(b)(5) and 252(d)(2) to make clear that, in setting "cost"-based rates for a Track 3 carrier's transport and termination of traffic, a State opting into the Plan may choose to rely on the Track 3 carrier's interstate access rate. As the Supreme Court has observed, the term "cost," as it appears in section 252, "give[s] ratesetting commissions broad methodological leeway." *Verizon Communications Inc. v. FCC*, 535 U.S. 467, 500 (2002). Today's reformed interstate access rate-setting methodologies, while obviously different from TELRIC, are nonetheless consistent with the section 201 "cost" standard for interstate access charges. *See generally* Fourteenth Report and Order, *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap ILECs and IXCs*, 16 FCC Rcd 11244 (2001). Nonetheless, to resolve any question about the consistency of interstate access charges with the "additional cost" standard of section 252(d)(2), the Commission should forbear from the application of that standard to the extent that it would interfere with implementation of the Plan. *See* Attachment A.

[5] Note, moreover, that if a State does not adopt the Plan, carriers in that State may have to seek higher payments from end-user customers, given the increasing erosion of intercarrier revenues. The alternative availability of Restructure Mechanism funding provides yet another reason why States should voluntarily choose to implement the Plan.

Attachment A

Legal Analysis of Track 1 and 2 Carriers Concerning Measures to Ensure State Compliance with Rate Provisions for Tracks 1 and 2

I. FCC Jurisdiction over All Intercarrier Compensation for Tracks 1 and 2.

Under the Plan, the FCC is ultimately responsible for ensuring intercarrier compensation reform for carriers in Tracks 1 and 2, the groups that account for the overwhelming majority of lines in the industry. The Commission should thus exercise direct authority to implement the Plan as to all traffic handled by Track 1 and 2 carriers.[1] In particular, the Commission should: (i) adopt mandatory rate caps for interstate originating access and all terminating traffic in accordance with the Plan's provisions; and (ii) decide, if and when any carriers seek preemption at or after Step 2, whether to impose similar mandatory caps for intrastate originating access rates in order to promote the Plan's objectives.

For the reasons that follow, all of which are directed solely to carriers in Tracks 1 and 2, the Commission has full authority to implement all of the Plan's provisions as mandatory requirements binding on the States. First, the Commission has direct jurisdiction under sections 201 and 251(b)(5) to reach all classes of intercarrier compensation within Tracks 1 and 2 except arguably for originating intrastate access. Second, the "impossibility" exception of *Louisiana Public Service Commission v. FCC*, 476 U.S. 355 (1986) ("*Louisiana PSC*"), independently authorizes the Commission to regulate intercarrier compensation for *all* classes of traffic to effectuate its responsibilities under sections 201 and 251.

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[1] Because of the long-recognized considerations that have produced distinct regulatory treatment of rural rate-of-return carriers in Track 3, the Plan relies on the central role of the States in implementing its terms as to Track 3 carriers. In particular, the Plan supporters urge the FCC not to eliminate the access charge regime that was carved out under section 251(g) of the Act with respect to access traffic originated or terminated by Track 3 carriers.

A. Direct Jurisdiction under Section 251(b)(5).

As a number of parties have argued in detail in the FCC's pending intercarrier compensation reform proceeding, the Commission has direct jurisdiction under sections 201 and 251(b)(5) to prescribe intercarrier compensation rules for the traffic covered under Tracks 1 and 2 of the Plan, with the possible exception of originating intrastate access traffic. And as to that possible exception, State compliance with the Plan's provisions for originating access charges is voluntary in any event until the FCC rules otherwise.

Section 251(b)(5) applies by its terms to "the transport and termination of telecommunications" generally, except to the extent that the Commission exercises its authority under section 251(g) to maintain pre-existing intercarrier compensation regimes that predate the 1996 Act (as the Plan contemplates it will do for Track 3 carriers). Section 251(b)(5) makes no distinctions among traffic on the basis of jurisdiction ("local," "toll," "intrastate," "interstate") or service definition (*e.g.*, "exchange access," "information access," or "exchange service"). All such traffic is plainly "telecommunications."

As the D.C. Circuit has admonished, "[e]ven under the deferential *Chevron* standard of review, an agency cannot, absent strong structural or contextual evidence, exclude from coverage certain items that clearly fall within the plain meaning of a statutory term." *U.S. Telecom. Ass'n v. FCC*, 359 F.3d 554, 592 (D.C. Cir. 2004). Indeed, the statutory context in which the D.C. Circuit enforced that principle is closely analogous to the statutory context here. Just as the court rejected the Commission's "argument that long distance services are not 'telecommunications services'" for purposes of section 251(d)(2), so too should the Commission reject the argument that long distance services are not "telecommunications" for purposes of section 251(b)(5). *Id.* Indeed, were it otherwise—if section 251(b)(5), of itself, excluded non-local traffic from its

scope—Congress would have been wasting its breath when it explicitly preserved the existing access charge regime in section 251(g) pending an explicit Commission decision to subject such traffic to the otherwise applicable provisions of section 251.

The FCC's own precedent, while complex, supports our interpretation of the Commission's section 251(b)(5) authority. In its *ISP Remand Order*, the FCC acknowledged that "[w]e were mistaken [in the *Local Competition Order*] to have characterized" section 251(b)(5) as limited to local traffic, observing that "'local' . . . is not a term used in section 251(b)(5) or section 251(g)."[2] Instead, the FCC concluded, sections 251(b)(5) and 252(d)(2) prescribe substantive intercarrier compensation rules for "all . . . telecommunications not excluded by section 251(g)." *Id.* at 9172-73 ¶ 46. Section 251(g), in turn, carves out the existing access charge rules from the effect of sections 251 and 252 until those rules "are explicitly superseded by regulations prescribed by the Commission." 47 U.S.C. § 251(g); *see also ISP Recip. Comp. Remand Order* at 9169-70 ¶ 39 ("unless and until the Commission by regulation should determine otherwise, Congress preserved the pre-Act regulatory treatment of all the access services enumerated under section 251(g)").

In 2005, the FCC sought comment on whether it should take the logical next step. Noting that "the section 251(g) carve-out includes intrastate access services," it asked whether it should now exercise its "authority under section 251(g) to supersede that carve-out" such that the Commission may "replace intrastate access regulation with some alternative mechanism" of the Commission's design as part of a comprehensive approach to intercarrier compensation. Further

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[2] Order on Remand and Report and Order, *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 16 FCC Rcd 9151, 9166-67, 9172-73 ¶¶ 34, 45 (2001) (*"ISP Recip. Comp. Remand Order"*), *remanded on other grounds, WorldCom, Inc. v. FCC*, 288 F.3d 429 (D.C. Cir. 2002).

Notice of Proposed Rulemaking, *Developing a Unified Intercarrier Compensation Regime,* 20 FCC Rcd 4685, 4722 ¶ 79 (2005). That is precisely what the Commission should do here.[3]

B. The *Louisiana*/Impossibility Exception.

Even apart from the direct authority discussed above, the Commission has independent pre-1996 Act authority under section 201 to take measures necessary to ensure a nationally consistent intercarrier compensation regime.

Before 1996, section 2(b)[4] was traditionally thought to fence the Commission off from regulating all jurisdictionally intrastate intercarrier compensation. Nonetheless, two developments have fundamentally altered the Commission's jurisdictional role: first, its authority to implement rules for the transport and termination of traffic under the 1996 Act; and, second, the exponential growth of services (such as wireless and VoIP) for which jurisdictional distinctions are meaningless for all practical purposes. As discussed above, the Commission now has clear jurisdiction to prescribe intercarrier compensation rules for most major categories of traffic: interstate (sections 201 and 251(g)), intrastate transport and termination (section 251(b)(5)), wireless (section 332), and VoIP (section 201; *see* Memorandum Opinion and Order, *Vonage Holdings Corporation, Petition for Declaratory Ruling Concerning an Order of the Minnesota Public Utilities Commission*, 19 FCC Rcd 22404 (2004) ("*Vonage Order*"), *pets. for review pending sub nom. Minnesota Pub. Utils. Comm'n v. FCC*, Nos. 05-1069, *et. al.* (8th Cir. 2005)).

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[3] The Commission also has jurisdiction under sections 201 and 251(a) to regulate the rates charged for tandem transit traffic. To the extent that such traffic is interstate, section 201 authorizes the Commission to regulate it. The Commission also has ancillary authority under section 201 to regulate *all* transit traffic, including intrastate traffic, in order to effectuate section 251(a), which requires all telecommunications carriers to "interconnect directly or indirectly" with all other telecommunications carrier networks. 47 U.S.C. § 251(a)(1).

[4] 47 U.S.C. § 152(b).

Under Commission precedent, the only class of traffic as to which there is any serious question about the Commission's jurisdiction is circuit-switched intrastate access traffic. Such traffic constitutes a still-significant but declining percentage of services overall. Genuine reform for *any* class of traffic, however, including traffic over which the Commission has undisputed jurisdiction, cannot succeed unless it encompasses *every* class of traffic, including intrastate access traffic.

The "impossibility" exception set forth in footnote 4 of *Louisiana PSC* solves this problem by authorizing the Commission to regulate matters traditionally left to the States when such regulation is necessary to protect a valid federal regulatory objective. *See, e.g., Public Serv. Comm'n of Md. v. FCC*, 909 F.2d 1510, 1515 (D.C. Cir. 1990). Here, the Commission cannot achieve the critical federal goal of effective intercarrier compensation reform if the States substantially deviate from the national plan for intrastate access charges (or transit rates) at least as they apply to the majority of carriers. Federal involvement is therefore necessary to prevent methodological inconsistencies from "thwart[ing] the lawful exercise of federal authority over interstate communications." *Vonage Order* at 22412 ¶ 15; *see also NARUC v. FCC*, 880 F.2d 422, 429 (D.C. Cir. 1989).

In particular, the existing intercarrier compensation regime is destabilizing the entire industry and undermining important federal goals such as universal service, deregulation, and competition. Only by replacing the ineffective patchwork of intercarrier compensation rules with a comprehensive and unified approach can the Commission remedy these urgent problems. The Commission cannot implement a comprehensive and unified solution if the States continue to prescribe intrastate access charges that vary materially from their interstate counterparts, because that disparity would perpetuate regulatory arbitrage and other economically inefficient

behavior. Federal rate caps are therefore necessary to ensure that State regulation does not thwart the Commission's goals: namely, effective reform of intercarrier compensation, preservation of universal service, and promotion of competition and deregulation.

The preceding considerations, standing alone, are sufficient to justify federal authority under an appropriately robust reading of the footnote 4 exception to *Louisiana PSC*, even without a showing that the interstate and intrastate components of telecommunications traffic are "inseverable" for practical purposes. Nonetheless, the Commission can make that "inseverability" showing in any event because ongoing industry changes make it increasingly difficult to separate intrastate access traffic from those types of traffic over which the Commission has unquestioned jurisdiction.

The Commission has recognized that, for wireless and VoIP traffic, it is often impossible to separate intrastate calls from interstate calls. In the *Vonage Order*, the Commission explained that there is no practical way of identifying the actual geographic location of a VoIP call's end points; the Commission cited this problem as a justification for preempting State regulation of VoIP. Similar concerns prompted Congress to preempt State authority over many aspects of wireless communications. As the Commission subsequently observed in the *Local Competition Order*, it is often "difficult for CMRS providers to determine, in real time . . . the customer's specific geographic location" for rate-making purposes. *Local Competition Order* at 16017-18 ¶ 1044.

Wireless and VoIP traffic make up a considerable percentage of all traffic today, and that percentage is growing rapidly. As these forms of traffic continue to displace traditional wireline traffic, it will become progressively more difficult to determine, on a call-by-call basis, which calls are actually intrastate and which calls are actually interstate. Any intercarrier compensation

plan should be built to last, and any such plan that fails to account for the jurisdictionally indeterminate character of next-generation services is doomed to failure.

II. FCC Authority to Prescribe Specific *Rate Levels* for Track 1 and 2 Carriers.

In *AT&T Corp. v. Iowa Utilities Board*, 525 U.S. 366, 377-86 (1999), the Supreme Court indicated that although the Commission has plenary authority to prescribe a *methodology* for intercarrier compensation, the States retain authority under sections 252(c)(2) and 252(d)(2) to prescribe actual rates for traffic subject to section 251(b)(5). Although the Supreme Court did not hold that the Commission would exceed its jurisdiction if it adopted rules capping those rates, the Commission should take steps to foreclose any claim that this aspect of the Plan usurps the States' role under the 1996 Act.

Specifically, the Commission can and should forbear from the application of sections 252(c) and 252(d)(2) to the extent they would preclude the Commission from prescribing rate caps for intercarrier compensation involving Track 1 and 2 carriers. Such forbearance would create a statutory scheme in which only sections 201 and 251(b)(5), and not section 252, prescribe rules and procedures for determining intercarrier compensation. Section 10 of the Communications Act, 47 U.S.C. § 160, grants the Commission full authority to take this step. It provides that the Commission "shall forbear from applying . . . *any* provision of this Act," including sections 252(c)(2) and 252(d)(2), if three conditions are met. 47 U.S.C. § 160(a) (emphasis added). Those conditions are met here.

First, because the Plan sets forth just, reasonable, and non-discriminatory intercarrier charges, enforcement of sections 252(c) and 252(d) "is not necessary to ensure that" intercarrier charges "are just and reasonable and are not unjustly or unreasonably discriminatory." *Id.* § 160(a)(1). Second, enforcement of these provisions "is not necessary for the protection of

consumers." *Id.* § 160(a)(2). Indeed, as discussed above, creating greater national consistency in intercarrier compensation rates will *benefit* consumers. Third, forbearance is also "consistent with the public interest." *Id.* § 160(a)(3). Forbearance will enable the Commission to fix a broken intercarrier compensation regime that is destabilizing the entire industry. Moreover, by reducing regulatory disparities and economic inefficiencies in the marketplace, the Plan will "promote competitive market conditions" and "enhance competition among providers of telecommunications services." *Id.* § 160(b) (defining "public interest" for purposes of 47 U.S.C. § 160(a)(3)).

Exhibit 1

THE MISSOULA PLAN WILL RESULT IN LOWER TELEPHONE BILLS

- The Missoula Plan proposes no specific contribution methodology. The Plan supporters do however, believe that the existing universal service contribution rules require substantial overhaul and that the base of contributors must be broadened and that base must be stable. Proposed revisions to intercarrier compensation are usually evaluated based on their effects on consumers or groups of consumers. The attached charts portray such an analysis for the Missoula Plan based on a telephone numbers and connections basis. The use of numbers and connections does not constitute an endorsement by the Missoula Plan supporters of numbers and connections as the appropriate contribution base. It did, however provide a useful basis to evaluate the consumer effects of the proposed plan. Other contribution basis that may be under consideration by the Commission (such as telephone numbers) could be evaluated if desired by the Commission, but it is unlikely that the results by customer group would change substantially.

- The attached charts show that, even taking a purely static view of the impact of the Missoula Plan on end-user's total telephone bills—*i.e.*, assuming that implementation of intercarrier compensation reform does not spur increased competitive pressure on rates—most end-users will not see any significant increase.

- Most urban wireline, rural wireline, and wireless consumers would enjoy overall rate decreases.

- VoIP customers (Cable Modem or DSL based) would see rate decreases under a purely static analysis (primarily because those VoIP consumers would already be contributing to the universal service fund under FCC's new Safe Harbor rules)

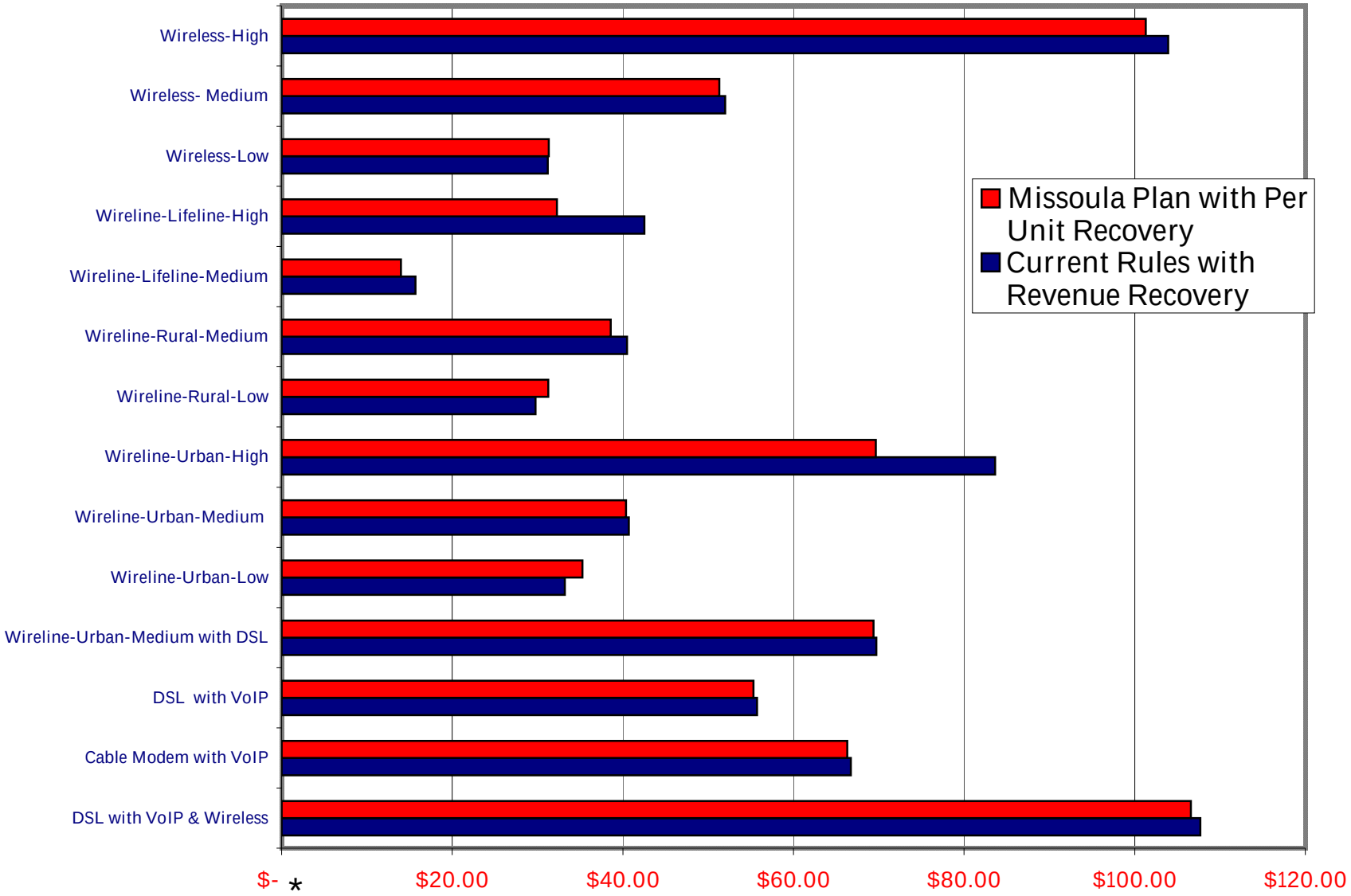
- The lowest volume users of wireline and wireless services will see some small increases: about $1.50 per month for low volume rural wireline consumers, $2.05 per month for low volume urban wireline consumers, and $0.10 for low wireless customers.

- Moreover, many consumers who have low calling volumes in one month maybe medium or even high volume users the next month, and thus many "low volume" consumers could still see rate reductions in some months.

- More importantly, all low-*income* consumers are fully protected under the Missoula plan: SLC increases are waived for Lifeline users, but those users would receive the full benefit of the elimination of intercarrier payments and the effect on toll services. Thus, as the charts show, Lifeline users would see substantial rate *reductions*.

- Finally, the real world is not static, and the Missoula Plan will facilitate greater competition and more innovative offerings, which in turn will intensify pressure on rates. Many carriers may not be able to price their services to take full advantage of the Missoula Plan's higher SLC caps. If the Missoula Plan does spark more intense competition that forces carriers to lower their rates – as it should – then additional customers may see lower rates under the Missoula plan than they do today.

Customers Total Monthly Bill : Current Rules .vs. Missoula Plan with Per Unit Recovery ($1.27*)



* The $1.27 per unit recovery rate is based on Telephone Numbers and Connections. It meets the Missoula Plan principle for recovery mechanisms but it is not part of the Plan. Of the $1.27 , $1.03 is attributable to current universal service programs revised for the Missoula Plan High Cost Loop and Lifeline changes, and $0.24 to the Missoula Plan Restructure Mechanism and Early Adopter Fund. Of the $0.24, $0.21 is associated with the Restructure Mechanism, and $0.03 with the Early Adopter Fund.

Service price includes service charges, Subscriber Line Charges, recurring monthly charges, and Federal USF surcharges -- **does not include taxes,fees, or other surcharges.**

Summary Matrix

	Customer Type	Customers Total Monthly Bill: Current Rules .vs. Missoula Plan with Per Unit Recovery ($1.27*)		
		Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery	Net Change
		10.5% on Revenue	$1.27 per Unit*	
1	DSL with VoIP & Wireless	$ 107.65	$ 106.54	-1.11
2	Cable Modem with VoIP	$ 66.70	$ 66.27	-0.43
3	DSL with VoIP	$ 55.70	$ 55.27	-0.43
4	Wireline-Urban-Medium with DSL	$ 69.68	$ 69.34	-0.34
5	Wireline-Urban-Low	$ 33.17	$ 35.22	2.05
6	Wireline-Urban-Medium	$ 40.68	$ 40.34	-0.34
7	Wireline-Urban-High	$ 83.62	$ 69.62	-14.00
8	Wireline-Rural-Low	$ 29.72	$ 31.22	1.50
9	Wireline-Rural-Medium	$ 40.45	$ 38.54	-1.91
10	Wireline-Lifeline-Medium	$ 15.65	$ 13.94	-1.71
11	Wireline-Lifeline-High	$ 42.49	$ 32.24	-10.25
12	Wireless-Low	$ 31.17	$ 31.27	0.10
13	Wireless- Medium	$ 51.95	$ 51.27	-0.68
14	Wireless-High	$ 103.89	$ 101.26	-2.63

* The $1.27 per unit recovery rate is based on Telephone Numbers and Connections. It meets the Missoula Plan principle for recovery mechanisms but it is not part of the Plan. Of the $1.27 , $1.03 is attributable to current universal service programs revised for the Missoula Plan High Cost Loop and Lifeline Changes, and $0.24 to the Missoula Plan Restructure Mechanism and Early Adopter Fund. Of the $0.24, $0.21 is associated with the Restructure Mechanism, and $0.03 with the Early Adopter Fund.

Service price includes service charges, Subscriber Line Charges, recurring monthly charges, and Federal USF surcharges -- **does not include taxes, fees, or other surcharges**

Joe Q. Public
123 Main Street, Anytown, USA

Broadband Service Price: DSL

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge for DSL Service	$29.00	$29.00
Federal Universal Service Charge	$0.00	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Broadband Charges	$29.00	$29.00

VoIP Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Unlimited Voice Calls (VoIP)	$25.00	$25.00
Federal Universal Service Charge	$1.70	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total VOIP Charges	$26.70	$26.27

Wireless Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Monthly Recurring Charge	$50.00	$50.00
Federal Universal Service Charge	$1.95	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Wireless Charges	$51.95	$51.27

CUSTOMER IMPACT

Total Bill Under Current Plan	$107.65
Total Bill With Missoula Plan	$106.54
Net Change:	-$1.11

Cable Modem with VOIP

Joe Q. Public
123 Main Street, Anytown, USA

Broadband Service Price: Cable Modem

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge for Cable Modem	$40.00	$40.00
Federal Universal Service Charge	$0.00	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Broadband Charges	$40.00	$40.00

VoIP Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Unlimited Voice Calls (VoIP)	$25.00	$25.00
Federal Universal Service Charge	$1.70	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total VOIP Charges	$26.70	$26.27

CUSTOMER IMPACT

Total Bill Under Current Plan	$66.70
Total Bill With Missoula Plan	$66.27
Net Change:	-$0.43

DSL with VOIP

Joe Q. Public
123 Main Street, Anytown, USA

Broadband Service Price: DSL

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge for Cable Modem	$29.00	$29.00
Federal Universal Service Charge	$0.00	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Broadband Charges	$29.00	$29.00

VoIP Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Unlimited Voice Calls (VoIP)	$25.00	$25.00
Federal Universal Service Charge	$1.70	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total VOIP Charges	$26.70	$26.27

CUSTOMER IMPACT

Total Bill Under Current Plan	$55.70
Total Bill With Missoula Plan	$55.27
Net Change:	-$0.43

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$15.00	$15.00
Features	$5.00	$5.00
Subscriber Line Charge (SLC)	$6.00	$8.75
Federal Universal Service Charge	$0.63	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Local Charges	$26.63	$30.02

Broadband Service Price: DSL

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$29.00	$29.00
Federal Universal Service Charge	$0.00	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Broadband Charges	$29.00	$29.00

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$10.00	$7.32
MRC	$3.00	$3.00
Federal Universal Service Charge	$1.05	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$14.05	$10.32

CUSTOMER IMPACT

Total Bill Under Current Plan	$69.68
Total Bill With Missoula Plan	$69.34
Net Change:	-$0.34

Wireline -Urban.-Low

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$15.00	$15.00
Features	$5.00	$5.00
Subscriber Line Charge (SLC)	$6.00	$8.75
Federal Universal Service Charge	$0.63	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Local Charges	$26.63	$30.02

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$3.00	$2.20
MRC	$3.00	$3.00
Federal Universal Service Charge	$0.54	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$6.54	$5.20

CUSTOMER IMPACT

Total Bill Under Current Plan	$33.17
Total Bill With Missoula Plan	$35.22
Net Change:	$2.05

Wireline -Urban.-Medium

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$15.00	$15.00
Features	$5.00	$5.00
Subscriber Line Charge (SLC)	$6.00	$8.75
Federal Universal Service Charge	$0.63	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Local Charges	$26.63	$30.02

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$10.00	$7.32
MRC	$3.00	$3.00
Federal Universal Service Charge	$1.05	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$14.05	$10.32

CUSTOMER IMPACT

Total Bill Without Missoula Plan	$40.68
Total Bill With Missoula Plan	$40.34
Net Change:	-$0.34

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$15.00	$15.00
Features	$5.00	$5.00
Subscriber Line Charge (SLC)	$6.00	$8.75
Federal Universal Service Charge	$0.63	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Local Charges	$26.63	$30.02

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$50.00	$36.60
MRC	$3.00	$3.00
Federal Universal Service Charge	$3.99	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$56.99	$39.60

CUSTOMER IMPACT

Total Bill Under Current Plan	$83.62
Total Bill With Missoula Plan	$69.62
Net Change:	-$14.00

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$11.00	$11.00
Features	$5.00	$5.00
Subscriber Line Charge (SLC)	$6.50	$8.75
Federal Universal Service Charge	$0.68	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Local Charges	$23.18	$26.02

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$3.00	$2.20
MRC	$3.00	$3.00
Federal Universal Service Charge	$0.54	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$6.54	$5.20

CUSTOMER IMPACT

Total Bill Under Current Plan	$29.72
Total Bill With Missoula Plan	$31.22
Net Change:	$1.50

Wireline -Rural -Medium

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$11.00	$11.00
Features	$5.00	$5.00
Subscriber Line Charge (SLC)	$6.50	$8.75
Federal Universal Service Charge	$0.68	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Local Charges	$23.18	$26.02

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$13.00	$9.52
MRC	$3.00	$3.00
Federal Universal Service Charge	$1.27	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$17.27	$12.52

CUSTOMER IMPACT

Total Bill Under Current Plan	$40.45
Total Bill With Missoula Plan	$38.54
Net Change:	-$1.91

Wireline -Lifeline -Medium

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$10.28	$10.28
Features	$0.00	$0.00
Subscriber Line Charge (SLC)	$0.00	$0.00
Federal Universal Service Charge	$0.00	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Local Charges	$10.28	$10.28

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$5.00	$3.66
MRC	$0.00	$0.00
Federal Universal Service Charge	$0.37	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$5.37	$3.66

CUSTOMER IMPACT

Total Bill Under Current Plan	$15.65
Total Bill With Missoula Plan	$13.94
Net Change:	-$1.71

Wireline-Lifeline-High

Joe Q. Public
123 Main Street, Anytown, USA

Local Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic Monthly Charge	$10.28	$10.28
Features	$0.00	$0.00
Subscriber Line Charge (SLC)	$0.00	$0.00
Federal Universal Service Charge	$0.00	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Local Charges	$10.28	$10.28

Long Distance Telephone Service Price

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Toll Charges	$30.00	$21.96
MRC	$0.00	$0.00
Federal Universal Service Charge	$2.21	$0.00
RM plus Early Adopter Fund Charge	$0.00	$0.00
Total Long Distance Charges	$32.21	$21.96

CUSTOMER IMPACT

Total Bill Under Current Plan	$42.49
Total Bill With Missoula Plan	$32.24
Net Change:	-$10.25

Joe Q. Public
123 Main Street, Anytown, USA

Wireless Service Price

Nationwide Calling Plan

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic (Monthly Recuring Charge)	$30.00	$30.00
Vertical Features (CID, VM, Etc.)	Included	Included
Subscriber Line Charge (SLC)	N/A	N/A
Federal Universal Service Charge	$1.17	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Wireless Charges	$31.17	$31.27

CUSTOMER IMPACT

Total Bill Under Current Plan	$31.17
Total Bill With Missoula Plan	$31.27
Net Change:	$0.10

Joe Q. Public
123 Main Street, Anytown, USA

Wireless Service Price

Nationwide Calling Plan

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic (Monthly Recuring Charge)	$50.00	$50.00
Vertical Features (CID, VM, Etc.)	Included	Included
Subscriber Line Charge (SLC)	N/A	N/A
Federal Universal Service Charge	$1.95	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Wireless Charges	$51.95	$51.27

CUSTOMER IMPACT

Total Bill Under Current Plan	$51.95
Total Bill With Missoula Plan	$51.27
Net Change:	-$0.68

Joe Q. Public
123 Main Street, Anytown, USA

Wireless Service Price

Nationwide Calling Plan

Charges	Current Rules with Revenue Recovery	Missoula Plan with Per Unit Recovery
Basic (Monthly Recuring Charge)	$99.99	$99.99
Vertical Features (CID, VM, Etc.)	Included	Included
Subscriber Line Charge (SLC)	N/A	N/A
Federal Universal Service Charge	$3.90	$1.03
RM plus Early Adopter Fund Charge	$0.00	$0.24
Total Wireless Charges	$103.89	$101.26

CUSTOMER IMPACT

Total Bill Under Current Plan	$103.89
Total Bill With Missoula Plan	$101.26
Net Change:	-$2.63

Type of Input	Data Used
Basic Local Monthly Charge- Non Lifeline- Urban	$15.00
Basic Local Monthly Charge- Non Lifeline- Rural	$11.00
Local Feature Charge	$5.00
Subscriber Line Charge - Current- Urban	$6.00
Subscriber Line Charge - Current-Rural	$6.50
Subscriber Line Charge - with Missoula Plan	$8.75
Federal Universal Service Charge - % of Revenue	10.50%
Per Unit FUSF Charge -- Without Missoula Plan	$0.97
Per Unit FUSF Charge -- With Missoula Plan	$1.03
Restructure Mechanism plus Early Adopter	$0.24
Cable Modem - Average Monthly Charge	$40.00
Cable Modem - % of Revenue Reported	0.00%
DSL - Average Monthly Charge	$29.00
DSL % of Revenue Reported	0.00%
VoIP - Average Monthly Charge	$25.00
VoIP % of Revenue Reported	64.90%
Wireless Service - Low	$30.00
Wireless Service - Medium	$50.00
Wireless Service - High	$99.99
Wireless Safe Harbor	37.10%
Missoula Plan % Access Reduction	67.00%
Interstate as a % of Toll Charges	70.00%
Access a % of Toll Charges	40.00%
% Access Flowthrough to Toll Rate	100.00%

Customer Name	Joe Q. Public
Customer's Address	123 Main Street, Anytown, USA
Column 1 Heading	Current Rules with Revenue Recovery
Column 2 Heading	Missoula Plan with Per Unit Recovery

Assumptions for Developing Customer Impact Under Per Unit Based Contribution Methodology versus the Current Revenue Based Contribution Methodology[1]

To develop the Customer Impacts estimates of Per Unit Contribution, the current Revenue Based Contribution Factor, and Customer Bills from various Wireline and Wireless Services were used. [2]

Per Unit Contribution With the Incremental RM from the Missoula Plan

With the assumptions used in this analysis, the total per unit customer contribution at the end of transition of the Missoula Plan would be $1.27 per month. This per unit estimate is derived by annualizing the most recent three quarters (1st Quarter 2006 through 3rd Quarter 2006) of the federal universal service program costs, and then adding Restructure Mechanism (RM) related funding, including changes to the High Cost Loop Fund, Support for Lifeline and Early Adopter Fund required to implement the Missoula Plan (estimated to be $2.225 Billion). The Contribution Base (i.e. Units) assumed in this analysis consists of Telephone Numbers and Network Access Connections that includes a tiered capacity-based contribution obligation for non-circuit-switched dedicated connections.

Current Revenue Based Contribution Factor

The current average revenue based contribution factor is 0.105 (or 10.5%). The program cost (i.e. Baseline) for that estimate is derived from the most recent three quarters (1st Quarter 2006 through 3rd Quarter 2006) of federal universal service program costs annualized ($6.97 Billion). Contribution Base revenues are derived from the most recent three quarters of published data from quarterly FCC Public Notices (1st Quarter 2006 through 3rd Quarter 2006) which are then annualized. The FCC's methodologies were used to derive the final factor.

Customer Bills

Conservative assumptions were used to develop customer bills from different services. For the sake of simplicity, only the most relevant items of the bills are incorporated. Local, State, and Federal taxes and government imposed surcharges are not relevant for

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[1] Substantial overhaul of the existing universal service contribution rules is necessary. There is broad agreement throughout the industry and by the Commission that the rules in place today produce an inherently unstable universal service funding base. However, the Missoula Plan proposes no specific contribution methodology. The Plan supporters do however, believe that the base of contributors must be broadened and that base must be stable. Proposed revisions to intercarrier compensation are usually evaluated based on their effects on consumers or groups of consumers. The attached charts portray such an analysis for the Missoula Plan based on a telephone numbers and connections basis. The use of numbers and connections does not constitute an endorsement by the Missoula Plan supporters of numbers and connections as the appropriate contribution base. It does, however provide a useful basis to evaluate the consumer effects of the proposed plan. Other contribution bases that may be under consideration by the Commission (such as telephone numbers) could be evaluated if desired by the Commission, but it is unlikely that the results by customer group would change substantially.

[2] This analysis and its underlying assumptions were developed and prepared solely by AT&T.

this comparative analysis. It is also assumed that VoIP customers need a broadband connection (Cable Modem or DSL) and do not need a wireline connection – Local or Long Distance. Following are brief descriptions for each of those services represented in the analysis.

- **Wireline Local**: The average urban wireline local residential customer bill is assumed to have three components -- Basic Local $15.00, Features of $5.00, and a Subscriber Line Charge of $6.00. For the average rural wireline local customer bill the charges are assumed to be-- Basic $11.00, Features $5.00, and a Subscriber Line Charge of $6.50. It is also assumed that that by the end of the transition, the average Subscriber Line Charge will increase to $8.75 under the Missoula Plan.
- **Wireline Toll** (i.e. Long Distance): . Assumptions about the toll component vary from $3.00 to $50.00 per month depending on the size (small, medium, and high) and type (urban or rural) of customer. On average, 40% of toll charges are directly attributed to access charges. In addition, all toll customers (excepting Lifeline subscribers) are expected to pay a flat fee of $3.00 per month (i.e. MRC). Only Interstate toll revenues are assessable under the current revenue-based contribution methodology. As a result, 70% of toll and 100% of MRC revenues are assumed to be Interstate. Note: It is also assumed that by the end of the Plan's transition, all carriers will flow through 100% of their realized access savings into lower Toll charges.
- **Wireless Subscribers**: Wireless customers are separated into three user segments – Low, Medium, and High. Low users have an average monthly bill of $30.00 per line, Medium users $50.00, and High users $99.99. Per a recent FCC order, 37.1 percent of these revenues are assumed to be interstate (i.e. Safe Harbor) and therefore assessable under the current revenue-based contribution methodology.
- **DSL Subscribers**: The average monthly bill of DSL subscribers is assumed to be $29.00. Per a recent ruling, cable modem revenues will be exempted from the current revenue-based contribution methodology.
- **Cable Modem Subscribers**: The average monthly bill of Cable Modem Subscribers is assumed to be $40.00. Per FCC rules, cable modem revenues are exempted from the current revenue-based contribution methodology.
- **VoIP Subscribers**: The average flat monthly fee for VoIP-based long distance calling is assumed to be $25.00 per month. Per a recent FCC order, 64.9 percent of these revenues are assumed to be interstate (i.e. Safe Harbor) and therefore assessable under the current revenue-based contribution methodology.

Exhibit 2

Economic Benefits from Missoula Plan Reform of Intercarrier Compensation

Richard N. Clarke

Thomas J. Makarewicz

AT&T

18 July 2006

1 Overview

This paper quantifies the likely economic benefits from adoption of the "Missoula plan" for intercarrier compensation reform. Briefly stated, the Missoula plan reduces per-minute access and reciprocal compensation charges imposed on long distance or other intercarrier calls and replaces these revenues with a combination of increased caps on per-month subscriber line charges ("SLCs") and revenues obtained from a new Restructure Mechanism ("RM"). In addition, the plan calls on the Federal Communications Commission to reform its current collections mechanism for its universal service fund ("USF"). As discussed below, the economy-wide benefits of these various reforms may reach $54 billion during the eight year period after plan initiation.[1]

2 Wireline

Under the analysis discussed below, wireline customers may realize an average monthly net welfare gain of $2.63 per household once the plan has been fully phased in. Over the eight years following initial implementation of the plan, cumulative consumer benefits may approach $21.14 billion, or $199 per household.

2.1 Measuring welfare gains to wireline consumers

Efficiency and consumer welfare are improved when price structures are reformed to correspond more closely to the technological changes and increased customer choice that have altered telecommunications since the inception of the existing access charge structure. Here, because demand for telephone lines is less elastic than demand for toll minutes, the Missoula plan will increase wireline consumer welfare by reducing current levels of per-minute access charges and replacing any associated revenue losses with increases in flat per-month charges.

In graphical format, the gross increase in consumer surplus (i.e., the welfare gain consumers enjoy from reduced long distance prices enabled by lower access charges) is depicted by the area to the left of a product's demand curve lying between the relevant price horizontals. But to obtain the actual net increase in consumer surplus, this gross increase must be reduced by any increases in flat per-month end user charges that under

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[1] The analytic and expositional structure of this analysis follows that presented in Richard N. Clarke, Thomas J. Makarewicz and Brian K. Staihr, "Economic Benefits from Intercarrier Compensation Reform," attached to *Reply Comments of the Intercarrier Compensation Forum* in Federal Communications Commission CC Docket No. 01-92, July 20, 2005. Many of the wireline and wireless parameter values used in the present analysis match those that were first developed for this earlier analysis.

the Missoula plan will be borne by wireline customers.[2] Figure 1 displays this consumer surplus measurement.

In Figure 1, Area A represents the gain to consumers from purchasing the same amount of wireline toll minutes as now, but at a lower per-minute price brought about by implementation the Missoula plan's reforms. In addition to these lower toll payments, lower wireline toll prices will stimulate an increase in toll usage. Area B represents the value to consumers of this increased consumption of wireline toll minutes at the now lower per-minute price.

Known variables for the wireline consumer benefit analysis are:

- Current average per incremental minute wireline toll price, $P_{current}$, is approximately $0.05.[3]
- Current wireline toll minutes, $Q_{current}$, are approximately 582 billion nationwide derived from 2004 data reported to the FCC and NECA.
- The post-Missoula plan per minute wireline toll price, $P_{proposed}$, of $0.03557 will be realized in the fourth year following the Missoula plan's implementation. The wireline toll reduction assumes that the plan's switched access reductions of $0.01443 per conversation minute will be phased in evenly over four years and be flowed through to retail toll rates.
- The price elasticity of demand for wireline toll, β, is assumed to be -0.72. This measure applies to all wireline long distance – interstate and intrastate, business and residential. It falls in the middle of the range of historic interstate toll price elasticities.[4]

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[2] This general approach to quantifying gains in consumer surplus were used by T. Makarewicz in "Efficient Telecom Pricing: Who Stands to Benefit?" *Public Utilities Fortnightly*, March 15, 1996, pp. 26-28. A similar but simplified form of this welfare analysis has also been used in a Comment filed by the Regulatory Studies Program of the Mercatus Center at George Mason University in the Federal Communications Commission's CC Docket No. 01-92, May 23, 2005.

[3] This figure is an average of residence and business per-minute rates and is intended to represent the incremental retail price of a minute of toll calling. Note that is not intended to include the flat monthly charges (e.g., $3.95) that an interexchange carrier may levy in addition to its per-minute charges and does not include universal service assessments. Thus, this figure should generally be significantly less than the gross average revenue per minute figures reported by the FCC in Table 13.4 of its *Trends in Telephone Service*, June 21, 2005. Available at: http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/trend605.pdf .

[4] Consensus estimates of the elasticity for long distance service are in the neighborhood of -0.7; see M. H. Riordan, "Universal Residential Telephone Service," in Martin E. Cave, Sumit K. Majumdar, and Ingo Vogelsang (eds.), *Handbook of Telecommunications Economics, Volume 1* (Amsterdam: Elsevier, 2002), p. 436. See also Jerry Hausman and Howard Shelanski, "Economic Welfare and Telecommunications Regulation: The E-Rate Policy for Universal-Service Subsidies,"

These known input values allow us to solve for the constant, A,[5] and the post-Missoula plan toll minutes, $Q_{proposed}$.[6] Using these parameter values, we can estimate welfare gains from the Missoula toll price reductions.

Clearly consumers are better off if they pay less for the same amount of long distance usage. Those lower unit toll charges constitute the bulk of the consumer surplus improvement the Missoula plan would achieve. Area A in Figure 1, calculated as $(P_{current} - P_{proposed})(Q_{current})$, represents the savings consumers would enjoy if they purchase an unchanged amount of toll usage at its new lower price per minute. In addition, because consumers will find long distance service to be a better value at its new lower unit price, they will buy more minutes – according to their price elasticity of demand (β). Although a consumer's total toll bill might increase if he chooses to purchase more lower-priced toll minutes than before, he still gains value from this more efficient consumption proposition. Area B mathematically captures the gain in value that consumers derive from their additional toll purchases.

From the demand equation, $Q = AP^{\beta}$, it follows that

$$P = (Q/A)^{1/\beta}. \tag{1}$$

Substituting for P, Area B is derived as follows:

$$Area\ B = [A^{-1/\beta} \int_{Q_{current}}^{Q_{proposed}} Q^{1/\beta} dQ] - [(Q_{proposed} - Q_{current})(P_{proposed})] \tag{2}$$

Completing the integration in the above expression renders:

$$Area B = [A^{-1/\beta}] \left[\left(Q_{proposed}^{(1+1/\beta)} - Q_{current}^{(1+1/\beta)} \right) \Big/ (1 + 1/\beta) \right] - [(Q_{proposed} - Q_{current})(P_{proposed})] \tag{3}$$

Thus, the gross gain in consumer surplus shown in Figure 1 measures the bill reduction from a static amount of toll minutes purchased at the lower price per unit

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Yale Journal on Regulation 16 (Winter 1999): 36-37; and L. Taylor, *Telecommunications Demand: A Survey and Critique*, Cambridge, MA: Ballinger Publishing, 1980, p. 99.

5 $A = Q/P^{\beta}$

6 $Q_{proposed} = AP_{proposed}^{\beta}$.

(Area A), plus the increased value from expanded toll use prompted exclusively by the reduced unit price for toll (Area B).

For wireline subscribers, we subtract from these estimated gains in consumer welfare the phased-in increases in flat end user charges (SLC and RM charges) that wireline consumers could experience under this rate restructure. The resulting amount is the net gain in consumer welfare flowing from the combination of lower toll prices and increased end user charges.

2.2 Results for wireline customers

The analysis shows that the total nationwide incremental improvement in consumer surplus for wireline customers from the Missoula plan reaches $3.36 billion per year upon completion of the plan's switched access rebalancing. *That is, by the end of the plan's rebalancing phase-in, wireline customers will experience an annual net consumer welfare gain of $3.36 billion – which will continue for the remaining years of the plan.* This translates to an average monthly net welfare gain of $2.63 per household. Of these gains, 28% are due to reform of interstate access charges and 72% are due to reform of intrastate access charges. Figure 2 shows annual, monthly, and cumulative impacts to wireline subscribers for each year following implementation of the Missoula plan. Eight years following implementation, cumulative consumer benefits will be $21.14 billion, or $199 per household. Also, to the extent that competition in retail markets inhibits carriers from raising SLCs up to the higher new caps, consumer welfare will be enhanced even further.

2.3 Who gains, who loses among wireline customers?

Certain customers may benefit more than others from the Missoula plan. As discussed, a customer benefits when his gain from lower long distance prices more than offsets his end user charge increase. Thus, the more long distance a customer uses, the greater that customer benefits. Notably, the potential benefit for higher wireline toll users has no ceiling, while any potential "loss" for light users of wireline toll service is bounded by the amount of the end user charge increases.

One customer segment of particular concern is low-income subscribers. A vital provision of the Missoula plan waives increases in end user charges for Lifeline subscribers. Under the Missoula plan, qualifying low-income subscribers will be protected from end user charge increases even as they receive the full benefit of lower wireline toll rates. Tariff data indicate that Lifeline subscribers currently pay about $10.28 monthly for basic local service, with no associated charges for SLC or federal

USF.[7] Lifeline subscribers who use a "medium" amount of toll spend another $5.00 per month, plus about $0.37 for the associated federal USF charge. Hence, the total local and toll payment for Lifeline "medium" toll users is $15.65. Under the Missoula plan, the local payments for these Lifeline subscribers will be unchanged due to their exemption from SLC, USF and RM charges. However, their $5.00 monthly toll payment will fall to about $3.66 and the corresponding $0.37 federal USF charge will be waived, resulting in a post-plan total bill of about $13.94. Thus, Lifeline subscribers who use a "medium" amount of toll will see a net monthly total bill reduction of approximately $1.71 because they will be exempt from end user charge increases but will benefit from toll price reductions.

While specific consumer benefits will vary, most individual wireline consumers will likely enjoy substantial benefits from implementation of the Missoula plan, as suggested by experience with similar rate rebalancing in the past. In a consumer expenditure survey, economist Frank Wolak's model showed that a similar type of price rebalancing proposal "appears to result in net consumer gains to the majority of households in our sample."[8] Similarly, a Southwestern Bell study that examined actual customer bill data indicated that about 45 percent of Southwestern Bell residential customers have experienced a net bill reduction under early implementation of the SLC program. Most of those who did not realize a net bill reduction saw only minor increases.[9]

3 Wireless

The Missoula plan is likely to benefit wireless consumers as well because they, too, will benefit from lower net per-minute rates for service. Wireless consumers should realize an average monthly benefit of $1.17. By eight years after initial implementation of the plan, these benefits should amount to over $19.36 billion, or $89 per subscriber.

3.1 Measuring welfare gains to wireless customers

The prices that customers pay for wireless service will fall because of the reductions in access charges and reciprocal compensation rates offered by the Missoula plan. Accordingly, the estimated impact of the Missoula plan on wireless customers can

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7 These data come from the consumer impact charts included in Exhibit 1 of this filing.

8 Frank Wolak, "Can Universal Service Survive in a Competitive Telecommunications Environment?," *Information Economics and Policy*, at 36 (February 1996 draft).

9 A. Larson, T. Makarewicz and C. Monson, "The Effect of Subscriber Line Charges on Residential Telephone Bills," 13 *Telecommunications Policy* 337 (1989).

be determined by replicating the process outlined above using wireless calling data, but with three major modifications.

First, in the wireline analysis presented above, the welfare gains from the reduction in access charges were netted against the offsetting welfare effects of the increase in SLC and RM collections. But the Plan's increase in regulated SLC caps should not affect wireless subscribers. Wireless subscribers, however, will be assessed RM charges, which will reduce their overall welfare gains. The following analysis assumes that wireless subscribers will pay these RM assessments through fixed monthly charges.

Second, unlike the above analysis of wireline effects, the analysis of wireless calling includes the impact of reducing reciprocal compensation charges along with access charges.[10] Although the impact of the reciprocal compensation reduction is significantly smaller than the impact of the access reduction (since reciprocal compensation rates generally are so much lower to begin with), this impact is realized across a larger quantity of wireless minutes than the access reduction impact.

Third, unlike the analyzed wireline data which are specific to long distance toll usage, wireless usage data generally agglomerate all minutes. Hence wireless data include minutes for which there will be no reduction in either access charges or reciprocal compensation charges. This is because these minutes (such as on-network, wireless-to-wireless minutes) incur neither access charges nor reciprocal compensation charges.

This third effect could be incorporated into the analysis two different ways. One could measure the impact of the access charge reductions and reciprocal compensation reductions on the subset of minutes to which each applied, or one could incorporate the combined reductions into an overall (but much smaller) impact that would be applied across all wireless minutes. For example, assume the monthly reduction in access charges and reciprocal compensation for an average wireless customer totaled $1.00. If the average number of customer minutes was 100 per month (25 charge-bearing minutes and 75 non-charge-bearing minutes), the $1.00 reduction could be modeled as a four-cent-per-minute reduction on each charge-bearing minute. Alternately, the $1.00 reduction could be modeled as a one-cent-per-minute reduction on all 100 minutes.

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[10] As a general matter, no similarly direct incremental consumer welfare benefit accrues to wireline callers from reform of reciprocal compensation rates because retail local wireline calling that may bear reciprocal compensation charges is normally priced on a flat rate basis.

The second approach is the most appropriate for two reasons. First, wireless demand elasticity measures do not differentiate between types of wireless minutes. Second, the retail pricing of wireless calls generally blends charges imposed for minutes that bear access or reciprocal compensation charges and minutes that do not. Thus, callers tend to be insensitive to distinctions between minute types.

As in the case of wireline calling, Figure 3 demonstrates the gain in consumer surplus that wireless customers receive as a result of the access charge reductions and reciprocal compensation charge reductions built into the Missoula plan.

Known variables are:

- Current average per minute price of wireless calling, $P_{current}$, is approximately $0.03410.[11]
- Expected wireless minutes per subscriber per month of 791.[12]
- Post-Missoula plan per-minute wireless calling price, $P_{proposed}$, of $0.03236 is reached during the fourth year of the plan's implementation. This reduction assumes that both access charge reductions (approximately $0.00926 per access minute) and reciprocal compensation charge reductions (approximately $0.0002 per reciprocal compensation minute) are flowed through to consumer retail prices. However, as discussed above, the total impact of these reductions in charges for access minutes and for reciprocal compensation minutes is divided across all wireless minutes, resulting in a much smaller per-minute impact when spread across this larger denominator.[13]

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[11] The Cellular Telecommunications & Internet Association's December 2004 Survey provides average revenue per-unit ("ARPU") numbers which are adjusted for non-telecom revenue and non-minute related revenue. Using FCC data we estimate that telecom revenue represents 87% of ARPU. Using regression analysis we estimate that, on average, $20 of ARPU is non-minute related. The remaining dollars are divided by average minutes to obtain a per-incremental-minute price. This figure does not include USF collections. (It is worth noting that although the per-minute price is heavily dependent on the assumption regarding non-minute-related ARPU, the calculated benefits are not. Changing the assumption of non-minute-related ARPU from $20 per subscriber to zero changes the per-minute price by approximately 1.5 cents. However, the corresponding change in consumer welfare changes by less than two percent.)

[12] Figure projected as of year-end 2005 using estimated historical minute growth rate applied to data from Merrill Lynch Security Research and Economic Group Study, 2004. This figure represents an extremely conservative projection for the number of minutes used by wireless customers during the anticipated effective dates of the Missoula plan.

[13] The actual process for calculating the reduction is as follows. For an average wireless purchaser, determine total monthly minutes, percent of minutes originating versus terminating, the percentage of originating minutes that terminate to another carrier and incur access charges, and the percentage of originating minutes that terminate to another carrier and incur reciprocal compensation charges. For an average consumer utilizing 791 minutes per month, we estimate 60% of total minutes are originating (475/791). Of those 475 minutes, we estimate that on average 45% (214/475) incur reciprocal compensation charges and an additional 30% (142/475) incur access charges. The per-minute access charge reductions are applied to the 142 minutes,

- The price elasticity of demand for per-minute wireless calling, β, is assumed to be -1.29. This measure applies to all wireless minutes.[14]

Figure 3 displays the various components of the total welfare gain to wireless customers. As with the wireline analysis, one portion of the total gain is the net reduction in the per-minute price of wireless calling multiplied by the previous purchase volume of minutes (Area A), while the second portion is the increased value gained by wireless customers from their increased demand stimulated by the lower price (Area B). Incremental monthly RM charges are then subtracted to compute net welfare gains. These gains are calculated on a monthly per-subscriber basis using average minutes, and then multiplied by the total number of wireless subscribers. However, unlike the wireline analysis above, the wireless estimate must also incorporate the substantial growth in wireless subscribers that we have witnessed and expect will continue over the life of the Missoula plan.

3.2 Results for wireless customers

Figure 4 demonstrates that after full phase-in of the Missoula plan, *wireless customers will experience an annual net consumer welfare gain of approximately $3.06 billion that will continue for the remaining years of the plan.* This translates to a monthly benefit of $1.17 for the average wireless subscriber as compared to the results under the regulatory status quo. On an annual basis, this amounts to $14.04 per subscriber once rebalancing is complete. Of these benefits to wireless customers, 42% are due to reform of interstate access charges and reciprocal compensation while 58% are due to reform of intrastate access charges. Over the eight years following initial implementation of the plan, these wireless benefits will amount to over $19.36 billion, or $89 per subscriber.

4 Combined results – including USF collections reform

As discussed above, the impact of the intercarrier-compensation reform provisions of the Missoula plan on switched wireline customers produces, upon completion of the rebalancing, a net increase in consumer welfare of $3.36 billion annually. The analogous impact on wireless customers produces, upon completion of the rebalancing, a net increase in consumer welfare of approximately $3.06 billion

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and the per-minute reciprocal compensation charge reductions are applied to the 214 minutes. Then the combined dollar value of the two reductions is divided across all 791 minutes, for a per-minute reduction of $0.00175. As in the wireline analysis, the assumption is that this impact is phased in evenly over four years.

[14] Taken from A. Ingraham and J. G. Sidak, "Do States Tax Wireless Service Inefficiently? Evidence on the Price Elasticity of Demand," *Virginia Law Review*, Fall 2004.

annually. Thus the wireline plus wireless total benefit equals $6.42 billion per year after the plan is fully phased in.[15]

In addition to the Missoula plan's reforms of the existing framework of intercarrier compensation, reform of the method used to collect current Universal Service Fund contributions may also occur. Currently, these funds are collected through percentage assessments on interstate and international telecommunications revenues. This inflates effective per-minute interstate retail toll prices and wireless per-minute prices by the amount of this assessment, which is currently in the neighborhood of 11%. Thus, converting current USF contributions (on a revenue-neutral basis) from percentage additives on high-elasticity per-minute rates to low-elasticity flat per-connection charges would produce a welfare benefit for switched wireline and wireless customers.[16]

Figure 5 calculates the welfare gains from converting embedded USF collections contributed by switched wireline customers to flat monthly charges per line or per connection.[17] It demonstrates that this conversion will return wireline customers an additional $77 million in consumer surplus per year. Over an eight-year horizon, these benefits amount to $616 million. Figure 6 calculates the analogous welfare gains to wireless customers. It demonstrates that this conversion will return wireline customers an additional $45 million in consumer surplus per year.[18] Over an eight year horizon, these benefits amount to $361 million.

Thus, combined compensation and USF collections reform may produce an annual net increase in consumer welfare of $6.54 billion, which will be realized for every year of the plan after phase-in. Over eight years (four years of phase-in, four years of full effect), the cumulative plan benefits amount to about $41.48 billion.

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15 In addition to affecting the welfare of switched wireline and wireless customers, compensation reform also may affect the welfare of customers of paging and special access services by imposing RM collections liability on these services. Because these increased collections may reduce the benefits received by customers of these services, the calculations of switched wireline plus wireless benefits presented in this analysis may overstate slightly the total benefits enjoyed by the complete universe of telecommunications customers.

16 If a wireless carrier has already chosen to collect its USF assessments through flat per-customer charges, then the welfare benefits to its customers from this shift to flat per-connection charges will be less than the figures calculated here.

17 Because current USF collections rules assess only interstate revenues, the calculated welfare gains are based only on reductions in the effective retail price of interstate toll minutes.

18 Because current USF collections rules assess only interstate revenues, wireless benefit calculations assume that average wireless retail prices will fall by only 30% of the amount that interstate minute prices would drop from this collections reform.

Finally, the benefits the plan would bring to the entire economy may exceed the telecommunications sector benefits discussed above. Any economic activity in a specific sector that introduces additional dollars into the system has a multiplier effect as those dollars flow through the greater economy. These impacts on output and employment can be measured by using the Department of Commerce RIMS II multipliers.[19] For the telecommunications sector, the RIMS II multiplier is 2.56. Simply stated, this means that a $1 expansion of economic activity in the telecommunications sector ultimately translates to a $2.56 expansion in the overall economy. Because Missoula plan compensation reforms will increase net overall expenditures on telecommunications by $4.97 billion over its phase-in, these increased expenditures may stimulate greater output and employment in the overall economy. Using the RIMS II multiplier, the multiplied economic impacts could equal $12.71 billion over the eight years following adoption of the plan.[20] This figure is separate and apart from the $41.48 billion of increased consumer surplus – translating to a combined economic benefit of up to $54.19 billion. Applying the RIMS II multiplier for employment of 15.75 new jobs per additional million dollars of demand indicates that overall national employment also could rise by over 18,000 jobs after full implementation of the plan. Fully 63% of all of these benefits derive from reform of intrastate mechanisms and 37% from reform of interstate mechanisms.

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[19] Bureau of Economic Analysis, U.S. Department of Commerce RIMS II Multipliers (1997/2002), Table 1.4.

[20] While increases in economic activity in one sector may have multiplied effects on other sectors of the economy, these calculations must be considered speculative and are strongly influenced by the input-output relationships assumed within the economy.

Figure 1: Wireline Surplus Derivation

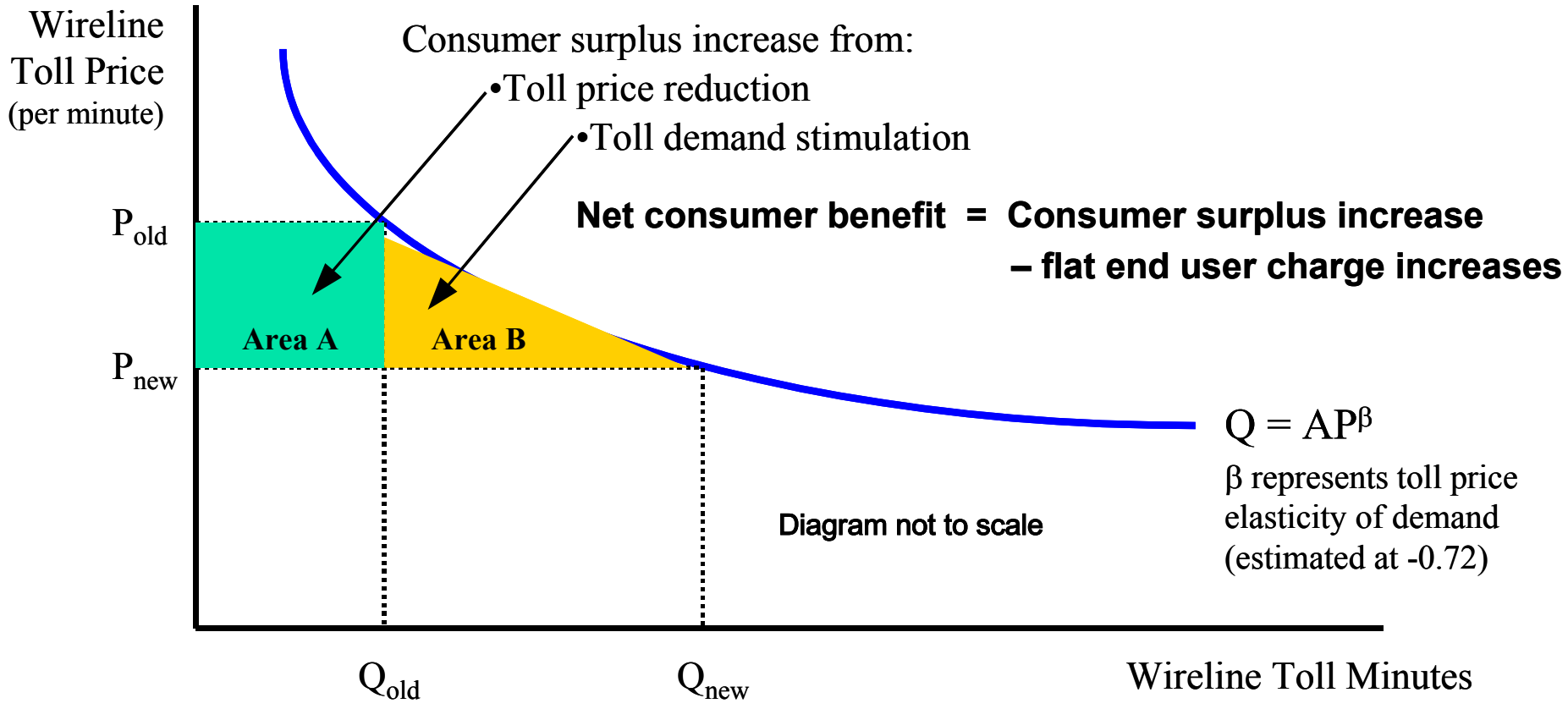

Figure 2

Missoula Plan for Compensation Reform: *WIRELINE CONSUMER WELFARE ANALYSIS*

	Base Year	Step 1	Step 2	Step 3	Steps 4&5	
Wireline toll minutes	582,315,493,000	614,574,234,868	651,458,630,546	694,113,210,843	744,108,670,797	
% Change		5.5%	6.0%	6.5%	7.2%	
Composite Switched Access rate per convers min	$0.02154	$0.01793	$0.01433	$0.01072	$0.00711	
Estimated Toll Price per minute (w/o USF)	$0.05000	$0.04639	$0.04279	$0.03918	$0.03557	
% Change		-7.2%	-7.8%	-8.4%	-9.2%	
Interstate toll price elasticity (β)	-0.72	-0.72	-0.72	-0.72	-0.72	
Constant (A) in demand equation Q = A(P^β)	67,362,275,335	67,362,275,335	67,362,275,335	67,362,275,335	67,362,275,335	
Wireline Toll Revenues	$29,115,774,650	$28,511,635,191	$27,872,657,508	$27,193,620,318	$26,467,945,420	
Area A ($ transfer from producers to consumers)		$2,100,703,141	$2,217,076,552	$2,350,137,010	$2,504,013,408	
Area B (amount added to consumer surplus)		$56,937,784	$64,986,602	$74,995,812	$87,682,655	
Incremental End User Increases (SLC + USF charges)		$1,523,106,000	$1,523,106,000	$1,523,106,000	$1,523,106,000	
						Cumulative Gain Over Eight Year Plan
Incremental Annual Net Benefit (Area A + Area B - End User incr)		$634,534,925	$758,957,154	$902,026,822	$1,068,590,063	
Run-rate relative to base		$634,534,925	$1,393,492,079	$2,295,518,901	**$3,364,108,963**	**$21,144,090,721**
Incremental Monthly Net Benefit		$52,877,910	$63,246,430	$75,168,902	$89,049,172	or **$199**
Run-rate relative to base		$52,877,910	$116,124,340	$191,293,242	$280,342,414	per household
Monthly Net Gain per household (run-rate)		$0.50	$1.09	$1.80	**$2.63**	
Households	106,400,000					
Intrastate fraction of access reductions	72%					
Interstate fraction of access reductions	28%					
Intrastate benefits (run-rate)		$454,961,541	$999,133,821	$1,645,887,052	**$2,412,066,127**	**$15,160,313,047**
per household per month		$0.36	$0.78	$1.29	**$1.89**	$142 per household
Interstate benefits (run-rate)		$179,573,384	$394,358,258	$649,631,849	**$952,042,837**	**$5,983,777,674**
per household per month		$0.14	$0.31	$0.51	**$0.75**	$56 per household

Figure 3: Wireless Surplus Derivation

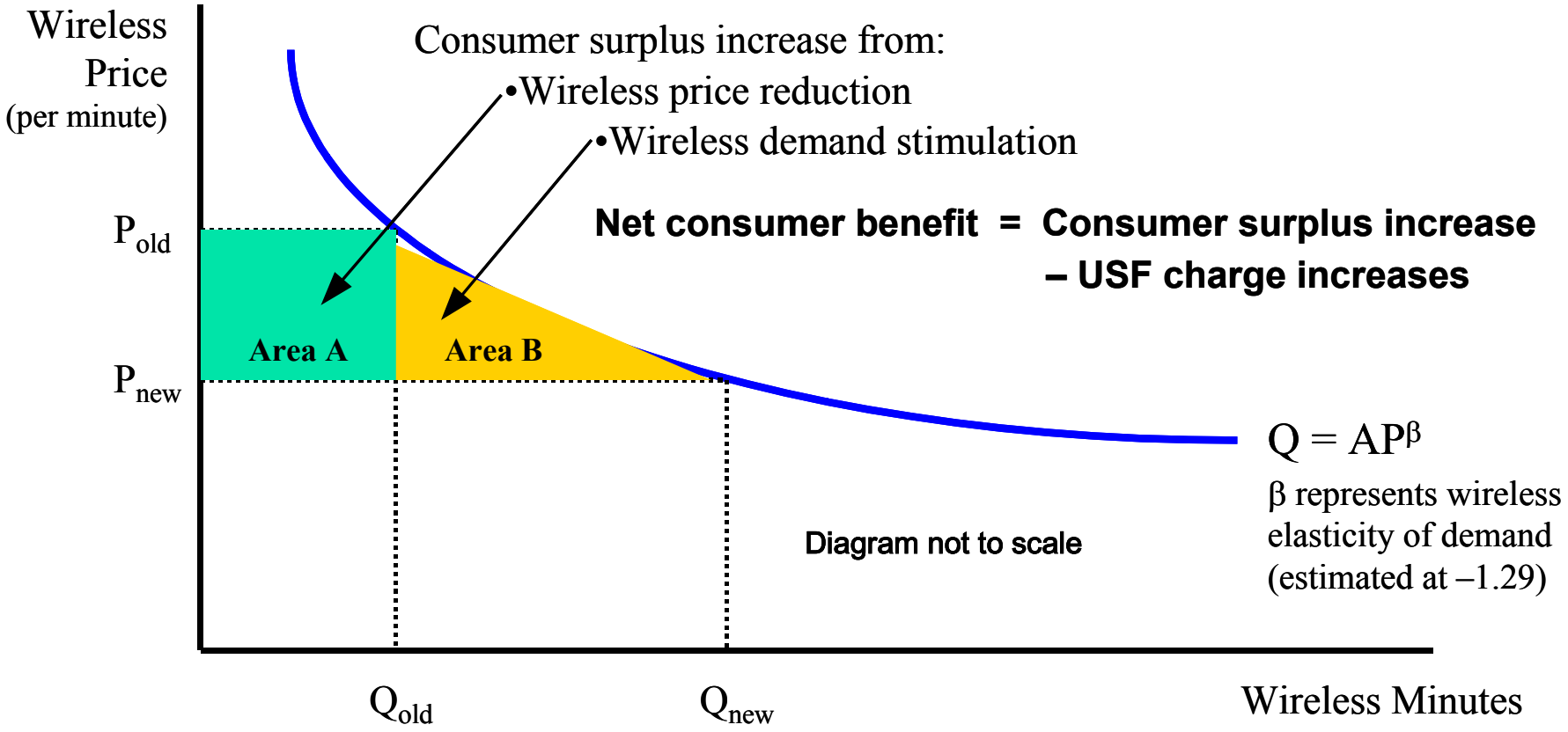

Figure 4

Missoula Plan for Compensation Reform: *WIRELESS CONSUMER WELFARE ANALYSIS*

	Base Year	Step 1	Step 2	Step 3	Steps 4&5	
Wireless minutes per subscriber per month	791	804	818	832	846	
% Change		1.7%	1.7%	1.7%	1.7%	
Estimated Price per wireless minute (w/o USF) *	$0.03410	$0.03366	$0.03323	$0.03279	$0.03236	
% Change		-1.3%	-1.3%	-1.3%	-1.3%	
Wireless price elasticity (β)	-1.29	-1.29	-1.29	-1.29	-1.29	
Constant (A) in demand equation Q = A(P^β)	10.1243	10.1243	10.1243	10.1243	10.1243	
Minute-driven wireless revenues	$26.97	$27.07	$27.17	$27.28	$27.38	
Subscribers @ 10% growth:	170,431,172	187,474,289	206,221,718	226,843,889	249,528,278	
Area A ($ transfer from producers to consumers)		$0.3450	$0.3508	$0.3567	$0.3629	
Area B (amount added to consumer surplus)		$0.0029	$0.0030	$0.0031	$0.0031	
Incremental USF increase		$0.0750	$0.0682	$0.0620	$0.0563	
Net monthly benefit per subscriber (Area A + Area B - USF incr)		$0.2729	$0.2856	$0.2978	$0.3097	
						Cumulative Gain Over Eight Year Plan
Incremental Annual Net Benefit		$613,883,978	$706,657,153	$810,642,890	$927,227,880	
Run-rate relative to base		$613,883,978	$1,320,541,131	$2,131,184,021	**$3,058,411,901**	**$19,357,668,637**
Incremental Monthly Net Benefit		$51,156,998	$58,888,096	$67,553,574	$77,268,990	or **$89**
Run-rate relative to base		$51,156,998	$110,045,094	$177,598,668	$254,867,658	per subscriber
Monthly Net Gain per subscriber (run-rate)		$0.27	$0.56	$0.86	**$1.17**	
Intrastate fraction of access/comp reductions	58%					
Interstate fraction of access/comp reductions	42%					
Intrastate benefits (run-rate)		$356,052,707	$765,913,856	$1,236,086,732	**$1,773,878,903**	**$11,227,447,809**
per subscriber per month		$0.16	$0.32	$0.50	**$0.68**	$52 per subscriber
Interstate benefits (run-rate)		$257,831,271	$554,627,275	$895,097,289	**$1,284,532,999**	**$8,130,220,827**
per subscriber per month		$0.11	$0.23	$0.36	**$0.49**	$37 per subscriber

* Figure excludes wireless revenues that are not related to minutes of use

Figure 5

Missoula Plan for USF Collections Reform: *WIRELINE CONSUMER WELFARE ANALYSIS*

	Base Year	Step 1	Step 2	Step 3	Steps 4&5	
Wireline toll minutes	373,083,539,560	402,196,820,585	402,196,820,585	402,196,820,585	402,196,820,585	
% Change		7.8%	0.0%	0.0%	0.0%	
Estimated Toll Price per minute w/ USF	$0.0550	$0.0495	$0.0495	$0.0495	$0.0495	
% Change		-9.9%	0.0%	0.0%	0.0%	
Interstate toll price elasticity (β)	-0.72	-0.72	-0.72	-0.72	-0.72	
Constant (A) in demand equation Q = A(P^β)	46,223,968,105	46,223,968,105	46,223,968,105	46,223,968,105	46,223,968,105	
Wireline Toll Revenues	$20,519,594,676	$19,928,671,290	$19,928,671,290	$19,928,671,290	$19,928,671,290	
Area A ($ transfer from producers to consumers)		$2,033,473,346	$0	$0	$0	
Area B (amount added to consumer surplus)		$76,967,316	$0	$0	$0	
Incremental End User Increases (SLC + USF charges)		$2,033,473,346	$0	$0	$0	
						Cumulative Gain Over Eight Year Plan
Incremental Annual Net Benefit (Area A + Area B - End User incr)		$76,967,316	$0	$0	$0	
Run-rate relative to base		$76,967,316	$76,967,316	$76,967,316	**$76,967,316**	**$615,738,531**
Incremental Monthly Net Benefit		$6,413,943	$0	$0	$0	or **$6**
Run-rate relative to base		$6,413,943	$6,413,943	$6,413,943	$6,413,943	per household
Monthly Net Gain per household (run-rate)		$0.06	$0.06	$0.06	$0.06	

Households	106,400,000
USF assessment rate	11%

Figure 6

Missoula Plan for USF Collections Reform: *WIRELESS CONSUMER WELFARE ANALYSIS*

	Base Year	Step 1	Step 2	Step 3	Steps 4&5	
Wireless minutes per subscriber per month	791	826	826	826	826	
% Change		4.4%	0.0%	0.0%	0.0%	
Estimated Price per wireless minute (w/ USF) *	$0.0352	$0.0341	$0.0341	$0.0341	$0.0341	
% Change		-3.3%	0.0%	0.0%	0.0%	
Wireless price elasticity (β)	-1.29	-1.29	-1.29	-1.29	-1.29	
Constant (A) in demand equation Q = A(P^β)	10.5574	10.5574	10.5574	10.5574	10.5574	
Minute-driven wireless revenues	$27.86	$28.13	$28.13	$28.13	$28.13	
Subscribers @ 10% growth:	170,431,172	187,474,289	206,221,718	226,843,889	249,528,278	
Area A ($ transfer from producers to consumers)		$0.9193	$0.0000	$0.0000	$0.0000	
Area B (amount added to consumer surplus)		$0.0201	$0.0000	$0.0000	$0.0000	
Incremental end user charge increases		$0.9193	$0.0000	$0.0000	$0.0000	
Net monthly benefit per subscriber		$0.0201	$0.0000	$0.0000	$0.0000	
						Cumulative Gain Over Eight Year Plan
Incremental Annual Net Benefit		$45,162,420	$0	$0	$0	
Run-rate relative to base		$45,162,420	$45,162,420	$45,162,420	**$45,162,420**	**$361,299,357**
Incremental Monthly Net Benefit		$3,763,535	$0	$0	$0	or **$2**
Run-rate relative to base		$3,763,535	$3,763,535	$3,763,535	$3,763,535	per subscriber
Monthly Net Gain per subscriber (run-rate)		$0.02	$0.02	$0.02	**$0.02**	

Interstate percentage of wireless revenue	30%
USF assessment rate	11%

* Figure excludes wireless revenues that are not related to minutes of use

July 18, 2006

The Missoula Plan for Intercarrier Compensation Reform

TABLE OF CONTENTS

July 18, 2006

The Missoula Plan for Intercarrier Compensation Reform

This document summarizes a multi-year plan for intercarrier compensation reform. The Plan is the product of months of negotiation by hundreds of companies from all segments of the industry.[1] The Plan does not necessarily reflect the policy positions of any individual or company. Each of the working group participants compromised on certain issues in order to achieve this Plan and advance important public policy goals.

In concrete terms, the Plan unifies intercarrier charges for the majority of lines, and moves all intercarrier rates charged for all traffic closer together. It also moves the industry away from its historical reliance on revenues obtained through charges imposed directly on other carriers by reducing the highest intercarrier compensation rates, yet recognizes the differences among carriers by ensuring that certain rural carriers will not be required to reduce their intrastate access charges below their current levels for interstate access charges, which those carriers view as cost-based. The Plan gives carriers an opportunity to recover lost intercarrier compensation revenues through supplemental sources of recovery. These sources include increased subscriber line charges ("SLCs") as well as a new Restructure Mechanism, which is designed specifically to replace switched carrier-to-carrier revenues lost by carriers subject to the Plan and not otherwise compensated for that loss through end-user charges.[2]

The Plan divides carrier lines into three categories, or "Tracks," based on the size and regulatory classification of a company and tailors the intercarrier compensation reform and the pace of such reform for each of the three Tracks. Track 1, roughly, includes the lines of all RBOCs, CLECs, wireless providers, and other non-rural carriers and covers 146.2 million ILEC loops; Track 2 includes the lines of most mid-sized rural carriers and covers 12.5 million ILEC loops; and Track 3 includes the lines of the smallest, rate-of-return-regulated rural carriers and covers 7.3 million ILEC loops. Ultimately, the Plan produces, for each of Tracks 1 and 2, a unified intercarrier compensation structure and unified rates. The intrastate switched access rates for Track 3 carriers, which serve many of the more costly areas of the nation, are reduced to the levels of interstate switched access charges.

The Plan is not the last word in intercarrier compensation reform. Instead, it is a major step forward that will provide essential relief to a fractured industry. Once the industry has put in place the various measures envisioned by the Plan, the Commission will use that as the starting place for assessing whether additional steps beyond those set forth in the Plan are necessary to complete reform. Specifically, the Commission will conduct a proceeding at Step 4 of the Plan to review the results of intercarrier compensation reform and to determine whether adjustments to the compensation structure or rate levels are needed. For example, the

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[1] The parties/groups supporting the Plan are listed in Appendix C.

[2] The Plan supporters' current best estimate of the size of the Restructure Mechanism at the end of the transition is approximately $1.5 billion, which includes an estimate for distributions to CLECs. This figure is an average of two independent modeling efforts; one reached an estimate of $1.4 billion and the other reached an estimate of $1.6 billion. *See* Appendix D.

Commission will examine, among other things: whether the uniform rates set out in the Plan should stay the same or be adjusted up or down; whether the interconnection structure should be modified; whether carriers should move to a capacity-based structure; and whether originating switched access, transport, and termination charges should be replaced with recovery from end-users.

All of the Plan rules are default rules. Carriers may agree to alternative arrangements as part of their interconnection negotiations.

I. Plan Implementation

A. Plan Phases

1. The Plan consists of 6 Steps, although it may be extended and/or modified by the Commission in Step 4.

2. Each Step consists of a year. When a provision of the Plan is scheduled to go into effect "at Step 1," it will go into effect on the effective date of the Plan as determined by the FCC; "at Step 2" means at the beginning of year two, etc.

3. The term "Step 0" is used in the Plan to refer to the *day before* the Plan is implemented.

4. Many of the Plan's rules go into effect at Step 1, such as the Restructure Mechanism rules, the interconnection and intercarrier compensation frameworks, the rules for determining whether switched access or reciprocal compensation charges apply, and others. Some rules, like the specific adjustments to terminating and originating rates for each Track, are phased in at various Steps of the Plan, and the Restructure Mechanism and the SLC caps are adjusted at various Steps in the Plan.

5. At Step 4 of the Plan (*i.e.*, at the beginning of year 4), the Commission will conduct a proceeding to review the results of the Plan's implementation of the rate structure and levels as of that date.

    a. That review will include, but is not limited to, review of the following issues:

        i. The effects on the industry and the public interest of the intercarrier reform implemented under the Plan;

        ii. The extent to which adjustments to the compensation structures and rate levels articulated by the Plan are necessary;

        iii. Whether the uniform target rates should be reduced, increased, or kept the same;

        iv. Whether carriers should move to a capacity-based structure;

v. Whether remaining originating switched access and transport and termination charges should be replaced with a system based more fully on end-user recovery.

b. The Plan envisions implementation beginning in Step 5 of any changes adopted by the Commission in the proceeding.

6. At Step 6 of the Plan, the Commission will initiate a rulemaking proceeding to determine if any portion of the Restructure Mechanism should be harmonized with the traditional universal service fund and whether Restructure Mechanism amounts should be available to additional carriers.

7. The Plan is due to expire six years from the start date, but the Plan rules in place at that time would remain in place until or unless modified by the Commission.

B. Mandatory Versus Voluntary Aspects of the Plan

1. While the Plan's supporters hope and expect that the States will implement *all* of the Plan's provisions, the States will have discretion to decide whether to participate in certain aspects of the Plan.

2. Specifically, State implementation of the Plan will be voluntary as to the following measures:

   a. *Reform for Tracks 1 and 2:* In Step 1 of the Plan, State implementation of the provisions relating to reform of *intrastate originating* access rates will be voluntary. The Plan will include incentives designed to encourage and support State implementation of this aspect of the Plan, but States will retain the authority to determine whether or not to opt in. SLC caps will increase for Track 1 and Track 2 carriers even in States that do not adopt the Plan. At Step 2, but not before, carriers may petition the FCC to preempt State authority over Track 1 and 2 carriers' intrastate originating access rates in order to fully implement all of the Plan's terms for those carriers.

   b. *Reform for Track 3:* State adoption of the Plan's Track 3 rate levels for *originating and terminating intrastate* access traffic will be voluntary, and the Plan will establish incentives starting at Step 1 to encourage State participation. The Plan recommends that, in the rulemaking conducted at Step 4 to consider what further steps are needed to reform intercarrier compensation, the FCC will consider whether to require States to implement all Plan rates for Track 3 carriers.

3. In all other respects, the Plan will be mandatory, and the FCC will adopt and enforce rules designed to implement those terms.

C. Incentives to Encourage and Facilitate State Adoption of the Plan

1. If a State adopts the Plan, the State may seek funding from the Early Adopter Fund, as discussed below in Section VI.B.

2. Carriers in States that adopt the Plan will be eligible for Restructure Mechanism dollars through the procedure discussed below in Section VI.A.

D. Effect on Existing Interconnection Agreements

1. At Step 1, the Plan will affect existing arrangements as follows:

   a. This Plan will not affect any provision of an interconnection agreement if the agreement expressly precludes alteration of that provision in accordance with changes in law. This rule shall apply only to the prescribed term of such agreements and not to any evergreen period.

   b. If an agreement is silent on the issue or permits alteration in relevant part in accordance with changes in law, if there is no agreement, or if an agreement is in an evergreen period, the Plan's terms will apply unless a provision of this Plan states otherwise.

II. Intercarrier Compensation Framework

Summary: Overall, the Plan reduces terminating intercarrier charges, unifies most terminating charges, and reduces or (in some cases) eliminates originating charges. The Plan achieves these rate reductions in different ways and on different schedules ("Tracks") for different categories of carriers. *See* Section II.A (defining Tracks) and Section II.B (specifying schedules for rate reductions within different Tracks).

The Plan provides that, as intercarrier compensation rates fall, carriers will have the opportunity to recover the lost revenues through increased end-user rates, at least in part. In particular, the federal subscriber line charge ("SLC") cap will increase gradually, and to different degrees, depending on a carrier's Track classification. *See* Section II.C. The Plan also creates a federal Restructure Mechanism that will replace lost intercarrier revenues that carriers will not otherwise recover through increased end-user charges. *See* Section VI.A.

To eliminate disputes concerning intercarrier compensation obligations, the Plan sets forth detailed rules specifying which types of compensation shall be due, and to which carriers, in various situations. These rules, which are set forth in Sections II.D and II.E, address issues that have been the subject of dispute under the existing fragmented intercarrier compensation framework, including how to charge for VoIP-PSTN traffic or traffic exchanged with CMRS carriers. To help carriers implement these rules, the Plan further provides a mechanism for all carriers to obtain interconnection agreements and establishes rules designed to eliminate phantom traffic. *See* Sections IV and V, respectively.

A. Tracks

Summary. For purposes of the Plan, all ILEC study areas fall into one of three "Tracks." The Plan sets forth rules for assigning ILECs to each Track and articulates the rules governing a rural ILEC's election into a different Track in certain instances. The Track into which an ILEC falls determines its rights and obligations under various aspects of the Plan. In general, the

RBOCs and other large incumbent LEC study areas fall into Track 1, smaller and rural ILEC study areas generally fall into either Track 2 or 3, based on their categorization as Covered Rural Telephone Companies ("CRTCs") and on other factors. All non-ILECs fall into Track 1. Approximately 92 ILEC study areas and 146.2 million ILEC loops fall into Track 1; 158 ILEC study areas and 12.5 million ILEC loops fall into Track 2, and 1,185 ILEC study areas and 7.3 million ILEC loops fall into Track 3.

1. ***Definition of Covered Rural Telephone Company:***

   a. An ILEC is a CRTC[3]:

      i. in a particular study area if, as of August 1, 2006, the carrier was an ILEC in that study area and met the definition of a "Rural Telephone Company" in Section 3(37) of the Communications Act, 47 U.S.C. § 153(37)[4]; is not a Bell Operating Company or an affiliate thereof; and, with respect to such study areas, serves fewer than 1 million access lines; or

      ii. in all study areas it holds on day one of the Plan as an ILEC if, as of August 1, 2006, the carrier qualified as a "two percent carrier" under the criteria established in Section 251(f)(2) of the Communications Act, 47 U.S.C. § 251(f)(2) and

         1) had a holding company average of fewer than 19 switched access end user common lines per square mile; or

         2) had "Interstate Regulated" Rate-of-Return Non-Rural study areas that select incentive regulation by December 31, 2006, as set forth in Section VII, below.

   b. In general, a CRTC will not be treated as a CRTC with respect to customers it serves outside its ILEC serving area (*i.e.*, where it operates as a CLEC or other type of carrier). However:

      i. A CRTC will be treated as a CRTC with respect to customers that it serves outside its ILEC service area if it began serving those customers prior to the date of the FCC order adopting the Plan, *and* it does not hold a certificate as a CLEC for those lines.

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[3] ILECs that are CRTCs will be further designated as either Track 2 or 3, as described below.

[4] To determine whether a carrier meets the statutory definition of a "Rural Telephone Company" under this subsection, a carrier may presumptively rely on the categorization published by the Universal Service Administrative Company for purposes of distributing high cost universal service support.

ii. If a CRTC is ordered to provide service to an unserved area, it will be treated as a CRTC for that area.

c. Treatment of a CRTC's Later-Acquired Exchanges:

i. *General Rule*: CRTCs will be permitted to acquire exchanges from other carriers (and acquire other carriers *in toto*) without losing CRTC status in the study areas for which they originally qualified as a CRTC as of August 1, 2006.

ii. *Treatment of individual after-acquired exchanges:* Exchanges generally will retain the designation of the former owner regardless of changes in ILEC ownership or control. Specifically:

1) When a CRTC acquires exchanges in a study area that qualifies as a CRTC study area as of day one of the Plan, those new exchanges will be treated as "CRTC exchanges" (*i.e.*, exchanges served by a CRTC). However, if such after-acquired exchanges (including all exchanges that are part of the same transaction) would put the acquiring CRTC over the "two percent carrier" threshold as defined in Section II.A.1.a.ii, then the after-acquired exchanges in that transaction will not be treated as CRTC exchanges.

a) If the same buyer and seller consummate a series of transactions within any 12-month period for exchanges within the same State, and those transactions individually would not have put the acquiring carrier over the "two percent carrier" threshold, but they would do so taken collectively, the FCC may review the series of transactions to determine whether some or all of the acquired exchanges should be treated as CRTC exchanges.

2) When a CRTC acquires non-CRTC exchanges, the acquired exchanges will *not* be treated as CRTC exchanges, although the status of the acquiring carrier will not otherwise be affected.

a) When a CRTC acquires a non-CRTC exchange, that carrier is not entitled to any of the rights specifically available to CRTCs with respect to interconnection or intercarrier compensation for that exchange.

3) When a non-CRTC acquires CRTC-exchanges or acquires a CRTC, the relevant exchanges lose their CRTC status.

2. ***Definition of Track 1 Category:***

a. All ILEC study areas that do not qualify as CTRC study areas will be treated as Track 1 study areas.

b. All non-ILECs will be treated as Track 1 carriers.

3. ***Definition of Track 2 Category:*** The following rules determine whether an ILEC study area falls into Track 2 for purposes of the Plan.

   a. Price-cap CRTC study areas with less than 1 million loops are in Track 2.

   b. Price-cap or rate-of-return CRTC study areas in which the ILEC does not qualify as a Rural Telephone Company under 47 U.S.C. § 153(37), and CRTC study areas for which a carrier has elected incentive-regulation, are in Track 2.

   c. Rate-of-return CRTC study areas with more than 10,000 loops are in Track 2, provided the study areas are held by a carrier or parent company that also holds price-cap or non-rural study areas.

4. ***Definition of Track 3 Category:*** All CRTCs that are not in Track 2 are in Track 3. Specifically:

   a. Rate-of-return CRTC study areas that are held by a holding company that holds no price cap or non-rural study areas are in Track 3.

   b. Rate-of-return CRTC study areas with fewer than 10,000 loops that are held by a holding company that also holds price cap or non-rural study areas are in Track 3.

   c. Any other rate-of-return CRTC study areas that do not fall into Track 2 are in Track 3.

5. In determining the number of loops in a study area, study areas that share a common host switch shall be treated as a single study area.

6. When an ILEC is ordered to provide service in an unserved area, it will be treated as an ILEC for that unserved area. Further, it will be in the same Track in that unserved area as it is in the study area from which it serves the unserved area.

7. Any Track 3 carrier may make an irrevocable election to be treated as a Track 2 or Track 1 carrier in a particular study area, and any Track 2 carrier may make an irrevocable election to be treated as a Track 1 carrier in a particular study area. *See, e.g.*, discussion of incentive regulation, Section VII.A.1.a.

B. Phase Down and Unification of Intercarrier Charges for Each Track

Summary: Under the Plan, a carrier's Track classification determines the nature and pace of intercarrier compensation reform. Within each Track, carriers have some flexibility to choose among different intercarrier compensation levels. A carrier's election affects, among other things, the carrier's eligibility for the "full" or "modified" Rural Transport Rule, as described in Section II.E.3.e. The Rural Transport Rule is necessary to recognize the longstanding operational challenges faced by rural carriers in the areas they serve.

Under Tracks 1 and 2, rates for terminating traffic will converge into a single rate schedule with a single rate structure (within each of those Tracks) for all such traffic that had previously been subject to switched access charge tariffs and reciprocal compensation. (Certain exceptions for out-of-balance traffic apply, as described in Sections II.E.8 and II.E.9.) That unification will occur in three steps. Under Tracks 1 and 2, *originating* access rates will be reduced in four steps or, at a carrier's option, eliminated altogether.

The Track 3 rules are a compromise designed to balance the objective of unifying rates to the extent possible today against the goal of limiting the size of the Restructure Mechanism. Intrastate access charges will be reduced in four steps to the level of interstate access charges, but the resulting unified access charges will nonetheless remain distinct from reciprocal compensation rates unless the latter exceed interstate access charges (in which case reciprocal compensation charges will be reduced in some circumstances to match the unified terminating access rate).

As discussed above, each of these Tracks is designed as an interim mechanism pending more comprehensive FCC review. At Step 4, the Plan calls for the Commission to conduct a proceeding to consider the results of reform of rate structure and levels and to determine whether adjustments are needed.

Finally, these rules will not disturb reciprocal compensation rates established in interconnection agreements that preclude modifications in accordance with changes in the law. Rates set by State orders will, however, change pursuant to the Plan's terms. EAS agreements between Track 3 carriers and all other ILECs are unaffected by the Plan; EAS traffic between Track 1 and Track 2 carriers is treated like all other traffic under the Plan.

The details of general intercarrier compensation reform within each Track are set forth below. Specific rules for particular classes of traffic, including ISP-bound traffic, out-of-balance traffic, traffic exchanged with CMRS and other carriers, and the like, are set forth below in Sections II.D and II.E.

1. ***Track 1***

    a. ***Terminating Rates***

        i. As discussed below, a Track 1 carrier's Step 3 unified termination rate will be $0.0007, and its ultimate unified termination rate will be $0.0005.

        ii. At Step 1:

            1) A carrier must reduce its intrastate and interstate usage-sensitive terminating access rates by one third of the difference between those rates at Step 0 and the carrier's Step 3 unified termination rate, which will be $0.0007.

            2) All rates for Non-Access Traffic will remain unchanged.

a) Even though the Edge rules set forth in Section III.B go into effect at Step 1, rates for "termination" during the transition to Step 3 will include what had previously been described as rates for "transport and termination" of such traffic. Despite this terminological change, carriers will continue to pay only for the functions (*e.g.*, end office switching, common transport, and tandem switching) performed by the terminating carrier.

iii. At Step 2:

1) A carrier must further reduce its intrastate and interstate usage-sensitive terminating access rates by the same amount as in Step 1.

2) All rates for Non-Access Traffic will remain unchanged.

iv. At Step 3:

1) *All* of a carrier's usage-sensitive terminating rates will be unified, and the carrier will charge a rate of $0.0007 for termination (as defined below in Section II.E.4) of all types of traffic.

2) The unified termination rate will apply to reciprocal compensation charges.

v. At Step 4, the unified rate for termination will be reduced to $0.0005.

vi. *Dedicated Transport Rule*

1) At Step 3, intrastate dedicated transport provided by a terminating carrier to another carrier for interconnection between the two carriers' Edges will be available at rates no higher than interstate dedicated transport rates. The following transition will apply:

a) At Step 1, carriers will reduce their intrastate dedicated transport rates by one third of the difference between those rates at Step 0 and the carriers' interstate dedicated transport rates.

b) At Step 2, carriers will reduce their intrastate dedicated transport rates by an additional one third of the difference between the carriers' intrastate dedicated transport rates at Step 0 and the carriers' interstate dedicated transport rates.

2) At Step 3, the rate will be zero for dedicated transport provided by a terminating carrier *between its Edge and its own end office* for interconnection routed through the terminating carrier's Edge location. The rates charged for that transport function will be reduced to zero in three equal steps starting in Step 1.

3) When a carrier is providing dedicated transport for the exchange of traffic between two other carriers (*i.e.*, indirect interconnection) in accordance with the rules discussed below in Section III.C.5, such transport will be provided at the relevant special access rate.

b. ***Originating Access Charges***

i. At Step 0, a carrier must declare (for each study area) what its ultimate usage-sensitive originating access rates will be at the end of the carrier's originating rate transition under the Plan. The carrier's declared rates may be no higher than $0.002 for end office switching and no higher than $0.0025 for common transport and tandem switching.

ii. At Steps 1 and 2 of the Plan, rates for the carrier's originating access charges will remain unchanged.

iii. At Step 3:

1) If the carrier's cumulative *terminating* access charge reductions in Steps 1 through 3 of the Plan amount to at least 75 percent of the *total* access charge reductions that the carrier expects to make under the Plan (*i.e.*, between Step 0 and Step 4 of the Plan), the carrier need not make *any* reductions to its *originating* access charges.

2) If the carrier's cumulative terminating access charge reductions do *not* amount to at least 75 percent of the *total* access charge reductions that the carrier expects to make under the Plan, the carrier must make reductions to its carrier loop charges *and/or* proportionate reductions toward the ultimate rates to *all* of the following originating access charges until it meets the 75 percent threshold:

a) Usage-sensitive (*e.g.*, a carrier common line charge, or CCL charge) and flat-rated carrier loop charges (*e.g.*, a pre-subscribed interexchange carrier charge, or PICC);

b) End-office switching;

c) Common transport;

d) Tandem switching;

e) Direct trunk transport; and

f) Entrance facilities.

iv. At Step 4:

1) Rates for originating end office switching, common transport, and tandem switching will be reduced to the carrier's declared ultimate originating rates, which cannot be higher than $0.002 for end office switching or higher than $0.0025 for common transport and tandem switching. The rates and rate structures for interstate and intrastate originating access traffic will be identical beginning at this Step.

2) Usage-sensitive and flat-rated carrier loop charges will be eliminated.

3) Intrastate rates for direct trunk transport and entrance facilities will equal interstate rates.

c. ***Minimum thresholds for access charge reductions in Steps 1 through 3***

i. In Steps 1 through 3 of the Plan, a Track 1 carrier must make minimum *cumulative* reductions to its access charges that:

1) in Step 1, amount to at least 25 percent of the *total* access charge reductions that the carrier expects to make under the Plan (*i.e.*, between Step 0 and Step 4 of the Plan);

2) in Step 2, amount to at least 50 percent of the total access charge reductions that the carrier expects to make under the Plan; and

3) in Step 3, amount to at least 75 percent of the total access charge reductions that the carrier expects to make under the Plan.

ii. If the carrier's scheduled phase-down of intercarrier charges at any Step of the Plan otherwise would not result in a sufficient reduction to the carrier's access charges, the carrier must make further reductions (beyond those prescribed for that Step of the Plan) until the carrier has achieved the relevant threshold set forth above. If a carrier must make additional reductions to its access charges under this rule, it must:

1) first, reduce its terminating access charges until those rates reach the unified termination rate for Step 3.

2) second, if necessary, make reductions to its carrier loop charges *and/or* proportionate reductions toward the ultimate rates to *all* of the following *originating* access charges until the carrier meets the relevant threshold:

a) Usage-sensitive and flat-rated carrier loop charges;

b) End-office switching;

c) Common transport;

d) Tandem switching;

e) Direct trunk transport; and

f) Entrance facilities.

d. ***Effect of Track 1 originating rate elections on access to Restructure Mechanism dollars***

i. At Step 0 of the Plan, each Track 1 carrier must declare (for each study area) what its ultimate originating rates will be at the end of the carrier's rate transition under the Plan. The carrier may declare ultimate rates between zero and the maximum levels specified above.

ii. In Steps 1 through 4, a carrier must reduce its originating and terminating rates to its ultimate rates in accordance with the phase-down rules discussed above in Sections II.B.1.a through c.

iii. If the Track 1 carrier complies with these rules, it may recover from increased SLCs and the Restructure Mechanism the difference between its intercarrier revenues at any given Step of the Plan and its intercarrier revenues immediately prior to the Plan's adoption, subject to line loss (in the case of price-cap carriers) and the specific procedures set forth in Sections II.C and VI.A.1.b below (discussing SLC increases and Restructure Mechanism recovery under the Plan).

iv. Additional reductions:

1) After its Step 0 declaration of rates, the carrier may not thereafter increase its declared originating rates. Moreover, any further reductions to originating rates beyond the rates declared in Step 0 may not be recovered from the Restructure Mechanism.

2) A carrier may negotiate originating or terminating rates with other carriers that differ from the carrier's declared ultimate originating rates or the ultimate termination rate specified above. However, such negotiated rate reductions may not be recovered through the Restructure Mechanism.

2. ***Track 2***

a. ***General framework***

i. At Step 0, each Track 2 carrier must declare (for each study area) what its ultimate originating and terminating rates will be at the end of the carrier's rate transition under the Plan. As discussed below in Section II.B.2.d, all Track 2 carriers will have an opportunity at Step 4 to decrease their declared ultimate originating and/or terminating rates.

1) Rate-of-return carriers

   a) Starting at Step 3 of the Plan, Track 2 rate-of-return carriers must charge *terminating* rates no higher than $0.0105 for tandem switching and common transport and a rate of $0.0005 for end office switching.

   b) Starting at Step 4 of the Plan, Track 2 rate-of-return carriers must charge *originating* rates no higher than $0.0105 for tandem switching and common transport and a rate no higher than $0.002 for end office switching.

   c) A rate-of-return carrier may elect to adopt the originating and terminating rate levels applicable to price-cap carriers and carriers electing incentive regulation, as discussed below. The carrier may make this election only at Step 0 or Step 4.

2) Price-cap carriers and carriers electing incentive regulation

   a) Starting at Step 3 of the Plan, Track 2 price-cap and incentive-regulation carriers must charge *terminating* rates no higher than $0.0075 for tandem switching and common transport and a rate of $0.0005 for end office switching.

   b) Starting at Step 4 of the Plan, Track 2 price-cap and incentive-regulation carriers must charge *originating* rates no higher than $0.0075 for tandem switching and common transport and a rate no higher than $0.002 for end office switching.

   c) If a Track 2 price-cap or incentive regulation carrier elects to reduce its *originating* rates to zero, starting at Step 3 it may charge *terminating* rates no higher than $0.0097 for tandem switching and common transport and a rate of $0.0005 for end office switching.

ii. At Step 4 and beyond, all Track 2 carriers will be required to charge originating tandem switching and common transport rates that are equal to or less than their terminating tandem switching and common transport rates.

iii. Rural Transport Rule (*see* Section II.E.3.e)

1) Track 2 price-cap carriers and carriers that elect incentive regulation will be entitled to the *full* Rural Transport Rule.

2) Track 2 rate-of-return carriers that elect originating and terminating rates no higher than the maximum rates for Track 2 price-cap and incentive regulation carriers (as discussed above) also will be entitled to the *full* Rural Transport Rule.

3) Track 2 rate-of-return carriers that elect to adopt originating and/or terminating rates higher than the maximum rates for price-cap and incentive regulation carriers will be entitled to the *modified* Rural Transport Rule.

iv. Reductions in transport rates: While the language of the Plan contemplates that most transport rates will be reduced to meet the ultimate transport rates under the Plan, there may be instances where certain transport rates and/or rate elements will increase to meet the ultimate rates under the Plan. Nothing in this Plan should be read to suggest that certain rates or rate elements will always decrease to meet the ultimate transport rates.

b. ***Originating Access Charges***

i. Interstate and intrastate usage-sensitive originating access rates will be reduced to the carrier's declared ultimate originating rates in four equal steps as follows:

1) At Step 1, the carrier's intrastate and interstate usage-sensitive originating access rates will be reduced by 25 percent of the difference between those rates at Step 0 and the carrier's declared ultimate rates as discussed above.

2) At each of Steps 2 and 3, the resulting intrastate and interstate access rates will be further reduced by the same amount as in Step 1.

3) At Step 4, the carrier will reduce its intrastate and interstate usage-sensitive originating access rates to its declared ultimate rates. The rates and rate structures for interstate and intrastate originating access traffic will be identical.

ii. Intrastate charges for direct trunk transport and entrance facilities will be reduced to interstate rate levels in four equal steps as follows:

1) At Step 1, the carrier will reduce its intrastate rates for direct trunk transport and entrance facilities by 25 percent of the difference between those rates at Step 0 that the carrier's interstate rates for direct trunk transport and entrance facilities.

2) At each of Steps 2 and 3, the resulting intrastate rates will be further reduced by the same amount as in Step 1.

3) At Step 4, intrastate rates for direct trunk transport and entrance facilities will equal interstate rates.

iii. Fixed-rate carrier loop charges will be eliminated in four equal steps as follows:

1) At Step 1, the carrier will reduce its fixed-rate carrier loop charges by 25 percent.

2) At each of Steps 2 and 3, the carrier will reduce its fixed-rate carrier loop charges by the same amount as in Step 1.

3) At Step 4, the carrier will eliminate its fixed-rate carrier loop charges.

c. ***Terminating Rates***

i. Interstate and intrastate usage-sensitive terminating access rates will be reduced to the carrier's declared ultimate terminating rates in three equal steps as follows:

1) In Step 1, the carrier's intrastate and interstate usage-sensitive terminating access rates will be reduced by one third of the difference between those rates at Step 0 and the carrier's declared ultimate rates as discussed above.

2) At Step 2, the resulting intrastate and interstate access rates will be further reduced by the same amount as in Step 1.

3) At Step 3, the carrier's intrastate and interstate usage-sensitive terminating access rates will be lowered to the carrier's declared ultimate rates.

ii. At Step 3, *all* terminating charges, including those for reciprocal compensation, will be set at the carrier's declared unified terminating rates.

iii. *Dedicated Transport Rule* — The same Dedicated Transport Rule applicable to Track 1 carriers will apply, as discussed above in Section II.B.1.a.vi.

d. ***Effect of Track 2 elections on access to Restructure Mechanism dollars and the Rural Transport Rule***

i. Step 0 rate elections:

1) At Step 0 of the Plan, each Track 2 carrier must declare (for each study area) what its ultimate originating and terminating rates will be at the end of the carrier's rate transition under the Plan.

a) For terminating rates:

i) the carrier must adopt a rate of $0.0005 for end office switching as specified above in Section II.B.2.a.i.

ii) the carrier may declare ultimate rates between zero and the relevant maximum rate levels specified above for tandem switching and common transport.

b) For originating rates, the carrier may declare ultimate rates between zero and the relevant maximum rate levels specified above.

c) As discussed above, the carrier's elections will determine whether it is entitled to the full or modified Rural Transport Rule.

2) In Steps 1 through 4, the carrier must reduce its originating and terminating rates to its declared ultimate rates in accordance with the phase-down rules discussed above in Sections II.B.2.a through c.

3) If the Track 2 carrier complies with these rules, it may recover from increased SLCs and the Restructure Mechanism the difference between its intercarrier revenues at any given Step of the Plan and its intercarrier revenues immediately prior to the Plan's adoption, subject to line loss (in the case of price-cap and incentive regulation carriers) and the specific procedures set forth in Sections II.C and VI.A.1.c below (discussing SLC increases and Restructure Mechanism recovery under the Plan).

ii. Step 4 rate elections:

1) At Step 4, Track 2 carriers will have an opportunity to change their declarations of ultimate rates and to select rates *lower* than those declared at Step 0.

a) The carrier may *not* change its ultimate rate for terminating end office switching, which must be $0.0005.

2) If a carrier takes advantage of this option, it must immediately (*i.e.*, at Step 4) reduce its originating and terminating rates to its *new* declared ultimate rates.

3) A carrier that complies with these rules may recover from increased SLCs and the Restructure Mechanism the difference between its intercarrier revenues at any Step of the Plan and its intercarrier revenues immediately prior to the Plan's adoption, subject to line loss (in the case of price-cap and incentive regulation carriers) and the specific procedures set forth in Sections II.C and VI.A.1.c below (discussing SLC increases and Restructure Mechanism recovery under the Plan).

4) If a rate-of-return carrier reduces its originating and terminating rates at Step 4 to levels no higher than the maximum rates for Track 2 price-cap and incentive regulation carriers, the rate-of-return carrier will be entitled to the *full* Rural Transport Rule at Step 4.

iii. Incentive regulation elections:

1) A rate-of-return carrier may elect incentive regulation at any Step of the Plan, in accordance with the rules discussed below in Section VII.A.

2) At the same time that the carrier elects incentive regulation, it must declare its ultimate originating and terminating rates. Those rates may not exceed the maximum rates discussed above for price-cap and incentive-regulation carriers.

3) A carrier electing incentive regulation *prior to* Step 4 must achieve its ultimate terminating rate at Step 3 and its ultimate originating rate at Step 4.

4) A carrier electing incentive regulation *at* or *after* Step 4 must immediately reduce its rates to its declared ultimate originating and terminating rates.

5) If a carrier complies with these rules:

a) it will be entitled to the full Rural Transport Rule; and

b) it may recover its lost intercarrier revenues from increased SLCs and the Restructure Mechanism in accordance with the specific procedures set forth in VII.B below.

iv. Additional reductions:

1) After its Step 0 and Step 4 rate declarations, the carrier may not thereafter increase its declared rates. Moreover, any further reductions to rates beyond the ultimate rates declared in either Step 0 or Step 4 may not be recovered from the Restructure Mechanism.

2) A carrier may negotiate originating or terminating rates with other carriers that differ from the carrier's declared ultimate rates or the ultimate terminating end office switching rate specified above. However, such negotiated rate reductions may not be recovered through the Restructure Mechanism.

3) Moreover, if a carrier is otherwise entitled only to the modified Rural Transport Rule, the carrier cannot become eligible for the full Rural Transport Rule through such reductions.

e. ***NECA pooling for Track 2 carriers —*** Track 2 rate-of-return carriers will continue to have the option to file their own tariffs or to participate in the NECA tariff with rate banding. Track 2 carriers' tariffed rates, even if filed by NECA, must be those prescribed in the Plan. Any Track 2 rate shortfall will not affect the Track 3 pooled intercarrier compensation rates.

3. ***Track 3***

Summary: Under Track 3, originating and terminating intrastate access charges will be unified with and reduced to the level of interstate access charges in four steps.[5] The resulting unified access charge level will be used as a cap for reciprocal compensation rates. As set forth in Section II.E.6 below, for Track 3, EAS traffic will remain subject to existing arrangements between ILECs.

a. ***Originating and Terminating Access Charges***[6]

i. At Step 1, carriers will adopt the interstate access rate structure for all intrastate access charges. All intrastate access charges (both originating and terminating) will be reduced by 25 percent of the difference between those charges at the start of the Plan and the corresponding interstate charges.

ii. At each of Steps 2 and 3, intrastate access charges will be further reduced by the same amount as in Step 1.

iii. At Step 4, intrastate access charges will be reduced to the levels of interstate access charges.

iv. The Plan permits the same optional pooling and rate banding for access traffic as today. Some rate bands may be added for local switching and tandem switching. Under the Plan, the NECA pool can be utilized as a way of unifying access rates for Track 3 carriers.

b. ***Reciprocal Compensation***

i. In the absence of an existing intercarrier compensation agreement, an interim interconnection arrangement may apply to the exchange of reciprocal compensation traffic between a Track 3 carrier and another carrier pursuant to an interim interconnection arrangement, under the terms discussed below in Sections II.E.5.b and IV.A.

ii. If a Track 3 carrier is exchanging traffic pursuant to an existing intercarrier compensation agreement:

1) At Step 1, if the reciprocal compensation rate in the interconnection agreement is higher than the Track 3 ILEC's interstate access rate, the

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[5] If a Track 3 carrier's intrastate access charges are lower than its interstate access charges, the Plan does not require the carrier to change its intrastate access charges. If there is an intrastate carrier common line charge, that charge will be eliminated and the carrier may recover the lost revenues from the Restructure Mechanism.

[6] The parties supporting the Plan have not reached agreement on the target rates applicable to Track 3 carriers in Alaska. The Commission shall resolve this issue. Arguments in support of two options are set forth in Appendix A.

reciprocal compensation rate will be reduced to the Track 3 ILEC's interstate access rate.

2) When the carrier's intercarrier compensation agreement expires, pending any new agreement, the carrier will charge the lower of:

   a) the carrier's current interstate access rate under the Plan; or

   b) the rate the carrier was charging at the time the agreement expired.

3) If, however, the rate under the existing agreement was set by State rule, regulation, or arbitration (*i.e.*, not through negotiated agreement) at "bill and keep" or zero, at Step 4 the carrier will begin charging the lower of:

   a) the carrier's current interstate access rate under the Plan; or

   b) the carrier's highest cost-based, State-approved reciprocal compensation rate.

4. ***Rules applicable to all Tracks***

   a. Beginning at Step 3 of the Plan, a CMRS carrier terminating a call for an IXC will charge the IXC no higher than the maximum Track 1 reciprocal compensation rate.

   b. The Plan provides a mechanism for all carriers to obtain interim interconnection arrangements permitting them to exchange reciprocal compensation traffic with carriers with whom they do not have an existing intercarrier compensation agreement. *See* Sections II.E.5.b and IV.A for a discussion of the default rates and terms for such interim arrangements.

C. Opportunity to Raise SLC Rates To Recover Access Revenues

Summary: The Plan provides that, as intercarrier compensation rates are reduced, carriers will have the opportunity to recover some of their lost revenues through increased end-user rates. Under the Plan, the federal subscriber line charge ("SLC") caps will increase gradually, and to different degrees, depending on a carrier's Track classification. SLC increases will operate in tandem with the other recovery mechanisms discussed below in Section VI.

The Plan places three different constraints on the amount that any given SLC rate can increase: nationwide SLC caps, limitations on individual rate increases, and limitations on average rate increases. Any adjustment to a SLC rate under the Plan must comply with *all three* of the constraints set out below.[7]

[7] This Plan does not address retail rates that non-ILECs charge their end users.

1. ***Constraint number 1: Nationwide SLC caps***

   a. ***Track 1*** — Under Track 1, all SLC *caps* will rise to $10.00 in a four-step transition.

      i. The primary-residential / single-line-business (*i.e.*, primary-line) per-month SLC cap will increase by $0.75 each year in Steps 1 and 2, and by $1.00 each year in Steps 3 and 4. This means that the nationwide primary-line SLC cap will be:

         1) $7.25 at Step 1;

         2) $8.00 at Step 2;

         3) $9.00 at Step 3; and

         4) $10.00 at Step 4.

      ii. The nationwide non-primary-residential SLC cap will rise as follows:

         1) $7.25 at Step 1;

         2) $8.00 at Step 2;

         3) $9.00 at Step 3; and

         4) $10.00 at Step 4.

      iii. The nationwide multi-line-business SLC cap will rise as follows:

         1) $9.20 at Step 1;

         2) $9.20 at Step 2;

         3) $9.20 at Step 3; and

         4) $10.00 at Step 4.

      iv. Starting at Step 5, the nationwide SLC cap will rise with inflation each year.

   b. ***Tracks 2 and 3***

      i. Under Tracks 2 and 3, the residential / single-line-business SLC cap will increase by $0.75 in each of Steps 1, 2, and 3 of the Plan, amounting to a total increase of $2.25 over three years. This means that the nationwide primary-line SLC cap will be:

         1) $7.25 at Step 1;

2) $8.00 at Step 2; and

3) $8.75 at Step 3.

ii. For Track 2, the multi-line-business SLC cap will rise by $0.80 in Step 3. The nationwide multi-line-business SLC cap will be:

1) $9.20 at Step 1;

2) $9.20 at Step 2; and

3) $10.00 at Step 3.

iii. The Track 3 multi-line-business SLC cap will not change.

iv. For Track 2 and 3 carriers, neither the residential nor business SLC caps will increase with inflation.

v. If a State does not opt into the Plan, the SLC cap for Track 3 carriers in that State will not increase.

vi. For Track 3 carriers, a mechanism may be developed: (1) to increase the SLC to a higher level if the local rate is farther from a "local benchmark" or (2) to implement a lower SLC increase if the local rate is closer to a local benchmark. If a carrier changes its rates pursuant to this provision, it must demonstrate that the average Track 3 SLC goes up by $0.75 in each of Steps 1 through 3.

2. ***Constraint number 2: Individual SLC rates for Track 1 price-cap carriers***

a. *Individual* per-month residential and single-line business SLC *rates* for Track 1 price-cap carriers may not be increased over pre-Plan levels by more than $0.95 in Step 1, $1.90 in Step 2, $3.10 in Step 3, or $4.30 in Step 4. In no circumstance may an individual SLC rate be increased above the nationwide SLC cap for the relevant Step of the Plan.

b. This constraint will be lifted at Step 5.

3. ***Constraint number 3: Average SLC rates for price-cap carriers***

a. The existing common line basket for price-cap carriers (as defined in 47 C.F.R. § 61.42(d)(1)) will be divided into a Mass Market Service Category and an Enterprise Service Category.

i. Primary residential, non-primary residential, and single-line business SLCs will be assigned to the Mass Market Service Category.

ii. Multi-line business SLCs will be assigned to the Enterprise Service Category.

iii. Within each Service Category, carriers will have pricing flexibility as discussed below in Section II.C.7.

b. *For Track 1 carriers:*

i. The *average* SLC rates *within each Service Category* may not be increased over pre-Plan levels by more than $0.75 in Step 1, $1.50 in Step 2, $2.50 in Step 3, or $3.50 in Step 4.

ii. Further, in Steps 1 through 3, the average SLC rates within each Service Category may not be increased by more than the portion of the Access Shift Per Line recoverable at that Step (as calculated for Track 1 carriers), if lower than the amount provided in the previous paragraph.

1) The Access Shift Per Line for Track 1 carriers is defined below in Section VI.A.1.b.iii.

c. *For Track 2 carriers:*

i. The *average* SLC rates *within each Service Category* may not be increased over pre-Plan levels by more than $0.75 in Step 1, $1.50 in Step 2, or $2.25 in Step 3.

ii. In Steps 1 through 3, the average SLC rates within each Service Category may not be increased by more than the portion of the Access Shift Per Line recoverable at that Step (as calculated for Track 2 carriers), if lower than the amount provided in the previous paragraph.

1) The Access Shift Per Line for Track 2 carriers is defined below in Section VI.A.1.c.iii.

d. This constraint will be lifted at Step 5.

4. ***Adjustments to the three SLC constraints for Track 1 carriers***

a. In Steps 1 through 3 of the Plan, the three SLC constraints set forth above will be adjusted upward to permit a Track 1 carrier to make larger SLC increases if that carrier's cumulative access charge reductions by a given Step constitute a disproportionately large percentage of the *total* access charge reductions that the carrier expects to make under the Plan.

i. A carrier will make this adjustment if it has made *cumulative* reductions to its access charges that:

1) in Step 1, amount to at least 25 percent of the *total* access charge reductions that the carrier expects to make under the Plan (*i.e.*, between Step 0 and Step 4 of the Plan);

2) in Step 2, amount to at least 50 percent of the total access charge reductions that the carrier expects to make under the Plan; or

3) in Step 3, amount to at least 75 percent of the total access charge reductions that the carrier expects to make under the Plan.

ii. The adjustment to the three SLC constraints will be a linear increase based on the percentage by which the carrier will exceed the relevant threshold discussed above.

iii. Specifically, in each Step the carrier will calculate the *total* SLC increases that the Plan would otherwise permit it to make by that Step and multiply that *total* increase by the percentage by which it will exceed the relevant threshold for that Step.

1) For example, if by Step 2 a carrier makes cumulative reductions to its access charges that amount to 55 percent of the total access charge reductions that the carrier expects to make under the Plan, the carrier would exceed the 50 percent threshold discussed above by 10 percent (55 / 50 = 1.10). Thus, the SLC increases permitted under each of the three constraints discussed above would be adjusted upward by 10 percent. In this example, the constraints would be affected in the following ways for Step 2:

a) *Constraint 1:* The SLC cap would increase by $1.65 over pre-Plan levels instead of the $1.50 prescribed in the Plan for Step 2: (1.10 x ($0.75 + $0.75) = $1.65).

b) *Constraint 2:* Individual per-month residential and single-line business SLC rates could increase by $2.09 over pre-Plan levels instead of the $1.90 set out in the Plan for Step 2: (1.10 x ($0.95 + $0.95) = $2.09).

c) *Constraint 3:* Subject to the Access Shift Per Line limitation, the average SLC rates within each Service Category could increase by $1.65 over pre-Plan levels instead of the $1.50 set out in the Plan for Step 2: (1.10 x ($0.75 + $0.75) = $1.65).

iv. The carrier may make upward adjustments to its SLC cap (*i.e.*, Constraint number 1) only until it reaches the ultimate SLC cap of $10.00 (or $10.00 plus inflation after Step 4).

5. ***Subject to the three constraints discussed above:***

a. SLC price reductions within a Service Category can be offset by SLC price increases within a Service Category.

b. SLC price reductions in one Service Category cannot be offset by SLC price increases in the other Service Category.

6. ***Relationship of SLC increases to the Restructure Mechanism —*** Carriers will have flexibility to impose SLC rates below the maximum rates permitted under the Plan. Recovery from the Restructure Mechanism, however, will be calculated as if carriers are recovering the maximum allowable amount permitted under the relevant SLC caps and other constraints.

7. ***Pricing flexibility rules*** — For all price-cap carriers, the Plan outlines pricing flexibility rules for the SLC. This flexibility is subject to the three constraints discussed above.

   a. At Step 1, carriers will have the following pricing flexibility with respect to the SLC:

      i. SLC rates may be geographically deaveraged as follows:

         1) SLC rates for different customer segments may vary by pricing zone.

         2) Up to four pricing zones may be created in each State; carriers also may use existing State UNE zones.

            a) Each zone must contain at least 15 percent of the lines.

         3) There is no formula for the initialization of the SLC rate in each pricing zone.

      ii. Carriers may vary SLC rates based on customer purchase choice, which includes:

         1) Volume purchase, where volume includes the customer's revenue spend or the purchase of other services (*e.g.*, additional lines, vertical services, or a service package) provided by the ILEC or in combination with the ILEC and its affiliates;

         2) Term commitment; and/or

         3) Growth commitment, where growth reflects an increase in volume as described above.

      iii. Carriers may apply different SLC charges based on customer segment. A customer segment is a homogeneous group of customers that shares one or more of the following dimensions:

         1) Customer class;

         2) Pricing zone; or

3) Customer purchase choice including, but not limited to, volume purchase, term commitment, and growth commitment.

iv. Carriers may offer promotions that reduce the SLC (for example, a two-month SLC waiver for customers who sign up for an all-distance plan).

v. Carriers may use contract tariffs for consumer and business SLC charges.

1) SLC revenues generated by contract tariffs are not included in the price-cap basket.

vi. Bundles and service packages:

1) Carriers may offer customers that purchase bundles/service packages any of the following options: an increase to the current SLC line item; a new stand-alone line item; a roll-up of the SLC or some portion of the SLC into the bundle/service package price; or some combination of these.

a) A service package or bundle is a group of services that is marketed at a single price point and may or may not include long distance.

b) This provision does not modify any applicable accounting safeguards.

2) Carriers may offer customers that do not purchase bundles/service packages any of the following options: an increase to the current SLC line item; a new line item; or some combination of these.

b. Carriers will obtain additional pricing flexibility at Step 4.

i. Constraints on pricing zones will be eliminated.

ii. The nationwide per-line SLC caps will not apply to SLCs offered through contract tariffs.

iii. Tariff filings can be made on one day's notice.

c. Notwithstanding these rules, no SLC rate may be increased above the nationwide SLC cap for the relevant Step of the Plan.

D. Differentiating Between "Switched Access" and "Reciprocal Compensation" Traffic for Purposes of Intercarrier Compensation

Summary: The Plan establishes clear, concrete rules concerning how to classify traffic in order to determine which category of intercarrier compensation charge applies — *i.e.*, reciprocal compensation or switched access. The Plan establishes a telephone-number based methodology that will rely on the calling and called telephone numbers to determine how a call should be categorized for these purposes. While the parties recognize that telephone numbers do not always reliably identify end users' actual locations, this telephone-number-based rule is a

compromise that will establish predictable rules to govern the exchange of traffic so long as distinct regimes/charges are maintained for access and Non-Access Traffic. These rules are designed to be implemented at Step 1 of the Plan.

1. ***Definitions***

   a. The calling telephone number refers to the telephone number assigned to the end user that originates the call.

   b. The called telephone number refers to the telephone number dialed by the end user that originated the call.

2. ***Originating Intercarrier Compensation***

   a. The following traffic will be designated as access traffic:

      i. Traffic between two wireline carriers in any of the following scenarios:

         1) the calling telephone number and the called telephone number are associated with different rate centers and the rate centers are not in the same reciprocal compensation local calling area;[8]

         2) the called telephone number is an 8YY call for which a POTS routable telephone number is returned from the 800 database and that telephone number is associated with a rate center that is not located in the same reciprocal compensation local calling area as the calling telephone number;

            a) 8YY calls for which a POTS routable telephone number is returned from the 800 database that is associated with a rate center located in the same reciprocal compensation local calling area as the calling telephone number are *not* considered access traffic.

         3) the called telephone number is an 8YY call for which a POTS routable telephone number is not returned from the 800 database or is a call type that does not rely upon a geographically-based telephone number convention, *e.g.*, 900 traffic.

      ii. Traffic from a wireline provider to a CMRS provider in either of the following scenarios:

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[8] A "reciprocal compensation local calling area" is a local calling area established by a State commission for the purpose of identifying traffic subject to 47 U.S.C. § 251(b)(5). In the absence of a clear rule specifying a uniform local calling area for all carriers, the incumbent's retail local calling area will apply.

1) the calling telephone number of the wireline subscriber and the called telephone number of the wireless subscriber are associated with different rate centers within the same MTA, and an IXC (whether or not affiliated with the wireline carrier) has the retail toll service relationship with the calling party;

2) the calling telephone number of the wireline subscriber and the called telephone number of the wireless subscriber are associated with different rate centers in different MTAs.

b. All originating traffic that is not covered by Section II.D.2.a, above, shall not be considered access traffic, and no originating charges may be applied.

c. Traffic that is designated as access traffic will be subject to originating switched access charges where a carrier still charges distinct access charges under the Plan.

i. The carrier responsible for paying applicable originating switched access charges is the carrier with the retail relationship for the toll service portion of the call.

ii. When the retail toll service provider is non-facilities based, the underlying facilities-based carrier it has retained stands in its shoes as the carrier responsible for payment of originating switched access charges.

d. The jurisdiction of originating switched access traffic under the Plan will be determined as follows.

i. Interstate originating switched access charges will apply as described in Section II.D.2.a to access traffic when the telephone number of the calling party and the telephone number of the called party are associated with different rate centers in different States.

ii. Intrastate originating switched access charges will apply as described in Section II.D.2.a to access traffic when the telephone number of the calling party and the telephone number of the called party are associated with different rate centers in the same State.

iii. These rules apply to 8YY access traffic for which POTS routable telephone numbers are returned.

iv. Interstate originating switched access charges will apply to access traffic associated with 8YY calls for which POTS routable telephone numbers are not returned from the 800 database and to access traffic that does not rely upon a geographically-based telephone number convention, *e.g.*, 900 traffic.

3. ***Terminating Intercarrier Compensation***

a. *Traffic between a LEC and a non-CMRS carrier*

i. Terminating, reciprocal compensation charges will apply when the telephone number of the calling party and the telephone number of the called party are associated with rate centers that are in the same reciprocal compensation local calling area.

1) VoIP-originated traffic terminating to the PSTN is subject to this rule. The calling number for VoIP-originated traffic is the telephone number assigned to the end user subscribing to the VoIP service, not the telephone number assigned to the PRI service used to interconnect with the PSTN.

2) Traffic that would otherwise fall within Section II.D.3.a.i that is ISP-bound traffic will be subject to the specific charges applicable to ISP-bound traffic as set forth in Section II.E.8 below;

3) Traffic that would otherwise fall within Section II.D.3.a.i that is out-of-balance traffic will be subject to the specific charges applicable to out-of-balance traffic as set forth in Section II.E.9 below;

ii. Traffic terminating on a wireline network will be designated as access traffic and subject to applicable terminating access charges when the telephone number of the calling party and the telephone number of the called party are associated with rate centers that are not in the same reciprocal compensation local calling area.

1) VoIP-originated traffic terminating to the PSTN is subject to this rule, and the calling number will be determined as set forth in Section II.D.3.a.i.1., above.

iii. Terminating traffic that is received without calling telephone number information will be allocated to the access and reciprocal compensation categories in the same proportion as terminating traffic that is received with the calling number information.

b. *Traffic between a LEC and a CMRS carrier*

i. *CMRS-to-wireline traffic*

1) Traffic will be designated as reciprocal compensation traffic when the calling telephone number of the wireless subscriber and the called telephone number of the wireline subscriber are associated with rate centers within the same MTA, and terminating reciprocal compensation charges shall apply.

2) CMRS-to-wireline traffic will be designated as access traffic and subject to applicable terminating access charges in the following scenarios:

a) the calling telephone number of the wireless subscriber and the called telephone number of the wireline subscriber are associated with rate centers located in different MTAs;

b) CMRS-originated traffic is exchanged with a LEC via an IXC (whether affiliated or unaffiliated with the CMRS provider).

ii. *Wireline LEC-to-CMRS traffic*

1) Traffic from a wireline LEC to a CMRS provider will be reciprocal compensation traffic subject to applicable terminating reciprocal compensation charges when the calling telephone number of the wireline subscriber and the called telephone number of the wireless subscriber are associated with rate centers within the same MTA *and* one of the following applies:

a) the calling telephone number of the wireline subscriber and the called telephone number of the wireless subscriber are associated with the same rate center;

b) the calling telephone number of the wireline subscriber and the called telephone number of the wireless subscriber are associated with different rate centers, but the rate centers are covered by an ILEC EAS arrangement; *or*

c) the calling telephone number of the wireline subscriber and the called telephone number of the wireless subscriber are associated with different rate centers in the same MTA and the LEC has the retail toll service relationship with the calling party, provided that this rule shall apply only when the LEC itself, and not an IXC-affiliate of the LEC, has that toll relationship.

2) In accordance with 47 U.S.C. § 251(b)(3), wireline LEC-to-CMRS traffic that falls into Section II.D.3.b.ii.1 above will not require additional digits to be dialed. If a separate trunk group is needed for technical feasibility reasons to enable the routing of this traffic without additional dialed digits, the wireline carrier and CMRS provider must accommodate this requirement.

3) A LEC may not use an IXC to exchange traffic that falls into Section II.D.3.b.ii.1 with a CMRS provider.

c. *Traffic between an IXC and a CMRS carrier*

i. At Steps 2 and 3 of the Plan, a CMRS provider will charge $0.0007 when it terminates IXC traffic.

ii. Starting at Step 4 of the Plan, a CMRS provider will charge $0.0005 to terminate IXC traffic.

d. *Jurisdiction of terminating switched access traffic.* To the extent a carrier still charges distinct interstate and intrastate terminating switched access charges, the jurisdiction of terminating switched access traffic will be determined as follows when applying those charges:

i. Interstate terminating switched access charges will apply as described in Section II.D.3.a.ii to non-VoIP-originated access traffic when the telephone number of the calling party and the telephone number of the called party are associated with different rate centers in different States.

ii. Intrastate terminating switched access charges will apply as described in Section II.D.3.a.ii to non-VoIP-originated access traffic when the telephone number of the calling party and the telephone number of the called party are associated with different rate centers in the same State.

iii. Interstate terminating switched access charges will apply as described in Section II.D.3.a.ii to all VoIP-originated traffic that terminates on the PSTN and qualifies as access traffic, regardless of the type of carrier the VoIP provider uses to connect to the PSTN.

iv. For non-VOIP terminating traffic that is received without a calling telephone number and that is treated as access traffic under Section II.D.3.a.iii above, the access charges will be allocated to the intrastate and interstate jurisdictions in the same proportion as terminating traffic that is received with the calling number information.

E. General Intercarrier Compensation Rules for Non-Access Traffic

The Plan establishes a set of rules to govern carriers' financial obligations when they exchange Non-Access Traffic.[9] These rules do not apply to access traffic. These rules apply generally to all carriers, regardless of Track, except as specified.

1. ***General Obligation:*** Each carrier has the following financial obligations for interconnection for traffic that originates on its network:

a. *Transport* to deliver its originating Non-Access Traffic to the terminating carrier's Edge (as defined below in Section III.B); and

[9] At Step 1, "Non-Access Traffic" will be ISP-bound traffic and traffic now subject to reciprocal compensation charges. Upon unification of terminating charges for a Track 1 or Track 2 carrier, terminating traffic formerly subject to access charges will be considered Non-Access Traffic for purposes of this Plan.

b. *Termination* of its originating traffic by the terminating carrier from its Edge.

2. ***General Prohibition:*** A carrier may not assess on any other carrier charges for Non-Access Traffic originating on its network, except as set forth herein.

3. ***Rules for Transport Charges:***

a. When one carrier provides transport to terminate another carrier's traffic, it may charge its applicable transport rate as set forth above in Section II.B.

b. *Transport* is the transmission facilities a carrier requires to physically interconnect its network with the terminating carrier's Edge.

c. A carrier may satisfy its transport obligations by:

i. Constructing its own facilities,

ii. Obtaining facilities from a third-party carrier, or

iii. Purchasing transport services from the terminating carrier. Where a carrier chooses to purchase transport from the terminating carrier, the terminating carrier may charge transport charges (as set forth in Section II.B.), as follows:

1) Dedicated transport used to directly interconnect at the terminating carrier's Edge may be charged on a flat-rated basis at the applicable interstate dedicated switched transport rates.

a) When the terminating carrier is a non-ILEC carrier, rates will be benchmarked to (*i.e.*, capped at) the Track 1 ILEC rate level for comparable interstate dedicated switched transport services.

2) Tandem switched transport charges for common transport or tandem switching and common transport will be usage-based, subject to the EAS traffic and out-of-balance traffic provisions below (see Sections II.E.6 and II.E.9).

3) For traffic exchanged with a Track 3 carrier, transport charges will include any transport link costs between the Track 3 carrier's end office location served by a remote switching system and its host end office.

d. Transport rules for Track 1 carriers:

i. *Track 1 — Track 1 Transport obligation for out-of-balance traffic.* For out-of-balance traffic, as defined in Section II.E.9, below, the Track 1 carrier terminating the larger amount of traffic will have the financial obligation for *all* transport (not just the traffic above the 3:1 ratio) to interconnect the two carriers for traffic in *both* directions.

ii. Notwithstanding Section II.E.1.a above, the following transport and compensation obligations will apply to interconnection arrangements that were in place prior to adoption of the Plan where a non-ILEC has established a point of interconnection (POI)[10] at a Track 1 ILEC's end office or local tandem ("Virtual Edge").

1) Either carrier may choose to replace the existing interconnection arrangement with the default Access Tandem Edge arrangement provided for by the Plan. If either carrier makes this election, each carrier will make the necessary modifications to its network to implement the change.

2) If both carriers elect to maintain an existing interconnection arrangement, the Track 1 ILEC location at which the POI was established will be designated as the Track 1 ILEC's Virtual Edge for the traffic it receives over this interconnection arrangement from the non-ILEC.

a) The Track 1 ILEC will provide, at its own expense, the transport to connect any of its end offices that subtend its Virtual Edge for traffic exchanged with the non-ILEC in both directions over this interconnection arrangement.

b) The non-ILEC will provide, at its own expense, the transport to interconnect its network with the Track 1 ILEC's Virtual Edge for traffic exchanged in both directions over this interconnection arrangement with the ILEC.

c) When the airline distance between the non-ILEC's Edge and the Track 1 ILEC's Virtual Edge is greater than the distance between the non-ILEC's Edge and the ILEC's default Access Tandem Edge, the Track 1 ILEC will compensate the non-ILEC a dedicated transport charge based on the number of miles that is equivalent to the difference between these two transport distances, not to exceed the distance between the Virtual Edge and the default Access Tandem Edge. The transport charge will cover only the transport capacity required to exchange the parties' Non-Access Traffic in both directions over this interconnection arrangement. If the Track 1 ILEC elects to maintain originating switched access charges, it will not be responsible for transport capacity used for originating switched access traffic; instead,

[10] For the purposes of the Plan, a point of interconnection (POI) means a specific network site, such as a cross-connect device, where two carriers physically interconnect their networks for the exchange of traffic. A POI has often served as the network demarcation where one carrier's obligation for providing the transport facility stops and the other carrier's obligation for the facility begins.

it may charge its applicable access rates for transport functions it provides.

3) In order to qualify for this rule, the non-ILEC must establish a POI at the Track 1 ILEC's default Access Tandem Edge serving the geographic area in which the Virtual Edge is located.

e. *Transport rules for CRTCs.* The following rules will take effect at Step 1.

i. *Track 1 – Track 3 ILEC transport obligation (the modified Rural Transport Rule)*

1) Track 1 carriers have a financial obligation to transport their originating traffic to the Track 3 ILEC's Edge, as specified Section II.E.1.a.

2) A Track 1 carrier also will bear the financial obligation for provisioning the interconnection transport to carry traffic (in both directions) between its Edge and the meet point with the Track 3 ILEC. The Track 1 carrier will determine whether the interconnection transport should be provided through direct interconnection or through an indirect arrangement.

3) If a Track 1 carrier elects to interconnect indirectly, it will be the Ordering Carrier for the Tandem Transit Service to transport the Track 3 ILEC's originating traffic from the meet point to the Track 1 carrier's Edge.

4) If the Track 1 carrier provides dedicated transport through a direct interconnection arrangement, the Track 3 ILEC will compensate the Track 1 carrier on a flat rated basis for 50 percent of the capacity required to transport its traffic from the meet point to the terminating Track 1 carrier's Edge. This obligation extends only to the first ten miles of such transport capacity.

5) The meet point on the Track 3 ILEC's network for the purposes of establishing the Track 1 carrier's transport obligation will be established as follows:

a) Where a Track 3 ILEC's end office does not subtend a tandem switch owned and operated by that Track 3 ILEC, or where it does subtend its own tandem switch but that switch serves only access traffic, the meet point will be (a) the existing meet point serving the exchange in which the Track 3 ILEC's end office is located, or (b) a meet point in that exchange that is established pursuant to the General Interconnection Framework set forth below in Section III.C.4.

b) Where a Track 3 ILEC's end office subtends a tandem switch owned and operated by the Track 3 ILEC that serves Non-Access Traffic, the meet point shall be (a) the existing meet point serving the exchange in which the tandem switch is located, or (b) a meet point in that

exchange that is established pursuant to the General Interconnection Framework set forth below in Section III.C.4.

c) Where the volume of ISP-bound traffic originating from a Track 3 ILEC's end office to a Track 1 carrier (a) exceeds a busy-hour threshold of 2 DS1s measured in a time-consistent busy hour each month for three consecutive months (based on Neal Wilkinson tables, 1 percent blockage, low day-to-day variation with a peakedness factor of 1.0); and (b) the Track 3 ILEC's end office subtends a tandem switch owned and operated by that ILEC; and (c) that tandem switch serves Non-Access Traffic, the meet point will be the existing meet point serving the exchange in which the Track 3 ILEC's end office is located or a meet point in that exchange that is established pursuant to the General Interconnection Framework set forth below in Section III.C.4.

6) As noted in Section II.E.6, below, existing interconnection arrangements, including tandem transit arrangements, between a Track 3 and Track 1 ILEC with respect to the exchange of EAS traffic in a mandatory local calling area or optional local calling area arrangement will remain in place and are unaffected by this Plan, as will the reciprocal compensation arrangements provided for in such arrangements.

ii. *Track 1 – Track 2 ILEC transport obligation*

1) *Full Rural Transport Rule:* Some Track 2 ILECs will qualify for the *full* "Rural Transport Rule" when they satisfy the conditions set forth above in Sections II.B.2.a.iii and II.B.2.d. Unlike carriers entitled to the *modified* Rural Transport Rule, these Track 2 carriers ultimately will not be required to bear any transport cost between the meet point and the Track 1 carrier's Edge.

a) The Track 1 carrier has a financial obligation to transport its originating traffic to the Track 2 carrier's Edge, as specified in Section II.E.1.a.

b) The Track 1 carrier also will bear the financial obligation for the transport to carry traffic (in both directions) between the Track 1 carrier's Edge and the meet point with the Track 2 ILEC. The Track 1 carrier will determine whether the interconnection transport should be provided through direct interconnection or through an indirect arrangement.

c) If the Track 1 carrier chooses to interconnect indirectly, it will be the Ordering Carrier for the Tandem Transit Service used to satisfy its obligation to transport the Track 2 carrier's originating traffic from the meet point to the Track 1 carrier's Edge.

d) A Track 1 carrier may also choose to interconnect directly with the Track 2 carrier. However, unlike carriers entitled only to the *modified* Rural Transport Rule, Track 2 carriers entitled to the full Rural Transport Rule need not compensate the Track 1 carrier for any of the dedicated transport capacity required to transport the Track 2 carrier's originating traffic from the meet point to Track 1 carrier's Edge.

2) *Modified Rural Transport Rule:* Other Track 2 ILECs will be entitled to the same *modified* Rural Transport Rule available to Track 3 carriers, as described above in Sections II.E.3.e.i.1 to 4. A Track 2 carrier's entitlement to the modified Rural Transport Rule is discussed above in Sections II.B.2.a.iii and II.B.2.d

3) The meet point on any Track 2 ILEC's network for the purposes of establishing the Track 1 carrier's transport obligation will be established in the same way as described above in Section II.E.3.e.i.5 with respect to Track 3 carriers.

iii. *Track 2 Transport Pricing:* As Track 2 carriers transition to the target transport and termination rate structure, the ratios of the DS-1 and DS-3 dedicated transport rates to the common transport rates must be equal to or less than the ratios prior to the implementation of the Plan.

4. ***Rules for Termination Charges:***

a. When one carrier terminates another carrier's traffic, the terminating carrier may charge its applicable termination rate as set forth in Sections II.B and II.E.5.

b. *Termination* is the acceptance of traffic routed according to NPA-NXX or LRN by a terminating telecommunications carrier.

c. Termination charges are intended to recover the costs of the traffic sensitive components of the terminating carrier's network used to deliver traffic from its Edge to the called party, as defined herein.

i. Track 1 carriers: Termination charges shall cover:

1) The components of any dedicated transport, common transport or tandem switching used to terminate traffic within a carrier's network; and

2) End office switching, or equivalent functionality.

ii. Track 2 and Track 3 carriers: Termination charges cover the traffic-sensitive components of end office switching, or equivalent functionality.

d. The *terminating carrier* (*i.e.*, the carrier responsible for that NPA-NXX or LRN at its designated Edge for delivery to the called party) is the owner of the Edge at which the traffic is terminated.

i. If a carrier assigns its terminating Edge responsibilities in the LATA associated with a particular NPA-NXX or LRN to another carrier, the assignee (*i.e.*, Edge operator/owner) is the Terminating Carrier. Assignment of Edges shall not affect a carrier's existing CRTC status under this Plan.

ii. If a reseller adopts the Edges of the underlying carrier, the underlying carrier (*i.e.*, the Edge operator/owner) is the Terminating Carrier.

iii. A CLEC using a UNE platform or wholesale substitute (other than resale under Section 251(c)(4) of the Act):

1) is not a reseller for purposes of these rules; it has direct responsibility for transport and termination charges for traffic it originates and may assess applicable charges for traffic it terminates; and

2) will stand in the shoes of its underlying network provider with respect to Edge responsibilities and network categorization. Such CLECs will be responsible for compensating the underlying network provider for a pro-rata share of:

a) dedicated transport costs incurred by the underlying network provider; and

b) any Tandem Transit Service charges incurred by that provider.

5. ***General Rule Regarding Rate Levels for Transport and Termination Charges for Reciprocal Compensation Traffic:*** The reciprocal compensation charges for transport and termination functions performed to terminate another carrier's Non-Access Traffic will be determined as follows (subject to the out-of-balance, EAS, and ISP-bound traffic exceptions described below):

a. The amount of the charge will be based on whether the originating and terminating carriers are ILECs.

i. Traffic between any two non-ILECs: At Step 1, each carrier will charge its own rates. Beginning at Step 3, the rates charged will be symmetrical: each carrier will charge the applicable Track 1 reciprocal compensation rates under this Plan to terminate the other carrier's traffic.

ii. Traffic exchanged between any two ILECs: Each carrier will charge the reciprocal compensation rates applicable to its own Track to terminate the other carrier's traffic, subject to the rules regarding EAS traffic in Section II.E.6 below.

iii. Traffic exchanged between an ILEC and a non-ILEC: The non-ILEC will charge the same reciprocal compensation rate charged by the ILEC for performance of comparable functions.

b. The relevant ILEC rates for transport and termination will be the rates specified in the relevant Track 1, Track 2, and Track 3 transition plans in Section II.B above. However, if there is no interconnection agreement, an interim reciprocal compensation arrangement may be established pursuant to the procedures set forth in Section IV.A, and the interim reciprocal compensation charges will be determined as follows:

   i. For Track 1 and 2 carriers, in Steps 1 and 2 the interim transport and termination rate level will be $0.0007. At Step 3, the Plan rates discussed above in Section II.B will apply.

   ii. For Track 3 carriers, the interim transport and termination rate level for all Steps of the Plan will be equal to the Track 3 carrier's interstate switched access rates[11] in effect at the time the interim arrangement is established.

   iii. Interim reciprocal compensation rates established under these two provisions will remain in effect until superceded by a formal, State-approved interconnection agreement as described in Section IV.B.

6. ***Rules for Track 3 ILECs Subject to an EAS Traffic Agreement:*** The foregoing general reciprocal compensation rules do not apply to existing reciprocal compensation arrangements for EAS traffic exchanged between a Track 3 ILEC and another ILEC, or to intercarrier compensation for tandem transit arrangements used to indirectly interconnect with a Track 3 ILEC in a mandatory local calling area arrangement or an optional local calling area arrangement. Instead, the following rules apply:

   a. Except as set forth in Section II.E.6.e below, nothing in the Plan affects existing mandatory local calling area and optional calling area arrangements, including reciprocal compensation for transport and termination.

   b. Except as set forth in Section II.E.6.e below, nothing in the Plan affects existing intercarrier compensation for the use of tandem transit arrangements to indirectly interconnect a Track 3 ILEC with another ILEC in connection with an EAS arrangement.

   c. In a mandatory local calling area or an area covered by an optional local calling area arrangement where a Track 3 ILEC exchanges EAS traffic with another ILEC on a bill and keep basis, the Track 3 ILEC must offer to exchange traffic with CLECs and CMRS providers on a bill and keep basis for the transport and termination of traffic from the CLECs' or CMRS providers' telephone numbers associated with rate centers in the mandatory or optional local area.

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[11] The interstate access rate structure and the reciprocal compensation structure for transport and termination will need to be harmonized.

i. The Track 3 ILEC must extend this offer on a one-time basis to CLECs and CMRS providers with which it has an existing interconnection agreement.

ii. Where there is no existing interconnection agreement, the Plan's interim reciprocal compensation rates will apply as in Sections II.E.5.b and IV.A, but the Track 3 ILEC must extend this offer at such time as the CLEC or CMRS carrier requests an interconnection agreement.

iii. The rules set forth in this subsection do not apply to tandem transit service CLECs or CMRS providers use to indirectly interconnect with a Track 3 ILEC.

d. The rules regarding tandem transit arrangements used to indirectly interconnect a Track 3 ILEC with another ILEC for the exchange of EAS traffic associated with a mandatory local calling area arrangement or an optional local calling area arrangement are covered in the CRTC transport rules discussion, Section II.E.3.e, above.

e. Any carrier, including a tandem transit provider, may seek changes to tandem transit services used to indirectly interconnect a Track 3 ILEC with other ILECs in mandatory local calling areas and optional calling area arrangements. Any carrier retains its right to challenge proposed changes to these tandem transit services.

f. When a State commission considers establishing new mandatory local calling areas or revisits an existing arrangement, the reciprocal compensation charges and Tandem Transit Service charges established by this Plan may be utilized in determining the appropriate recovery mechanism.

g. In the proceeding conducted by the Commission at Step 4, the Commission will determine whether additional reform of the rules applicable to EAS arrangements and the Tandem Transit Service framework are appropriate.

7. ***Additional CRTC – CRTC transport and termination rules:***

a. Existing interconnection arrangements, including tandem transit arrangements, that a Track 3 ILEC uses to exchange EAS traffic with another CRTC in a mandatory local calling area or optional calling area arrangement, as well as current reciprocal compensation charges for the transport and termination of such traffic, are unaffected by the terms of the Plan.

b. For ISP-bound traffic exchanged between two CRTCs, the carrier serving the ISP must fulfill the *Track 1* transport obligations for ISP-bound traffic described in Sections II.E.3.e.i. and ii (*i.e.*, the CRTC serving the ISP shall have the financial obligation for transport of the ISP-bound traffic from the other carrier's meet point).

8. ***Special Rules Concerning Compensation for Exchange of ISP-Bound Traffic:*** The following rules apply to the exchange of ISP-bound traffic:

   a. Definition of ISP-bound traffic. There shall be a rebuttable presumption that traffic that qualifies as ISP-bound traffic pursuant to the FCC's *ISP-Bound Traffic Framework*[12] on a per-carrier, per-state basis, shall be identified as ISP-bound traffic. If a carrier successfully rebuts the ISP-bound traffic presumption for traffic that exceeds the 3:1 ratio, the traffic at issue will be subject to the Plan's provisions concerning an out-of-balance traffic safeguard, described below in Section II.E.9, beginning at the next calendar month.

   b. The *ISP-Bound Traffic Framework* will apply to traffic exchanged between two non-ILECs until Step 3.

   c. Termination rates for ISP-bound traffic.

      i. For Tracks 1 and 2, termination rate levels for ISP-bound traffic will be the applicable rates established in this Plan when rates for all terminating traffic are unified (*i.e.*, Step 3).

         1) If there is no interconnection agreement, the termination rate for ISP-bound traffic will be $0.0007 per MOU at Step 1, and will be treated like any other terminating traffic beginning at Step 3.

         2) If a state had, through rule, order, or arbitration, (*i.e.*, other than a negotiated agreement) established a rate other than $0.0007 per MOU for ISP-bound traffic, such traffic will be treated like any other terminating traffic at Step 3.

         3) If an existing interconnection agreement expires prior to Step 3, the termination rate for ISP-bound traffic will be $0.0007 per MOU until Step 3, at which point it will be treated like any other terminating traffic.

      ii. For Track 3 carriers,

         1) ISP-bound traffic remains subject to the Commission's *ISP-Bound Traffic Framework.*

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[12] The *ISP-Bound Traffic Framework* is contained in the following: Order on Remand and Report and Order, *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Intercarrier Compensation for ISP-Bound Traffic*, 16 FCC Rcd 9151 (2001) ("*ISP Remand Order*"), *remanded*, *WorldCom v. FCC*, 288 F.3d 429 (D.C. Cir. 2002); Order, *Petition of Core Communications, Inc. for Forbearance Under 47 U.S.C. § 160(c) from Application of the ISP Remand Order*, 19 FCC Rcd 20179 (2004).

2) The rate for ISP-bound traffic will be $0.0005 per MOU at Step 4. This rate applies even where a state has established, through rule, order, or arbitration, a different rate.

d. Specific interconnection obligations for Track 2- and Track 3-originated ISP-bound traffic terminated by a Track 1 carrier are covered in the CRTC transport rules discussion above, in Section II.E.3.e.

e. The ISP-bound mirroring rule and Track 3 carriers.[13] One of the following rules will apply with respect to Track 3 ILECs, as decided by the Commission.[14]

1) Option 1: The ISP-bound mirroring rule is eliminated for Track 3 ILECs at Step 1 of the Plan.

2) Option 2: Track 3 ILECs will be subject to the ISP-bound mirroring rule until Step 4 of the Plan.

f. Virtual NXX (*i.e.*, virtual FX) ISP-bound traffic will be treated like all other ISP-bound traffic under the Plan.

9. ***Special Safeguard for Out-of-Balance Traffic:*** Where traffic is out-of-balance, as defined below, and the terminating carrier for such out-of-balance traffic charges a higher reciprocal compensation rate than the originating carrier, special rules shall apply in order to reduce the likelihood that a carrier will attempt to take advantage of carrier charges that cannot be avoided and differences between carrier rates.

a. *Out-of-balance traffic* is all Non-Access Traffic that exceeds a 3:1 termination to origination ratio between two carriers, regardless of whether it is ISP-bound traffic.

b. Reciprocal compensation charges for out-of-balance traffic (*i.e.*, that portion of the traffic *above* the 3:1 ratio) will operate as follows.[15]

i. For Track 1- or Track 2-originated out-of-balance traffic terminated by a Track 2 or Track 3 carrier, terminating transport charges will not apply to the out-of-balance traffic, and the termination charge will be the lower of:

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[13] *ISP Remand Order* at 9193-94 ¶ 89.

[14] The parties supporting the Plan have not reached agreement on this issue and thus have agreed to present both options. Arguments and support for each of these options are contained in Appendix A.

[15] For Track 1 to Track 1 out-of-balance traffic, no special safeguard is necessary because both carriers will be charging rates no higher than those specified in Section II.B.

1) the currently effective termination charge, or

2) $0.0007 per MOU.

ii. For Track 3 originated Non-Access, non-ISP-bound traffic terminated by a Track 2 or Track 3 carrier, terminating transport charges will not apply to the out-of-balance traffic, and the termination charge will be the lower of:

1) the currently effective termination charge, or

2) $0.0007 per MOU.

III. Interconnection Framework for Non-Access Traffic

Summary: A carrier must permit other carriers to physically interconnect at its Edges (defined below). Other locales for interconnection are permitted as provided for under Section 251(c)(2) of the Act and in any interconnection agreement or arbitration; however, the Plan creates an obligation for an interconnecting carrier to pay the terminating carrier for transport from the point of interconnection to the relevant Edge. The Plan sets forth the minimum technical requirements that a carrier providing such interconnection must make available. The rules here, unless otherwise specified, apply to interconnection for Non-Access Traffic, and not for traffic subject to access tariffs.

Carriers may connect directly or indirectly. Carriers providing transit on the first day of the Plan must continue to do so through the life of the Plan as outlined in Section III.D.

Section II.E sets forth the financial obligations relating to interconnection. A carrier generally is financially responsible for transporting its traffic from its network to a terminating carrier's Edge, as detailed further below.

Carriers are free to reach mutual agreement for the interconnection of their networks. Absent such mutual agreement, the default interconnection rules specified herein will apply.

A. General Interconnection Obligations

1. ***Obligation to Interconnect:*** A carrier must permit other carriers with the financial obligation for interconnection to physically interconnect at its Edge for the purpose of direct interconnection. The carrier is also obligated to provide physical interconnection to transit carriers for their provision of indirect interconnection.

   a. A carrier will provide interconnection to another carrier, so long as the requesting carrier is the party whose network will be directly interconnected, or in the case of tandem transit service, indirectly interconnected with the providing carrier.

   b. "Carrier" means any telecommunications carrier, as defined in 47 U.S.C. § 153(44), regardless of whether it offers telecommunications services on a retail basis, a wholesale basis or both.

c. "Interconnection" refers to the linking of carrier networks for the exchange of traffic as specified in the Plan.

d. For purposes of interconnection as set forth in the Plan, each carrier, and each communications service provider[16] served by a carrier, will:

i. collaborate to complete calls that originate or terminate on the PSTN and will not block or hinder the exchange of such traffic between interconnecting carriers;

ii. provide full portability of numbers assigned to the end users of a communications service provider; and

iii. in the case of a carrier, offer interconnection as set forth in this Plan to carriers that comply with these obligations. The Commission will adopt rules codifying these requirements.

e. *Direct or Indirect Interconnection:* The carrier with the financial obligation for interconnection decides whether it will interconnect through a direct interconnection arrangement or an indirect interconnection arrangement.

i. "Direct interconnection" refers to the physical linking of two networks for the exchange of traffic.

ii. "Indirect interconnection" refers to the use of a third party tandem transit service to interconnect two networks.

2. ***Interaction with Section 251(c)(2):*** If a carrier elects to physically interconnect its facilities with an ILEC's network at a location other than the ILEC's Edge or another location specified in the Plan by asserting its rights under Section 251(c)(2), the Plan's default rules concerning the financial obligation for the transport of traffic will apply. *See* Section II.E. Moreover, a carrier asserting its right to interconnect under Section 251(c)(2) at a location other than the ILEC's Edge or another location specified in the Plan is not relieved of its obligation to offer interconnection as set forth in the Interconnection Framework for Non-Access Traffic in Section III.

B. Establishment of Edges

1. An Edge refers to the location on a carrier's network where it receives traffic for routing within its network and where it performs the termination function for traffic received from other carriers. A network location that satisfies each of the following requirements will be eligible for designation as an Edge:

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[16] A communications service provider (or "provider") for purposes of the Plan is a carrier *or* a non-carrier that provides a service to an end user or another communications service provider from which traffic is exchanged, directly or indirectly, with the PSTN.

a. The physical interconnection arrangements described below in Section III.C.1 are available at that network location;

b. Direct and indirect interconnection are available at that network location;

c. It provides the termination function for all types of traffic (access and Non-Access Traffic) directed to subscribers served by the network location;

d. It provides number portability functionality when requested as required by Section 251(b)(2) and the FCC's rules, except where a rural LEC has petitioned for and been granted a suspension from the requirements of Section 251(b)(2) in accordance with Section 251(f)(2);

e. It meets at least one of the following functional network location definitions:

   i. "**End Office**": A building location with a wireline carrier switch to which multiple unaffiliated telephone service subscribers' access lines are connected. End Offices provide dial tone to the subscriber, perform call origination and call termination functions, and establish line-to-line, line-to-trunk, and trunk-to-line connections for the transmission and routing of local and toll traffic. End Offices represent the last switch at which the interconnecting carrier can establish trunking for the purpose of exchanging traffic.

      1) End offices that have not been upgraded for equal access and receive equal access functionality from a centralized equal access tandem (CEA) will be treated as Edges for purposes of this Plan if they are capable of direct trunking arrangements with other carriers for the exchange of Non-Access Traffic. Where such end offices cannot provide such trunking arrangements, the CEA tandem will serve as the carrier's Edge, unless the carrier designates another location.

      2) An end office location served by a remote switching system will not be treated as an End Office under the Plan. Instead, the host end office that serves the remote end office will serve as the Edge for traffic terminating to these remote switching locations, provided the host end office otherwise meets all other applicable Edge requirements.

      3) End Offices must be listed in the LERG or any successor or alternate guide with the NPA-NXX Codes, and have an assigned Location Routing Number (LRN). End Offices that use SS-7 signaling must have an associated point code.

   ii. "**Access Tandem**": A building location with a carrier switch that establishes trunk-to-trunk connections between designated end office switches operated by the tandem owner and long distance service providers for the routing of interstate and intrastate interexchange traffic. Access tandems have point codes and are listed in the LERG or any successor or alternate guide with a

unique CLLI Code and the designated end office switches they serve for routing purposes.

iii. "**POP"**: Building space owned or controlled by the carrier, its agent or designee that meets the requirements of either 1) or 2) as follows.

1) Building space where a carrier has located transmission facilities used to virtually extend switching capacity or Trunking Media Gateway functionality from one LATA or serving area to another LATA or serving area. To qualify, the POP must be listed in the LERG or any successor or alternate guide with the NPA-NXX Codes and have an assigned LRN.

a) A carrier may associate only one POP per LATA for each remotely-deployed switch, except if this limitation would result in that carrier having only one Edge in a LATA, in which case the carrier may associate two POPs in that LATA with its remotely-deployed switch.

2) In any study area where a carrier has elected to eliminate originating switched access charges, building space where an IXC has located transmission facilities and to which an ILEC is providing switched access services as of the date of adoption of the Commission order establishing this Plan.

a) Notwithstanding the above, in all study areas, even where a carrier has not elected to eliminate originating switched access charges, every IXC POP that otherwise meets the requirements of an Edge will qualify as an Edge where it performs the termination function (*i.e.*, terminating non-8YY nodal services). Where such an IXC POP does qualify as an Edge, it will be treated as a non-incumbent LEC for purposes of the interconnection and reciprocal compensation aspects of this Plan.

iv. "**Trunking Media Gateway**": A building location with a device or system that uses protocol conversion to convert time-division multiplexing (TDM) messages to packet messages and packet messages to TDM messages. A Trunking Media Gateway allows communications between a TDM network and an IP network. A Trunking Media Gateway must meet the following criteria:

1) It must provide access to multiple unaffiliated telephone service subscribers;

2) It must permit unaffiliated carriers to establish TDM trunks between it and their switches; and

3) It is listed in the LERG or any successor or alternate guide with the NPA-NXX Codes and a LRN, or serves as an IXC ingress/egress point.

v. "**MSC**": A building location with a carrier switch to which multiple unaffiliated CMRS (including paging) subscribers are provided network connectivity via mobile base stations. The MSC is the last switch at which another carrier can establish trunking for the purpose of exchanging traffic with CMRS subscribers. MSCs, other than those used solely to provide one-way paging services, are listed in the LERG or any successor or alternate guide with the NPA-NXX Codes, and a LRN assigned to them.

2. Designation of Edges:

a. Any location that meets the requirements above is eligible to be designated an Edge, and a carrier may choose which of its eligible locations will be designated as Edges. A carrier must designate at least one Edge in each LATA in which it receives traffic from other carriers.

b. Carriers must identify their Edges by LATA as of [date to be determined], and will associate relevant call routing information with the appropriate Edge, designating which customers are served by a given Edge. A carrier must provide reasonable advance notice of relocation, elimination, or addition of Edges or changes in routing information that occur after the beginning of Step 1 of the Plan.

i. Relevant call routing information includes, for example, NPA-NXX, LRN, CIC, CAC, etc. Carriers must route traffic to the appropriate Edge designated by the terminating carrier.

ii. Existing methods may be employed to designate which customers are served by a given Edge, such as the Local Number Portability Database, the LERG, and the Industry Toll-Free Database.

c. A carrier may designate another carrier's facilities within the LATA as its Edge, with the agreement of the owner of those facilities and so long as the other carrier's facilities satisfy the Edge criteria and these Edge designation rules.

d. Specific Edge Designation Rules for Track 1:

i. A Track 1 carrier may designate an eligible access tandem location as the Edge for the Track 1 carrier's end offices that subtend that access tandem. The carrier *cannot* designate one of its End Offices as an Edge if that End Office subtends the carrier's own access tandem.

ii. A Track 1 carrier may designate an eligible Trunking Media Gateway location, or a POP location that extends the trunking media gateway functionality, as its Edge for traffic terminating to its end offices that subtend its access tandem, in lieu of that access tandem itself.

iii. A Track 1 carrier may designate an eligible End Office, POP, or Trunking Media Gateway location as an Edge when the location subtends another carrier's access tandem.

iv. A CMRS carrier may designate an eligible MSC as an Edge in the LATA in which the MSC is located.

v. A Track 1 carrier may designate an eligible IXC POP location as its Edge.

e. Specific Edge Designation Rules for Tracks 2 and 3:

i. Track 2 and 3 carriers may declare *any* eligible End Office to be an Edge, even if the End Office subtends the carrier's own access tandem.

ii. Track 2 and 3 carriers may designate an eligible Trunking Media Gateway location that performs end office functionality, or a POP location that extends this trunking media gateway functionality, to be an Edge.

f. With respect to Alaska, which is the only State without a LATA, the obligation will be one of the following, as resolved by the Commission in adopting the Plan:

i. Option 1: Each carrier must provide at least one Edge in each local calling area in which it exchanges traffic with other carriers. Unless otherwise specified, in Alaska, the term "LATA" shall be deemed throughout this Plan to refer to a local calling area.

ii. Option 2: Until such time as there is a LEC-owned tandem, each carrier must provide at least one Edge in each local calling area in which it exchanges traffic with other carriers. Unless otherwise specified, in Alaska, and until such time as there is a LEC-owned tandem, the term "LATA" shall be deemed throughout this Plan to refer to a local calling area.

C. Direct Physical Interconnection Requirements

1. **General Options for Physical Interconnection:** Direct interconnection at the Edge, including interconnection for the purposes of providing indirect interconnection via transit service, must be provisioned through the requesting carrier's choice of any of the following:

a. **Fiber Optic Cable Termination** (*i.e.*, the termination of fiber optic strands to a digital cross-connect system (DCS) or comparable device establishing optical continuity with the other carrier) provided that the two carriers collectively exchange volumes of traffic that require at least 673 voice grade trunks (*i.e.*, one more than a DS-3).

i. A requesting carrier is not required to obtain collocation to implement Fiber Optic Cable Termination.

b. **Electrical Cable Termination**, provided that the two carriers collectively exchange volumes of traffic that do not require more than 672 voice grade trunks.

   i. A requesting carrier is not required to obtain collocation to implement Electrical Cable Termination.

c. **Additional Options:** Each Edge or qualifying tandem owner shall offer, as an additional option, at least two of the following four methods of physical network interconnection:

   i. physical collocation or virtual collocation;

   ii. meet point interconnection arrangement;

      1) A meet point is the interconnection point between the two networks at which one carrier's responsibility for providing the facility to connect the networks begins and the other carrier's responsibility ends.

      2) A "meet point interconnection arrangement" is a physical interconnection arrangement between two carriers where each carrier builds and maintains its transport facility to a meet point. A meet point interconnection arrangement typically will be a fiber-based arrangement, or if fiber is not available, it should be the same type of facility used for the ILEC-to-ILEC meet point arrangement in the exchange area. Meet point interconnection arrangements are often referred to as "mid-span meet points."

   iii. leased transport provided by the Edge owner;

   iv. leased transport provided by an unaffiliated carrier.

2. Notwithstanding the foregoing, an ILEC, other than a CRTC whose exemption under Section 251(f)(1) has not been terminated with respect to collocation obligations, must always make available interconnection through physical and virtual collocation without prejudice to the requesting carrier's right to select another type of interconnection.

3. In addition to the foregoing, for any study area in which an ILEC elects Incentive Regulation (discussed below in Section VII) and receives a bona fide request for interconnection, that ILEC must offer expanded interconnection pursuant to its interstate access tariff. Such expanded interconnection must provide collocation of all elements and methods enumerated under Section 251(c)(6) and 47 C.F.R. §§ 51.321 & 51.323 with cost-based cross connects from the collocator to the ILEC facilities (and no entrance facility charges for such cross connects).

4. A CRTC must always make available interconnection at an existing meet point interconnection arrangement located on its interoffice facilities at or near the boundary of each exchange area.

a. If interconnection at an existing meet point interconnection arrangement is not available for technical, operational, or legal reasons, the CRTC shall establish a new meet point interconnection arrangement no farther than two miles from any existing meet point interconnection arrangement.

b. At Step 1, a CRTC shall publish the location of its existing meet points to facilitate meet-point interconnection. The CRTC must provide reasonable advance notice of relocation, elimination, or addition of meet points that will or do occur after day 1 of the Plan.

5. The Edge or qualifying tandem owner shall permit an interconnecting carrier to use the interconnecting carrier's own (or third-party provided) transport facility used for interconnection to transport switched access and special access traffic.[17] When such facility is interconnected with the terminating Edge or qualifying tandem owner for the purpose of exchanging at least some access traffic, the connection of that facility shall be treated in the same manner as collocated facilities when applying access tariffs (*e.g.*, entrance facility charges or other restrictions would not apply). If the facility is used for switched access (prior to achieving unified termination rates), special access, or UNE traffic, capacity used for such functions would be subject to collocation (in addition to interconnection) where permitted under the applicable terminating carrier tariff or interconnection agreement

6. When two carriers exchange traffic with each other over a direct interconnection arrangement, neither shall charge the other for multiplexing or de-multiplexing of interconnection transport trunks used for their exchange of Non-Access Traffic.

   a. If one carrier uses a portion of the trunk capacity for other purposes, such as for interconnecting with the other carrier's Edge for switched access or access to a special access channel termination, that other carrier may charge the interconnecting carrier a pro-rata share of a multiplexing or de-multiplexing charge, as appropriate, based on the portion of the trunk capacity used for purposes other than for interconnection transport.

   b. The requirements detailed in Section III.C.4 above apply notwithstanding these multiplexing provisions.

7. To the extent that traffic (one way in the case of one-way trunking or two way in the case of two-way trunking) between two particular end offices or qualifying tandems is transported via a tandem switched direct interconnection arrangement and exceeds a busy-hour threshold of 2 DS-1s measured in a time-consistent busy hour each month for three consecutive months (based on Neal-Wilkinson tables, 1 percent blockage, low day-to-day variation with a peakedness factor of 1.0), the carriers will segregate that traffic onto a dedicated trunk group between the two Edges.

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[17] *See* Sections II.B.1.a.vi and II.B.2.c.iii for the rates applicable to such transport.

D. Tandem Transit Service

Summary: The Plan provides that a carrier may satisfy its financial transport obligation by using a third party's Tandem Transit Service. The Plan sets forth detailed rules for the procurement and provision of Tandem Transit Service and addresses such issues as tandem exhaust. Under the Plan, ILECs that provided tandem transit on the eve of the Plan must continue to do so, pursuant to the rules set forth herein. Competitive Tandem Transit Providers are also covered by the rules.

1. ***Definitions***

   a. *Tandem Transit Service*

      i. Tandem Transit Service is a switched transport service provided by a third-party carrier using its tandem switch to effectuate indirect interconnection between two carriers within a LATA (or in Alaska, within a local calling area).

      ii. Tandem Transit Service includes both tandem switching and tandem switched transport (also called common transport), or the functional equivalent, between the transit tandem location and a terminating carrier's Edge.

      iii. Where the terminating carrier is an ILEC and the Tandem Transit Provider interconnects with the ILEC at a meet point, Tandem Transit Service stops at that meet point.

   b. *Ordering Carrier*

      i. The carrier that has a financial obligation for transport under the Plan is an Ordering Carrier when it uses Tandem Transit Service to satisfy its transport obligation.

      ii. The Ordering Carrier is not necessarily the originating carrier. For example, if the originating carrier is a CRTC entitled to the Rural Transport Rule, the terminating carrier may be the Ordering Carrier.

   c. *Tandem Transit Provider*

      i. The Tandem Transit Provider is the carrier that provides the Tandem Transit Service to indirectly interconnect the Ordering Carrier with the Non-Ordering Carrier.

      ii. The Tandem Transit Provider may be an ILEC or a competitive carrier.

   d. *Non-Ordering Carrier*

      i. The Non-Ordering Carrier is the carrier that is indirectly connected to the Ordering Carrier through the Tandem Transit Provider.

2. ***Scope of the Plan's Tandem Transit Service rules; savings clauses***

   a. All ILECs that are providing Tandem Transit Service at Step 0 must continue providing that service during the term of the Plan.

   b. These rules apply to all tandem transit services offered by any carrier during the term of the Plan, except that pre-existing tandem transit arrangements used by Track 3 ILECs to exchange EAS traffic with other ILECs in mandatory local calling area and optional calling area arrangements will remain unchanged and will not be subject to the Tandem Transit Service rules.

   c. As with other aspects of this Plan, these rules are default rules only. Carriers may negotiate other (including "premium") transit arrangements. The incremental revenue the provider earns from the provision of such arrangements shall not be included in any calculation to determine its compliance with the nationwide transit rate cap discussed below.

3. ***Obligations of carriers under the Plan —*** The Plan provides that Tandem Transit Service must be provided in accordance with the following terms and conditions.

   a. The *Ordering Carrier* has the following rights and obligations:

      i. It has the right to select the Tandem Transit Provider.

      ii. It bears the financial obligation for transport to deliver originating Tandem Transit Service traffic to the point that the Tandem Transit Provider has designated to accept such traffic.

      iii. It must pay Tandem Transit Service fees to the Tandem Transit Provider.

      iv. It must ensure that the trunk groups between the Ordering Carrier and the Tandem Transit Provider are not chronically or persistently underutilized.

      v. The Ordering Carrier may not avoid any of its obligations with respect to the Non-Ordering Carrier, including payment of applicable intercarrier charges and negotiation of an interconnection agreement, as a result of using Tandem Transit Service for interconnection.

   b. The *Tandem Transit Provider* has the following obligations:

      i. It must provide Tandem Transit Service at rates, terms, and conditions that are just, reasonable, and not unreasonably discriminatory; it must comply with all the rules set forth herein; and, where and when applicable, it must provide Tandem Transit Service at the rates set forth below in Section III.D.4.

      ii. It must collect the fees for Tandem Transit Service from the Ordering Carrier.

iii. It must deliver traffic from its transit tandem to the Non-Ordering Carrier's Edge.

iv. It must efficiently manage its tandem switching resources.

v. The Tandem Transit Provider is not obligated to:

1) serve as the arbiter of disputes between the Ordering and Non-Ordering Carriers, except to the extent that the dispute is caused by the functionalities provided by the Tandem Transit Provider (such as the Tandem Transit Provider's provision of call-detail records);

2) bear the financial responsibility for intercarrier compensation charges related to the traffic it delivers in connection with its provision of Tandem Transit Service; or

3) bill the Ordering Carrier or Non-Ordering Carrier for intercarrier compensation charges that one charges the other, or collect such charges on either carrier's behalf.

c. Section V sets forth the obligations of the Ordering and Non-Ordering Carriers and the Tandem Transit provider with respect to the exchange of call-detail records.

4. ***Rates for Tandem Transit Service***

a. From the start of the Plan until the Plan requires a change in the rates as set forth below, providers already imposing charges for tandem transit service must continue to charge rates no higher than the rates in effect at Step 0. To the extent that a provider is not charging another carrier for tandem transit service at Step 0, it may begin charging that carrier rates no higher than the rates it is imposing on other carriers in like circumstances.

i. These rules, however, do not apply to Track 3 carriers with respect to the types of traffic discussed in Section III.D.2.b and Section III.D.7.d.

b. Beginning at Step 2, the Tandem Transit Service rate for reciprocal compensation traffic will be subject to commercial agreement consistent with the terms of this Plan and will be capped at $0.0025 per MOU.

i. Once jointly provided tandem switched transport service for access traffic has been converted to Tandem Transit Service, as set forth in Section III.D.7, below, Tandem Transit Service for such traffic will also be subject to the $0.0025 rate cap.

ii. The rate cap will increase annually by inflation starting at Step 5.

c. At the discretion of the Tandem Transit Provider, the capped rate may be disaggregated to allow for a per-MOU structure for the tandem switching function and a per-MOU-per-mile structure for the common transport function. For each study area, and with respect to Tandem Transit Service subject to rate caps, the rate under this alternative structure may not produce total tandem transit revenue higher than the revenue that would have been generated under the total capped rate.

d. Zone pricing is not permitted.

e. Beginning at Step 4, the capped rate will be lifted for Tandem Transit Service provided entirely within an MSA. The cap will not be lifted for other Tandem Transit Service.

i. The Commission's Step 4 proceeding will consider what competitive triggers should serve to eliminate the rate cap for Tandem Transit Service provided between two different MSAs.

5. ***Traffic Volume Limitations —*** Tandem Transit Service is subject to the following traffic volume limitations.

a. An Ordering Carrier may order Tandem Transit Service from a Tandem Transit Provider for up to 400,000 minutes of use (MOU) per month between two switch points without restriction.

i. Such switch points include, for example, ILEC end office switches, CLEC end office switches, CLEC tandem switches, CMRS MSCs, and IXC POPs.

b. If an Ordering Carrier is responsible (as an Ordering Carrier) for more than an average of 400,000 MOU of Tandem Transit Service between two switch points for three consecutive months, the following conditions apply:

i. The Tandem Transit Provider may give notice to the Ordering Carrier that it has exceeded the Tandem Transit Service traffic threshold. Such notice triggers a 3-month grace period.

ii. Following the grace period, for each month that the Ordering Carrier exceeds the 400,000 MOU threshold, the Tandem Transit Provider may assess a higher rate for all of the Ordering Carrier's Tandem Transit Service MOU between those two switch points. The higher rate may not exceed two times the then-applicable rate for regular Tandem Transit Service.

iii. If the Ordering Carrier does not exceed the 400,000 MOU threshold for six consecutive months at any time after the notice was provided, the notice expires. No premium rate for Tandem Transit Service applies thereafter unless a new notice is issued and the new grace period expires.

iv. An Ordering Carrier that exceeds the 400,000 MOU threshold shall not be limited to "direct final trunk group" interconnection, but may continue to rely on Tandem Transit Service to route overflow traffic that exceeds the capacity of its established direct interconnection facilities.

6. ***Congestion and Exhaust —*** Tandem Transit Providers may constrain the use of Tandem Transit Service in situations of tandem congestion or exhaust, as identified using standard industry congestion-relief measures.

   a. Providers are encouraged to work cooperatively to reach mutually agreeable solutions to relieve tandem congestion or exhaust.

   b. In cases of port exhaust or processing capacity exhaust that occur despite efficient utilization as described above, the Tandem Transit Provider may constrain the use of Tandem Transit Service. However, the Tandem Transit Provider must adhere to the following principles:

      i. The Tandem Transit provider must develop criteria for identification of Tandem Transit Service that is eligible for migration off the tandem. The criteria must:

         1) be uniformly applied in a nondiscriminatory manner;

         2) identify eligible traffic on a switch point-to-switch point basis;

         3) include consideration of a carrier's access to an alternative interconnection arrangement, either direct or indirect; and

         4) in the case of indirectly interconnected CRTCs, include consideration of whether an economically viable alternative arrangement is available. Traffic between two indirectly interconnected CRTCs generally should be migrated only after migration of traffic between two indirectly interconnected Track 1 carriers, or traffic between a Track 1 carrier and a Track 2 carrier.

      ii. The Tandem Transit Provider must make public its criteria for identifying Tandem Transit Service traffic to be migrated off the tandem.

      iii. The Tandem Transit Provider must provide reasonable advance notice to the Ordering and Non-Ordering Carriers before discontinuing the provision of all or a portion of the affected Tandem Transit Service so that those carriers have an opportunity to establish alternative interconnection arrangements.

7. ***Transition for access traffic***

   a. Non-access transit will be immediately subject to the Plan's terms and conditions.

b. When provided in connection with jointly provided *originating access*, tandem switched transport — *i.e.* tandem switching and common transport — will be deemed Tandem Transit Service and become subject to the Plan at Step 4 for Track 1 and Track 2 tandem owners that have elected to eliminate originating switched access charges.

   i. When a Track 1 or Track 2 carrier has not elected to eliminate originating switched access charges, tandem switched transport will not become Tandem Transit Service, but will remain subject to access tariffs.

c. When provided in connection with jointly provided *terminating access*, tandem switched transport will be deemed Tandem Transit Service and become subject to the Plan at Step 3 for all Track 1 and Track 2 tandem owners.

d. Tandem owners in Track 3 are not required to convert jointly provided tandem switched transport for access traffic to the Plan's Tandem Transit Service structure.

IV. Process for Obtaining an Interconnection Agreement

Summary: The Plan articulates mechanisms for establishing both interim interconnection arrangements and formal interconnection agreements for the exchange of Non-Access Traffic, to ensure that all providers have a ready means of enforcing the Plan's provisions as well as other details of their interconnection. The provisions set forth here are consistent with and build from the principles set forth by the Commission in its *T-Mobile Order*.[18] The rules are designed to ensure that each carrier — regardless of its type or classification — can obtain an agreement setting forth the terms of interconnection and reciprocal compensation, and that each carrier will have a clearly articulated right, if it so chooses, to charge for use of its network when terminating Non-Access Traffic for another carrier pursuant to the Intercarrier Compensation default rules set forth in Section II.E.5.b above.

A. Establishing Interim Interconnection

1. In the absence of an interconnection agreement, any telecommunications carrier receiving another carrier's Non-Access Traffic through indirect interconnection may establish an interim interconnection arrangement with an originating carrier for the termination of its Non-Access Traffic through the process below. Any other rights and obligations between the carriers may be established only pursuant to a formal agreement as specified in Section IV.B below:

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[18] Declaratory Ruling and Report and Order, *Developing a Unified Intercarrier Compensation Regime*, *T-Mobile et al. Petition for Declaratory Ruling Regarding Incumbent LEC Wireless Termination Tariffs*, 20 FCC Rcd 4855 (2005).

a. The carrier shall send a notification letter informing the originating carrier that:

i. The carrier has terminated the originating carrier's Non-Access Traffic over the previous 30 day period;

ii. The two carriers lack an interconnection agreement covering such traffic; and

iii. Beginning 15 days from date of the notification letter, the carrier will begin billing applicable interim reciprocal compensation charges as specified in Section II.E.5.b of this Plan for the termination of the originating carrier's Non-Access Traffic.

2. Prior to the effective date of the interim arrangement (*i.e.*, 15 days from the date of the notification letter), neither carrier will owe compensation for termination. To the extent compensation was in dispute prior to the implementation of these rules, such dispute will be settled by the appropriate regulatory commission or court in accordance with prevailing law.

3. 15 days following the date of the notification letter, both carriers may commence to bill their applicable interim reciprocal compensation charges for the termination of Non-Access Traffic.

4. The interim interconnection arrangement will remain in place until a formal interconnection agreement between the two carriers becomes effective.

5. These interim compensation rules do not apply when the parties had an interconnection agreement that has expired. In that case, the other terms of the Plan apply.

B. Establishing a Formal Interconnection Agreement

1. In the absence of a formal interconnection agreement, any telecommunications carrier may use the following process to request interconnection with another carrier, regardless of type (and notwithstanding any exemption that might apply under Section 251), for the exchange of Non-Access Traffic:

a. The carrier must follow the negotiation and arbitration procedures set forth in Section 252 of the Act; and

b. Any carrier receiving such a request must negotiate in good faith and must, if requested, submit to arbitration by a State commission.

2. Any carrier requesting or submitting to negotiations of a formal interconnection agreement pursuant to this provision agrees that the terms of this Plan will serve as lawful, presumptively reasonable default rules.

V. Comprehensive Solution for Phantom Traffic

Summary: Phantom traffic consists of calls that lack sufficient signaling information to enable intermediate and terminating providers to bill properly for intercarrier compensation. Phantom traffic hinders the creation of accurate billing records, conceals the identity of parties responsible for payment, and hampers the appropriate rating of calls. To address these problems, and with certain exceptions discussed below, the Plan requires the delivery of accurate telephone number signaling information to both intermediate and terminating providers to ensure that traffic can be properly identified and classified for purposes of the intercarrier compensation provisions of the Plan. It also offers a uniform framework for the generation and exchange of call-detail records. Finally, the Plan sets forth a proposed enforcement framework with serious consequences for providers that fail to comply with the phantom traffic rules.

A. Call Signaling Rules

1. *Application of Rules to All Traffic* — The Plan's call signaling rules apply to all traffic originating on the PSTN, transiting the PSTN, or destined for the PSTN from other networks.

2. *Obligation to Transmit Signaling Information* — With the exceptions set forth in Section V.B below, the Plan requires *every* communications service provider to transmit accurate telephone number signaling information for use by intermediate and terminating providers:

    a. Every *originating provider* must transmit in its signaling the telephone number assigned to the calling party. This rule will ensure that accurate information is included in the originating signaling stream, facilitating identification of the proper jurisdiction of traffic and, in some cases, the provider responsible for payment.

        i. An originating provider using SS7 signaling protocol must transmit the telephone number assigned to the calling party in either the Calling Party Number (CPN) or Charge Number (CN) parameters.

        ii. An originating provider using MF signaling protocol must transmit telephone number signaling information in the Automatic Number Identification (ANI) parameter.

        iii. An originating provider using MF signaling protocol for Feature Group D traffic must also transmit ANI II information (used to identify the type of originating station for a call).

    b. Every *intermediate provider* must transmit without alteration the telephone number information contained in the ANI, ANI II, CPN, CN, and Jurisdiction Information Parameter (JIP) fields that it receives from another provider. This rule will ensure that no provider removes or changes the signaling information necessary for identification of calls and creation of proper billing records.

c. When a provider's switch is equipped with SS7 signaling protocol capability, it must use SS7 protocol when interconnecting directly with another provider's SS7-capable switch.

   i. This rule also will apply to SS7 successor technologies.

d. Every provider that has a role in completing traffic, including a provider with technology-related network limitations described in Section V.B below, must work cooperatively with other involved providers to resolve within 90 days any disputes concerning alleged violations of the call signaling rules. Such cooperation must continue until resolution of any enforcement action brought pursuant to the rules discussed below in Section V.C.

B. Technological Exceptions to the Call Signaling Rules

1. The Plan does not require communications service providers to deploy new technology or modified networks in order to comply with the call signaling rules. Instead, the Plan sets forth exceptions designed to protect providers that are unable to comply because of legitimate technological limitations in their networks.

2. The call signaling rules relating to *originating providers* shall not apply to the following types of traffic:

   a. Traffic described in 47 C.F.R. § 64.1601(d), for which providers are exempt already from supplying Calling Party Number information.

   b. Traffic that is originated from an end-user service that does not use a North American Numbering Plan telephone number.

   c. Operator-assisted dialed traffic for which the originating provider uses an operator service platform based on MF signaling.

   d. Non-Feature Group D traffic that is originated from:

      i. end users served by a private branch exchange (or similar customer-provided equipment) that is directly connected to the originating provider's switch via a dedicated digital service (for example, a DS-1 service);

      ii. end users served by a private branch exchange, Centrex, or similar equipment whereby calls are placed from one end user-location over facilities directly connected to another such location, when the equipment used lacks the capability to forward the calling end-user's telephone number;

      iii. a switch using MF signaling protocol; or

      iv. a switch that is not capable of signaling the originating end-user's telephone number in the CN parameter due to the design of the switch as generally offered to the industry by the switch vendor.

3. The call signaling rules relating to *intermediate providers* shall not apply in the following situations:

    a. when the intermediate provider cannot transmit telephone number information because it uses SS7 signaling protocol and receives Feature Group D traffic from a provider using MF signaling protocol that does not contain ANI and ANI II parameters in the MF signal.

    b. when the intermediate provider cannot transmit telephone number information (in the ANI parameter) because it uses MF signaling and receives traffic from a provider using SS7 signaling protocol that does not contain CPN and/or CN and OLI parameters in the SS7 signal.

    c. when the intermediate provider receives traffic with JIP information but cannot transmit that information because it uses MF signaling.

    d. when the intermediate provider receives traffic with JIP information but cannot transmit that information to another provider because the intermediate provider is interconnected with the other provider through ISDN PRI.

    e. when the intermediate provider is forwarding operator-assisted dialed traffic, in situations where the intermediate provider supplies operator services to the originating provider and uses an operator service platform based on MF signaling.

4. A provider may seek additional exceptions to the call signaling rules by showing that legitimate technological limitations in its network make compliance with the rules impossible.

    a. A provider claiming such an exception must provide notice of its claim on its website. The notice must include the provider's contact information and a description of the relevant technological limitations in its network.[19]

    b. A provider seeking such an exception bears the burden of supporting its claims with specific evidence.

    c. A provider must assist with the identification of traffic for which it claims a technology-related network limitation when an intermediate or terminating provider requests such assistance.[20]

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[19] The parties intend that additional notice procedures will be developed.

[20] The industry group developing the uniform process for exchanging call-detail records (described below in Section V.D) will identify and resolve any CPNI-related issues that may affect the process for identifying traffic.

C. Enforcement of the Call Signaling Rules

1. All Plan participants agree to submit to the following mechanism to enforce the call signaling rules. Plan participants agree to support and advocate Commission involvement to the extent necessary to effectuate this enforcement mechanism.

2. Any provider that is unable to bill accurately for intercarrier compensation because another provider has violated the call signaling rules (whether directly or through complicity with a customer) may bring an enforcement action in accordance with the Commission's rules. These call signaling rules do not, however, address traffic that contains correct signaling information, even if the providers involved dispute the appropriate intercarrier compensation rate applicable to the traffic.

3. Plan participants urge the Commission to establish an expedited process to review enforcement actions for violations of the call signaling rules.

    a. Such a process should include reasonable procedures for the discovery of facts, rebuttal of claims, and assertion of defenses or counterclaims.

    b. The Commission should add disputes about call signaling to the list of proceedings that merit inclusion in the Accelerated Docket; such a classification would ensure that Commission decisions would be issued within 60 days after the filing of a complaint.

    c. Plan participants agree that the Commission should vigorously enforce the call signaling rules in such proceedings.

4. Plan participants agree that the following remedies should be available for violations of the call signaling rules. However, intermediate providers should *not* be required to block traffic from providers who violate the rules.

    a. The Commission should exercise its authority to assess forfeitures for each violation of the call signaling rules, taking into account the willfulness and recurrence of a provider's violations.

    b. The Commission may also consider awarding damages to any party aggrieved by a violation of the call signaling rules.

    c. Any provider that chronically violates the call signaling rules should be subject to special interconnection obligations.

        i. If interconnected indirectly with terminating providers, chronic violators must establish direct interconnection arrangements with those terminating providers.

        ii. Plan participants agree that the Commission should establish a procedure to determine whether a provider qualifies as a chronic violator.

D. Uniform Process for the Generation and Exchange of Call-Detail Records

1. The Plan offers a procedure for establishing uniform rules for the generation and exchange of call-detail records for traffic that is not covered by the Multiple Exchange Carrier Access Billing (MECAB) process.[21] Exchange of call-detail records will facilitate the reliable billing of intercarrier compensation.

2. The Plan proposes an industry-driven framework with a Commission-imposed deadline, providing the industry with an opportunity to balance the various interests that must be considered in designing the new process.

3. The Plan provides that an industry proposal regarding creation and exchange of call-detail records will be filed with the Commission within sixty days after the filing of the comprehensive Plan. That industry proposal will contain rules concerning:

   a. when and how providers must exchange call-detail records;

   b. the types of information that must be included in those records;

   c. the format that providers should use for call-detail records; and

   d. an interim process for exchange of call-detail information (described in Section V.E.2.c below), to be used until the uniform process can be implemented fully.

4. Plan participants agree that the following elements should be included in the industry solution.

   a. Providers must have a reasonable transition period to modify their systems — including AMA recording and call processing — before being required to implement the uniform process for call-detail records. However, implementation should begin at Step 1 whenever possible.

   b. A tandem transit provider must supply call-detail records to any terminating provider — including intermediate tandem transit providers — to which it hands off traffic directly.

   c. A tandem transit provider must supply call-detail records to terminating providers at no additional charge, regardless of whether the terminating provider is the Ordering Carrier or Non-Ordering Carrier for Tandem Transit Service. *See* Section III.D.1 for definitions of Ordering Carrier, Non-Ordering Carrier, and Tandem Transit Service.

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[21] The MECAB process governs the provision of call-detail information for jointly provided switched access traffic (*i.e.*, traffic exchanged between IXCs and multiple local exchange carriers).

d. An originating provider must supply call-detail records at no additional charge to the tandem transit provider to which it routs traffic if the tandem transit provider requires such records to satisfy its obligations to exchange call-detail records with terminating providers.

e. The records exchange process as described in the MECAB industry document shall apply to all LECs when they jointly provide for the origination or termination of IXC traffic.

f. Call-detail records should be formatted according to the Exchange Message Interface (EMI) industry standards.

   i. In some cases, a terminating provider will not need call-detail records in EMI format for billing purposes (for example, when in a bill and keep arrangement). The industry group creating the uniform process should consider whether alternatives to EMI-formatted call-detail records, such as SS7 call-detail records, would be appropriate in those cases.

g. Call-detail records should contain information terminating providers will need to bill other providers for the termination of their traffic. They should include, for example:

   i. information to identify the provider delivering traffic to a tandem transit provider, for example, the Carrier Identification Code (CIC) or the Operating Company Number (OCN);

   ii. information revealing the jurisdiction of the call; and

   iii. call duration.

E. Interim Phantom Traffic Solution

1. Adoption of the Plan and issuance of the Commission orders that the Plan proposes will resolve many phantom traffic issues by reducing the importance of the jurisdictional nature of traffic and establishing comprehensive rules for the exchange of traffic. In the interim, however, the coalition of parties supporting the Plan have agreed on a phantom traffic solution that will remain in effect until the comprehensive Plan and the requisite Commission orders have been adopted. This interim solution is a compromise and is contingent on coalition members' continued support for the Plan as a whole.

2. After the industry proposal for creation and exchange of call-detail records has been filed with the Commission,[22] the coalition supporting the Plan will advocate for the

[22] As mentioned above in Section V.D.3.d, that filing will include a proposal setting out an interim process for creation and exchange of call-detail information. The elements of that interim process are discussed below.

immediate release of a Commission order addressing phantom traffic during the interim period before entry of an order adopting comprehensive intercarrier compensation reform. The coalition will request that this interim order:

a. immediately implement the proposals discussed above concerning call signaling and enforcement;

b. confirm that the originating provider is responsible for paying the terminating provider applicable intercarrier charges, if any, when traffic is delivered through an indirect interconnection arrangement; and

c. establish an interim process for the creation and exchange of call-detail records for traffic not covered by the MECAB process.[23] Under this interim process:

   i. Originating and intermediate providers will be required to supply information such as the calling and called telephone numbers and, in the case of a tandem transit provider, the identity of the provider that sent the traffic to the tandem transit provider.

   ii. This call-detail information may be provided in report format or, if the provider is capable of generating records during the interim period, in call-detail records.

   iii. An originating provider will supply call-detail information in accordance with these interim procedures at no additional charge for the traffic that it routes to a tandem transit provider when the tandem transit provider requires such call-detail information to satisfy its obligations to create and exchange call-detail information with terminating providers.

   iv. A tandem transit provider will supply call-detail information in accordance with these interim procedures to terminating providers — including intermediate tandem transit providers — that receive tandem transit traffic directly from the tandem transit provider.

   v. Once an interim order on phantom traffic has been issued and until a final order on complete intercarrier compensation reform has been issued, each originating provider sending traffic via a tandem transit service will be required to compensate the tandem transit provider $0.0025 per record when the tandem transit provider supplies call-detail records to terminating providers. This rule is subject to the following limitations:

      1) In those cases where a tandem transit provider currently provides, at no additional charge, call-detail records that comply with the standards set

[23] Information recorded and provided in call-detail records during the interim period will be based upon the rules for determining jurisdiction that are in effect during the interim period.

forth in the *uniform process* discussed above in Section V.D, the tandem transit provider must continue to provide those records at no charge pending intercarrier compensation reform.

2) When a tandem transit provider supplies call-detail information in accordance with the *interim process*, and supplies that information in reports instead of in call-detail records, the following rules apply:

   a) If such reports currently are provided at no charge, then the reports will continue to be provided at no charge.

   b) If such reports currently are provided at a charge, then the reports will continue to be provided at the same charge.

   c) If such reports currently are not provided, then such reports will be provided at a negotiated rate not to exceed a charge equivalent to $0.0015 per record.

vi. The coalition of companies supporting this Plan will identify the specific call-detail information that will be exchanged, when the call-detail information will be exchanged, and the format in which the information will be provided.

VI. Other Mechanisms for Recovery of Interstate and Intrastate Revenues

Summary: The Plan creates the Restructure Mechanism, a source of recovery designed to replace most of the intercarrier revenues lost by carriers, to the extent that such revenues are not recovered through increased SLC rates or restructured intercarrier charges, as discussed above in Sections II.B and II.C. The Plan also creates an Early Adopter Fund for States that have reduced intrastate access charges through explicit State funds by the time the Plan is adopted. In addition, the Plan makes changes to a number of existing universal service mechanisms,[24] including the rural high-cost-loop support mechanism and the safety-valve support mechanism.[25]

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[24] The Missoula Plan supporters are committing resources to work with State Commissioners to evaluate how Plan mechanisms involving acquisitions can be used to encourage carriers to invest in rural areas. To the extent that the Missoula Plan supporters and the State Commissioners reach agreement on any of these issues within ninety (90) days of the filing of the Plan at the FCC, the Missoula Plan supporters will file the agreement as an amendment to the Plan for the FCC's consideration, and Missoula Plan supporters and the relevant State Commissions shall support the entire Plan as amended.

In addition, the Missoula Plan supporters are committing resources to work with State Commissioners to (a) evaluate how other mechanisms, such as the Universal Service Fund, may be used to encourage carriers to invest in rural areas and (b) evaluate the feasibility of implementing various options, given their effect on the size of support funding. To the extent that the Missoula Plan supporters and the State Commissioners reach agreement on any of these issues prior to February 1, 2007, the Missoula Plan supporters will file the agreement as an

A. Restructure Mechanism

1. *Calculation of Restructure Mechanism recovery for ILECs*

a. The following rules apply to all carriers:

i. A carrier's recovery from the Restructure Mechanism will be calculated as though the carrier has raised its SLC rates to the highest levels permitted under the Plan.

ii. SLC rates for Lifeline customers will not increase under the Plan. Instead, carriers will recover from the Lifeline program any amount that they would otherwise collect from those customers through SLC increases.

iii. A carrier's recovery from the Restructure Mechanism will be calculated separately for each study area.

b. ***Track 1 price-cap carriers***

i. Track 1 price-cap carriers may recover — through SLC increases and the Restructure Mechanism — revenues lost as a result of the Plan's reductions in originating and terminating access charges and modifications to the intercarrier compensation rules for transport and termination of EAS traffic. Recovery will be phased in over four steps, as described below.

1) A Track 1 carrier may recover rate reductions from the Restructure Mechanism only under the circumstances discussed above in Section II.B.1.d. If a carrier may not recover a particular rate reduction from the Restructure Mechanism (*e.g.*, where it has negotiated a lower rate with another carrier), the carrier's Access Shift (as discussed below in Section VI.A.1.b.ii) and the carrier's Restructure Mechanism recovery (as discussed below in Section VI.A.1.b.iv) will be calculated as though the carrier will be charging its ultimate declared originating rates and the ultimate termination rate as specified in Section II.B.1.

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amendment to the Plan for the FCC's consideration, and Missoula Plan supporters and the relevant State Commissions shall support the entire Plan as amended.

In no event should these ongoing efforts delay the FCC from reaching a decision on the Plan.

[25] For a discussion of Plan supporters' views on reform of the universal service contribution methodology, *see* Appendix B.

ii. *Calculation of a carrier's Access Shift* — At Step 0, a carrier will determine the total amount of access charge revenues (*i.e.*, end office switching, common transport, tandem switching, and dedicated transport) that it expects to lose under the Plan and associated EAS impacts. This amount is the carrier's "Access Shift." Specifically, the Access Shift is the sum of:

1) All originating access revenue that the carrier will lose by reducing its interstate and intrastate originating access rates down to its ultimate originating access rates under the Plan, using Step 1 Base Period access demand (including demand under contract tariffs or pricing flexibility);

    a) The "Base Period" for purposes of the price-cap Restructure Mechanism calculations is the same base period that carriers use for purposes of their price-cap tariff filings, *i.e.*, "the 12-month period ending six months prior to the effective date of annual price cap tariffs." 47 C.F.R. § 61.3(g). For example, if Step 1 were to begin in July 2007, the Base Period for Step 1 would be January 1, 2006 through December 31, 2006, and the Base Period for Step 2 would be January 1, 2007 through December 31, 2007.

2) All terminating access revenue that the carrier will lose by reducing its interstate and intrastate terminating access rates down to its ultimate terminating access rates under the Plan, using Step 1 Base Period access demand (including demand under contract tariffs or pricing flexibility);

3) The additional intercarrier compensation charges that a carrier will incur under the Plan for dedicated transport as a result of the grandfathered POI rule discussed in Section II.E.3.d.ii above, using Step 1 Base Period demand; and

4) The additional intercarrier compensation charges that a carrier will incur (or the intercarrier compensation revenue that a carrier will lose) under the Plan due to modifications to the intercarrier compensation rules for transport and termination of EAS traffic, using Step 1 Base Period demand.

    a) If the carrier will pay less or collect more in intercarrier compensation charges for EAS traffic under the Plan, that amount will be *subtracted* from the carrier's Access Shift.

iii. *Calculation of a carrier's Access Shift Per Line* — At Step 0, the carrier will calculate its "Access Shift Per Line" by dividing the carrier's Access Shift by the carrier's Step 1 Base Period line demand. A Track 1 carrier's Access Shift Per Line will remain the same for the life of the Plan.

iv. *Calculation of a carrier's recovery from increased SLCs and the Restructure Mechanism*

1) At Step 4 of the Plan, the carrier may recover — through SLC increases and the Restructure Mechanism — 100 percent of its Access Shift Per Line, multiplied by its number of lines at Step 4. In each of Steps 1 through 3 of the Plan, the carrier may recover (for each line) a smaller, but increasing, percentage of its Access Shift Per Line. That percentage will be determined at each Step through the following calculations.

2) At Step 1, the carrier will determine the change in its weighted average access rate from Step 0 to Step 1 and will divide that amount by the expected change in its weighted average access rate from Step 0 to Step 4. The percentage that results from that calculation will be the percentage of the Access Shift Per Line that the carrier may recover at Step 1. More specifically:

a) The carrier will determine its Step 0 weighted average access rate through the following calculation:

i) It will calculate its *total* revenues in the year preceding Step 1 from all types of access charges. To do so, the carrier will determine the minutes of use for each of its different access charge elements (using demand from the Step 1 Base Period, as defined above in Section VI.A.1.b.ii.1.a) and multiply those minutes of use by the relevant Step 0 access charge rate for each access charge element.

ii) The carrier will then divide those total revenues by its total minutes of use (MOU) in the Step 1 Base Period.

b) The carrier will determine its Step 1 weighted average access rate through a similar calculation:

i) It will calculate its total expected revenues in Step 1 from all types of access charges (assuming no change in MOU demand). To do so, the carrier will multiply the Step 1 Base Period MOU demand for each access charge element by the relevant *Step 1* access charge rate for each element.

ii) The carrier will then divide those total expected revenues by its total MOU in the Step 1 Base Period.

c) The carrier will determine the weighted average of the access rates that it expects to charge at Step 4 through the following calculation:

i) It will calculate its total expected revenues in Step 4 from all types of access charges (assuming no change in MOU demand between the Step 1 Base Period and Step 4). Thus, the carrier will multiply

the Step 1 Base Period MOU demand for each access charge element by the relevant *Step 4* access charge rate for each element.

ii) The carrier will then divide those total expected revenues by its total MOU in the Step 1 Base Period.

d) The carrier will determine the change in its weighted average access rate from Step 0 to Step 1 by subtracting the amount in paragraph b) from the amount in paragraph a).

e) The carrier will determine the predicted change in its weighted average access rate from Step 0 to Step 4 by subtracting the amount in paragraph c) from the amount in paragraph a).

f) The carrier will divide the amount in paragraph d) by the amount in paragraph e).

g) The percentage that results from the calculation in paragraph f) will be the percentage of the Access Shift Per Line that the carrier will be permitted to recover during Step 1 *for each line*. The carrier's line count for purposes of this calculation will be the carrier's line demand from the Step 1 Base Period.

3) At Step 2, the carrier may recover (for each line) the same portion of its Access Shift Per Line that it recovered in Step 1, *plus* a percentage of the *remaining* Access Shift Per Line (*i.e.*, the part of the Access Shift Per Line that it did *not* recover in Step 1).

a) To calculate the percentage of the remaining Access Shift Per Line that it may recover in Step 2, the carrier will determine the change in its weighted average access rate from Step 1 to Step 2 and will divide that amount by the expected change in its weighted average access rate from Step 1 to Step 4 of the Plan.

b) This calculation will be performed in exactly the same way as the calculation performed at Step 1 (*i.e.*, in Sections VI.A.1.b.iv.2.a through g above), except that:

i) wherever "Step 0" appears in that calculation, it should be replaced with the words "Step 1";

ii) wherever "Step 1" appears in that calculation, it should be replaced with the words "Step 2"; and

iii) in paragraph g), the word "remaining" should be inserted immediately before "Access Shift Per Line."

4) At Step 3, the carrier may recover (for each line) the same portion of its Access Shift Per Line that it recovered in Step 2, *plus* a percentage of the remaining Access Shift Per Line (*i.e.*, the part of the Access Shift Per Line that it did not recover in Step 2).

   a) To calculate the percentage of the remaining Access Shift Per Line that it may recover in Step 3, the carrier will determine the change in its weighted average access rate from Step 2 to Step 3 and will divide that amount by the expected change in its weighted average access rate from Step 2 to Step 4 of the Plan.

   b) This calculation will be performed in exactly the same way as the calculation performed at Step 1, except that:

      i) wherever "Step 0" appears in that calculation, it should be replaced with the words "Step 2";

      ii) wherever "Step 1" appears in that calculation, it should be replaced with the words "Step 3"; and

      iii) in paragraph g), the word "remaining" should be inserted immediately before "Access Shift Per Line."

5) At Step 4 and all subsequent Steps, for each line (determined using the carrier's line demand from the Base Period for that Step), the carrier may recover 100 percent of its Access Shift Per Line.

v. *Relevance of SLC increases to Restructure Mechanism recovery*

   1) A carrier will recover the applicable portion of its Access Shift Per Line through SLC increases and the Restructure Mechanism. Although a carrier can choose *not* to raise its SLC rates to the maximum levels, it will be treated as though it did so for purposes of the Restructure Mechanism calculation and its recovery of Restructure Mechanism dollars.

   2) Subject to these caveats, any amount that cannot be recovered through SLC increases will be recovered from the Restructure Mechanism.

vi. Because recovery from the Restructure Mechanism is calculated on a *per-line basis*, the loss of a line at any Step of the Plan will result in a loss of Restructure Mechanism dollars. Said another way, in the absence of deaveraging, a carrier's *total* recovery at a particular Step of the Plan — from SLC increases and the Restructure Mechanism — will equal the portion of the Access Shift Per Line recoverable at that Step multiplied by the carrier's number of lines at that Step.

c. ***Track 2 price-cap carriers***

i. Track 2 price-cap carriers may recover reductions in intercarrier revenue through SLC increases and the Restructure Mechanism pursuant to the following formula. Recovery will be phased in over four steps, as described below.

1) A Track 2 carrier may recover rate reductions from the Restructure Mechanism only under the circumstances discussed above in Section II.B.2.d. If a carrier may not recover a particular rate reduction from the Restructure Mechanism (*e.g.*, where it has negotiated a lower rate with another carrier), the carrier's Access Shift (as discussed below in Section VI.A.1.c.ii) and the carrier's Restructure Mechanism recovery (as discussed below in Section VI.A.1.c.iv) will be calculated as though the carrier will be charging its ultimate declared originating and terminating rates as specified above in Section II.B.2.

ii. *Calculation of a carrier's Access Shift* — At Step 0, a carrier will determine the total amount of access charge revenues (*i.e.*, end office switching, common transport, tandem switching, and dedicated transport) and other intercarrier revenues that it expects to lose under the Plan. For Track 2 price-cap carriers, this total "Access Shift" will be the sum of:

1) All originating access revenue that the carrier will lose by reducing its interstate and intrastate originating access rates down to its ultimate originating access rates under the Plan, using Step 1 Base Period access demand (including demand under contract tariffs or pricing flexibility);

a) The "Base Period" for purposes of the price-cap Restructure Mechanism calculations is the same base period that carriers use for purposes of their price-cap tariff filings, *i.e.*, "the 12-month period ending six months prior to the effective date of annual price cap tariffs." 47 C.F.R. § 61.3(g). For example, if Step 1 were to begin in July 2007, the Base Period for Step 1 would be January 1, 2006 through December 31, 2006, and the Base Period for Step 2 would be January 1, 2007 through December 31, 2007.

2) All terminating access revenue that the carrier will lose by reducing its interstate and intrastate terminating access rates down to its ultimate terminating access rates under the Plan, using Step 1 Base Period access demand (including demand under contract tariffs or pricing flexibility); and

3) The additional intercarrier compensation charges that a carrier will incur (or the intercarrier compensation revenue that a carrier will lose) under the Plan due to modifications to the intercarrier compensation rules for: (i) transport and termination of EAS traffic; (ii) traffic now subject to

reciprocal compensation charges; and (iii) traffic now subject to the settlements process. In performing this calculation, the carrier will use Step 1 Base Period demand for all three types of traffic.

a) If the carrier will pay less or collect more in intercarrier compensation charges for EAS traffic and traffic now subject to reciprocal compensation charges and settlements, that amount will be *subtracted* from the carrier's Access Shift.

iii. *Calculation of a carrier's Access Shift Per Line* — At Step 0, the carrier will calculate its "Access Shift Per Line" by dividing the carrier's Access Shift by the carrier's Step 1 Base Period line demand. A Track 2 carrier's Access Shift Per Line will remain the same for the life of the Plan.

iv. *Calculation of a carrier's recovery from increased SLCs and the Restructure Mechanism*

1) At Step 4 of the Plan, the carrier may recover — through SLC increases and the Restructure Mechanism — 100 percent of its Access Shift Per Line, multiplied by its number of lines at Step 4. In each of Steps 1 through 3 of the Plan, the carrier may recover (for each line, as calculated below) a smaller, but increasing, percentage of its Access Shift Per Line. That percentage will be determined at each Step through the following calculations.

2) At Step 1, the carrier will determine the change in its weighted average access rate from Step 0 to Step 1 and will divide that amount by the expected change in its weighted average access rate from Step 0 to Step 4. The percentage that results from that calculation will be the percentage of the Access Shift Per Line that the carrier may recover at Step 1. More specifically:

a) The carrier will determine its Step 0 weighted average access rate through the following calculation:

i) It will calculate its *total* revenues in the year preceding Step 1 from all types of access charges. To do so, the carrier will determine the minutes of use for each of its different access charge elements (using demand from the Step 1 Base Period, as defined above in Section VI.A.1.c.ii.1.a) and multiply those minutes of use by the relevant Step 0 access charge rate for each access charge element.

ii) The carrier will then divide those total revenues by its total minutes of use (MOU) in the Step 1 Base Period.

b) The carrier will determine its Step 1 weighted average access rate through a similar calculation:

i) It will calculate its total expected revenues in Step 1 from all types of access charges (assuming no change in MOU demand). To do so, the carrier will multiply the Step 1 Base Period MOU demand for each access charge element by the relevant *Step 1* access charge rate for each element.

ii) The carrier will then divide those total expected revenues by its total MOU in the Step 1 Base Period.

c) The carrier will determine the weighted average of the access rates that it expects to charge at Step 4 through the following calculation:

i) It will calculate its total expected revenues in Step 4 from all types of access charges (assuming no change in MOU demand between the Step 1 Base Period and Step 4). Thus, the carrier will multiply the Step 1 Base Period MOU demand for each access charge element by the relevant *Step 4* access charge rate for each element.

ii) The carrier will then divide those total expected revenues by its total MOU in the Step 1 Base Period.

d) The carrier will determine the change in its weighted average access rate from Step 0 to Step 1 by subtracting the amount in paragraph b) from the amount in paragraph a).

e) The carrier will determine the predicted change in its weighted average access rate from Step 0 to Step 4 by subtracting the amount in paragraph c) from the amount in paragraph a).

f) The carrier will divide the amount in paragraph d) by the amount in paragraph e).

g) The percentage that results from the calculation in paragraph f) will be the percentage of the Access Shift Per Line that the carrier will be permitted to recover during Step 1 *for each line*. The carrier's line count for purposes of this calculation will be the carrier's line demand from the Step 1 Base Period.

3) At Step 2, the carrier may recover (for each line, as calculated using *Step 1* Base Period demand) the same portion of its Access Shift Per Line that it recovered in Step 1, *plus* a percentage of the *remaining* Access Shift Per Line (*i.e.*, the part of the Access Shift Per Line that it did *not* recover in Step 1).

a) To calculate the percentage of the remaining Access Shift Per Line that it may recover in Step 2, the carrier will determine the change in its weighted average access rate from Step 1 to Step 2 and will divide

that amount by the expected change in its weighted average access rate from Step 1 to Step 4 of the Plan.

b) This calculation will be exactly the same as that performed at Step 1 (*i.e.*, in Sections VI.A.1.c.iv.2.a through g above), except that:

i) wherever "Step 0" appears in that calculation, it should be replaced with the words "Step 1";

ii) wherever "Step 1" appears in that calculation, it should be replaced with the words "Step 2";

iii) in paragraph g), the word "remaining" should be inserted immediately before "Access Shift Per Line"; and

iv) for purposes of the calculation in paragraph g), the carrier's line count will be the carrier's line demand from the Step 1 Base Period, and *not* the Step 2 Base Period.

4) At Step 3, the carrier may recover (for each line, as calculated using *Step 1* Base Period demand) the same portion of its Access Shift Per Line that it recovered in Step 2, *plus* a percentage of the *remaining* Access Shift Per Line (*i.e.*, the part of the Access Shift Per Line that it did *not* recover in Step 2).

a) To calculate the percentage of the remaining Access Shift Per Line that it may recover in Step 3, the carrier will determine the change in its weighted average access rate from Step 2 to Step 3 and will divide that amount by the expected change in its weighted average access rate from Step 2 to Step 4 of the Plan.

b) This calculation will be exactly the same as that performed at Step 1, except that:

i) wherever "Step 0" appears in that calculation, it should be replaced with the words "Step 2";

ii) wherever "Step 1" appears in that calculation, it should be replaced with the words "Step 3";

iii) in paragraph g), the word "remaining" should be inserted immediately before "Access Shift Per Line"; and

iv) for purposes of the calculation in paragraph g), the carrier's line count will be the carrier's line demand from the Step 1 Base Period, and *not* the Step 3 Base Period.

5) At Step 4 and all subsequent Steps, for each line (determined using the carrier's line demand from the *Base Period for that Step*), the carrier may recover 100 percent of its Access Shift Per Line.

v. *Relevance of SLC increases to Restructure Mechanism recovery*

1) A carrier will recover the applicable portion of its Access Shift Per Line through SLC increases and the Restructure Mechanism. Although a carrier can choose not to raise its SLC rates to the maximum levels, it will be treated as though it did so for purposes of the Restructure Mechanism calculation and its recovery of Restructure Mechanism dollars.

2) Subject to these caveats, any amount that cannot be recovered through SLC increases will be recovered from the Restructure Mechanism.

vi. Unlike Track 1 carriers, Track 2 price-cap carriers that lose lines will not lose Restructure Mechanism dollars during Steps 1 through 3 of the Plan (see above in Sections VI.A.1.c.iv.3.b.iv and VI.A.1.c.iv.4.b.iv). Starting at Step 4, however, line loss *will* result in a reduction of Restructure Mechanism dollars (see above in Section VI.A.1.c.iv.5).

d. ***Track 2 carriers electing incentive regulation***

i. See Section VII below for a discussion of incentive regulation and its effect on a carrier's recovery of Restructure Mechanism dollars.

e. ***Rate-of-return carriers in Tracks 1 through 3***

i. A rate-of-return carrier's Restructure Mechanism dollars will be determined by comparing the revenues (as discussed below) that the carrier has under the existing system with the revenues that the carrier will have under the Plan (including SLC increases permitted under the Plan). Any shortfall in these revenues will be recovered through the Restructure Mechanism.

ii. A rate-of-return carrier's lost revenues (and its receipt of Restructure Mechanism dollars) will be calculated each year through the following formula:

1) *The sum of*: (1) base year intrastate switched access revenues; (2) base year reciprocal compensation revenues from other carriers net of payments to other carriers for reciprocal compensation and transiting/transport; and (3) current year projected interstate switched access revenue requirements for the tariff test period or switched access average schedule settlements;

a) The "base year" for purposes of this calculation is the last full calendar year prior to the Plan's adoption. For example, if the Plan were adopted in July 2007, the base year would be January 1, 2006 through December 31, 2006.

b) If a carrier's base year revenues are anomalous, the carrier may request that the Commission determine a more appropriate base level of revenues for purposes of this calculation.

2) *Minus* the sum of projected tariff test period revenues, namely: (1) current year projected intrastate switched access revenues; (2) current year projected reciprocal compensation revenues from other carriers net of payments to other carriers for reciprocal compensation and transiting/transport; (3) current year projected interstate switched access revenues; (4) current year projected Local Switching Support ("LSS") revenues; and (5) the current year projected SLC revenues that the carrier could collect by charging the maximum allowable SLC rates under the Plan *minus* the *lower of* the SLC caps in place prior to the Plan's adoption or the carrier's base factor portion of the per-month common line revenue requirement.

iii. Restructure Mechanism dollars for rate-of-return carriers initially will be distributed as described in Section VI.A.1.e.ii above using base year intrastate revenues and projections of test period interstate switched access revenue requirements along with projected intrastate and interstate test period revenues. These initial Restructure Mechanism distributions will be trued up using actual data when it becomes available using the following formula:

1) The sum of: (1) base year intrastate switched access revenues; (2) base year reciprocal compensation revenues from other carriers net of payments to other carriers for reciprocal compensation and transiting/transport; and (3) the current year actual interstate switched access revenue requirement calculated at the authorized interstate rate of return of 11.25 percent determined through cost separations studies according to Parts 36 and 69 of the FCC rules or actual current year switched access average schedule settlements.

2) *Minus* the sum of the following actual revenues for the current year: (1) intrastate switched access revenues; (2) reciprocal compensation revenues from other carriers net of payments to other carriers for reciprocal compensation and transiting/transport; (3) interstate switched access revenues; (4) the carrier's trued-up Local Switching Support revenues for the current year; and (5) the SLC revenues that the carrier could collect by charging the maximum allowable SLC rates under the Plan *minus* the *lower of* the SLC caps in place prior to the Plan's adoption or the carrier's base factor portion of the per-month common line revenue requirement.

2. ***Availability of Restructure Mechanism funds***

a. Restructure Mechanism dollars will be available to other carriers in circumstances to be determined in the future.

3. ***Effect of acquisitions on Restructure Mechanism recovery*** — When a Track 2 or Track 3 carrier acquires lines from a Track 1 carrier, the following special rules apply.

   a. *Effect on the buyer*

      i. The buyer's Restructure Mechanism recovery for the acquired lines will be computed without regard to net settlements or net reciprocal compensation revenue with respect to the acquired lines.

      ii. Where the buyer purchases exchanges that were subject to federal price-cap regulation and converts them to rate-of-return regulation:

         1) The buyer's Restructure Mechanism dollars will be calculated as described above in Section VI.A.1.e of the Plan for rate-of-return carriers, with the following modifications:

            a) The buyer's current year "interstate switched access revenue requirement" in Sections VI.A.1.e.ii.1 and VI.A.1.e.iii.1 will be calculated using the seller's cost and demand figures associated with the exchanges for the last full calendar year prior to the sale. That element of the Restructure Mechanism calculation will then be frozen going forward.

            b) The buyer's "base year intrastate switched access revenues" in Sections VI.A.1.e.ii.1 and VI.A.1.e.iii.1 will be the seller's actual intrastate access revenues, if any, associated with the exchanges for the last full calendar year prior to the sale.

            c) The "SLC revenues that the carrier could collect by charging the maximum allowable SLC rates under the Plan" in Sections VI.A.1.e.ii.2 and VI.A.1.e.iii.2 will be calculated using the maximum allowable SLC rate for Track 1 carriers.

         2) The buyer may collect only the universal service amounts that the seller was receiving (*i.e.*, non-rural high-cost loop support).

         3) With respect to the acquired exchanges, the buyer must comply with the Track 1 intercarrier compensation rules, including the target rates for Track 1 carriers.

      iii. Where the buyer purchases exchanges that were subject to federal price-cap regulation and keeps them under price caps, revenue recovery initially will be based on the seller's revenue recovery for the acquired exchanges. In other words, the buyer will take the seller's revenue-per-line for the acquired exchanges as of the date of sale, including the interstate SLC (with future increases to be governed by the rules applicable to Track 1 carriers), any Universal Service amounts seller was receiving (*i.e.* non-rural high-cost loop

support), any Restructure Mechanism amounts due under the Plan for Track 1 carriers, and any remaining intercarrier charges permitted under Track 1 of the Plan.

iv. A rural price-cap buyer might be eligible to receive additional recovery based on its new loop investment under the "Safety Valve" mechanism (described in Section 54.305(d) of the Commission's rules, as modified in Section VI.C.5.a below). It might also qualify for recovery from the new "Safety Valve II" mechanism (described below in Section VI.C.5.b), which provides for recovery of new non-loop investment in acquired exchanges.

b. *Effect on the seller*

i. In the case of the sale of a partial study area that is converted from price caps to rate-of-return regulation, the seller will make an appropriate one-time exogenous adjustment to its allowed revenue.

ii. If the seller is receiving any Restructure Mechanism amounts for the affected exchanges, the seller will be subject to lower Restructure Mechanism disbursements to reflect the sale of the exchanges.

4. ***Deaveraging of Restructure Mechanism Dollars***

a. All ILECs may deaverage their Restructure Mechanism dollars.

b. When a price-cap or incentive regulation ILEC that has deaveraged Restructure Mechanism dollars loses a line, it will also lose the Restructure Mechanism dollars targeted to that line.

B. Early Adopter Fund

1. The Commission will create a new federal Early Adopter Fund of at least $200 million or whatever greater amount it determines to be an appropriate percentage of State access reduction funds that should be covered by the Early Adopter Fund.[26] This mechanism will enable States to recover some of the funding that they have distributed to carriers that have reduced their intrastate access rates. Early Adopter funding must be used to decrease the size of explicit State funding mechanisms.[27]

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[26] The Missoula Plan does not address the schedule for implementation of the Early Adopter Fund.

[27] The Missoula Plan supporters are committing resources to work with State Commissioners to help size the Early Adopter Fund and to determine how that Fund should work when States have rebalanced access rates through State funds, local rate increases, and/or new line items. In no event should these ongoing efforts delay the FCC from reaching a decision on the Plan. To the extent that the Missoula Plan supporters and the State Commissioners reach

2. To obtain funding, a State must:

    a. certify that the State-fund dollars that it seeks to recover were used solely to defray the costs of compensating carriers for access rate reductions made prior to the Plan's adoption;

    b. implement the Plan; and

    c. agree to use the Early Adopter Fund dollars to lower the State line item for its explicit State funding mechanism.

C. Changes to Existing Universal Service Mechanisms

Summary: In addition to the above mechanisms, the Plan also makes changes to existing universal service fund mechanisms.

1. The rural High-Cost-Loop Fund ("HCLF") will be re-indexed based on the current nationwide average cost per loop for rural telephone companies. After the size of the fund has been recalculated under the new index, the total amount of HCLF support will be increased in three equal steps over 24 months and recapped. Thereafter, the size of the fund will be subject to annual adjustments based on the rural growth factor.

2. The Plan eliminates Commission rules that base a carrier's rural high-cost loop support on the size of the carrier's study areas. Specifically, the Plan modifies Section 36.631 of the FCC's rules, which sets forth different support percentages that vary depending on the number of working loops in a study area.

    a. Section 36.631(d) of the rules will be deleted.

    b. Section 36.631(c) will be modified as follows: "(c) Beginning July 1, 2007, for all study areas reporting working loops pursuant to § 36.611(h), . . ."

3. Common line SLC revenues for purposes of calculating a rate-of-return carrier's Interstate Common Line Support will equal the base factor portion of the common line revenue requirement per month, limited to the existing SLC caps of $6.50 for residential and single-line business and $9.20 for multi-line business.

    a. This will ensure that any increased SLC revenues that are not deducted from a carrier's ICLS support will be offset by a reduction in that carrier's Restructure Mechanism dollars. *See* Sections VI.A.1.e.ii.2 and VI.A.1.e.iii.2.

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agreement on these issues within ninety (90) days of the filing of the Plan at the FCC, the Missoula Plan supporters will file the agreement as an amendment to the Plan for the FCC's consideration, and the Missoula Plan supporters and the relevant State Commissions shall support the entire Plan as amended.

4. The Plan establishes a non-rural high-cost-loop support option for certain price-cap carriers.

    a. This option is available to any price-cap CRTC that:

        i. does not receive rural high-cost support as of January 1, 2006 (*i.e.*, the "Eligibility Date"); and

        ii. is not in the same holding company as a carrier that receives rural high-cost support as of the Eligibility Date.

    b. Such a carrier may make a one-time election, as of July 1, 2007, to participate in the non-rural high-cost loop support mechanism (47 C.F.R. § 54.309) based on the non-rural high-cost model. This election will cover only those study areas that were within the same holding company as the electing carrier as of the eligibility date.

    c. If such an electing carrier subsequently acquires a rural or non-rural exchange or carrier, its election will have no effect on the acquired exchange or carrier, and the acquisition will not affect the buyer's status as a participant in the non-rural fund.

5. The Plan will modify and supplement the existing safety valve support mechanism.

    a. *Safety Valve I support* — The *existing* safety valve support mechanism for high-cost loop support in exchanges acquired by rural ILECs (contained in Section 54.305 of the Commission's rules) will be modified as follows:

        i. A buyer will be eligible for Safety Valve I support immediately following the acquisition of rural exchanges based on a showing of actual investment in or expenses arising from operation of the acquired properties.

        ii. In the partial year (if applicable) and first full year after the close of a transaction, a rural ILEC will receive Safety Valve I support equal to 75 percent of the difference between its average loop cost for the acquired exchanges and the "baseline loop cost."

            1) The "baseline loop cost" will be the cost per loop of the seller at the time of the transaction. This will provide the best measure of the buyer's increased investment.

        iii. In subsequent years, the current rules will apply and the carrier will be eligible for 50 percent of the difference between its average loop cost for the acquired exchanges and the baseline loop cost.

        iv. The Plan does not change existing Commission rules that cap the amount of Safety Valve funding to 5 percent of the HCLF support distributed to rural ILECs. *See* 47 C.F.R. § 54.305(e).

b. *Safety Valve II support* — The Plan will create a supplemental safety valve mechanism to provide additional revenue recovery for carrier acquisitions.

i. A buyer will be eligible for Safety Valve II support immediately following an acquisition, based on a showing of actual investment in the acquired exchanges.

ii. The buyer will be eligible to recover 50 percent of the difference between its "regulated non-loop expense" and the "baseline regulated non-loop expense" for the acquired exchanges.

1) The buyer's "regulated non-loop expense" will be calculated based on the buyer's "net investment" in non-loop facilities for the acquired exchanges multiplied by the buyer's applicable annual carrying charge factor, which includes an 11.25 percent rate of return on that net investment and statutory income taxes.

a) "Net investment" is calculated in the manner prescribed for calculation of "average net investment" on line 4 of FCC form 492A.

2) The "baseline regulated non-loop expense" will equal the seller's "regulated non-loop expense" as of the year in which the transaction closes. It will be calculated based on the seller's "net investment" in non-loop facilities multiplied by the seller's applicable annual carrying charge factor, which includes an 11.25 percent rate of return on that net investment and statutory income taxes.

iii. The calculation of Safety Valve II support can be made in any year (or partial year) following the acquisition using that year's regulated non-loop expense and baseline expense amounts.

iv. Safety Valve II support will be an exogenous adjustment to the buyer's allowed revenue. Thus, a carrier cannot increase or decrease its Safety Valve II support by refusing to price SLCs at the maximum levels permitted in the Plan or by failing to take advantage of SLC pricing flexibility.

v. Support for newly acquired exchanges that were previously Track 1 exchanges will be portable to other ETCs on the same terms as other universal service amounts.

vi. These rules will apply whether the buyer purchases a partial study area or a whole study area from the seller.

vii. For the duration of the Plan, Safety Valve II support will not be capped. Thus, 47 C.F.R. § 54.305(e) will not apply.

6. Lifeline support for low-income consumers will be adjusted automatically pursuant to 47 C.F.R. §54.403(a) to offset changes in SLC rates.

VII. Incentive Regulation Plan

Summary: This section applies to CRTC study areas that are currently regulated on a rate-of-return basis for interstate operations for which the carrier has elected incentive regulation. In the affected study areas, the incentive regulation plan will replace cost-based rate-of-return revenue formulas with per-line revenue formulas that allow participating carriers to realize financial gains from increased efficiency. Electing carriers will also be permitted greater flexibility in special access rates, and will be able to benefit from increased efficiency in the provision of special access services.

A. Election of Incentive Regulation

1. *Process of election.*

   a. Every rate-of-return CRTC will have an annual option to move to the incentive regulation program for any qualifying study area. Rate-of-return CRTC study areas for which the carrier has elected incentive regulation will immediately be considered Track 2 study areas for purposes of this Plan, as described in Section II.A and II.B.2.

   b. A carrier shall make the same incentive regulation election for any study areas that share central office infrastructure (*e.g.*, host remotes or tandem/subtending).

   c. Once a carrier elects to place a study area under incentive regulation, it cannot reverse that election unless it obtains a waiver from the Commission. The study area will remain subject to incentive regulation even if acquired by another carrier.

2. *Requirements of electing carriers.*

   a. Electing carriers shall be subject to good faith negotiation with respect to all Section 251(a) and (b) duties.

   b. A carrier electing incentive regulation for less than all of its study areas shall allocate no higher a percentage of corporate costs to study areas that remain rate-of-return regulated than were allocated to those study areas before the incentive regulation elections, unless the carrier obtains a waiver from the Commission.

B. Revenue Under Incentive Regulation

1. *Basic rule.* As an incentive to lower costs, permitted revenues for electing carriers will no longer be based on cost studies and rates of return. Following election, prices and support payments in a given study area shall be set at levels that permit carriers to recover the same amount of revenue (per subscriber line) as they did immediately prior to electing incentive regulation. The permitted revenue per line will be recovered primarily through the rates established under the Plan. If rates alone are insufficient, carriers will be permitted to adjust the amount of support per line obtained from the Restructure Mechanism.

2. *Calculation of per-line Restructure Mechanism support*. For each subscriber line in a given study area, an electing carrier will be permitted to recover from the Restructure Mechanism the difference between its baseline revenue per line and its expected revenue per line for the coming period. Per-line Restructure Mechanism amounts will be based on line-months from the base period (*i.e.*, the calendar year prior to the most recent tariff filing).

    a. Baseline revenue per line. Using data for the baseline period, which is the full calendar year preceding the first tariff period under incentive regulation, an electing carrier shall calculate its total baseline study area revenue and divide by line-months from the baseline period. Baseline revenue is composed of the following elements:

        i. Net State settlements.

        ii. Net reciprocal compensation revenue.

        iii. Access revenue (*i.e.*, those elements of access revenue covered under the Plan, such as local switching, common transport, and dedicated transport), including:

            1) Intrastate switched access revenue;

            2) Interstate switched access revenue requirement (calculated at an 11.25 percent rate of return); and

            3) Common line revenue requirement (calculated at an 11.25 percent rate of return), less ICLS.

        iv. Interstate Common Line Support (ICLS).

        v. Local Switching Support (LSS).

        vi. Any Restructure Mechanism revenue the carrier received prior to electing incentive regulation.

    b. Expected revenue per line. Expected revenue is all revenue expected to be collected in the coming period through intercarrier charges (consistent with the categories above), subscriber charges (as specified in this Plan) and continued receipt of support such as ICLS and LSS. This total shall be divided by the line-months for the *base* period to determine expected revenue per line.

        i. To determine the ICLS and LSS funds to which an electing carrier is entitled, it shall divide its ICLS and LSS revenue from the baseline year by baseline line-months, and multiply by line-months from the base period.

C. Special Access Revenues. Carriers that elect incentive regulation shall determine interstate special access rates on a per-study-area basis as follows:

1. Rates will be re-initialized upon the incentive regulation election to reflect a 11.25 percent return on investments, based on actual costs and actual demand from the baseline period (*i.e.*, the full calendar year preceding the first tariff period).

2. Interstate special access rates will be subject to price caps under which annual productivity-based adjustments will equal (and will thus exactly offset) the rate of inflation.

3. Separate baskets will be established for broadband and non-broadband special access.

4. Pricing flexibility will be allowed within each basket, with annual increases on individual rate elements not to exceed 10 percent.

D. Low-end Formula Adjustment Mechanism

1. For carriers electing incentive regulation, an optional low-end formula adjustment mechanism ("LFAM") will be established at a 10.25 percent rate of return for *interstate* revenue components.

2. Should a carrier chose not to exercise its rights to LFAM recovery, any regulatory obligation to perform cost-separations studies will be eliminated for those carriers in applicable study areas.

3. If an annual LFAM calculation indicates that a carrier may collect additional interstate revenue, the carrier may collect such revenue in the subsequent year. Because any LFAM revenue recovered is based on the previous year's calculations, it will not be considered revenue for the year in which it was recovered.

E. High Cost Loop Fund (HCLF)

1. To calculate its annual HCLF, a carrier shall multiply the current period line-months by the annualized per-line HCLF payments during the fourth quarter of the calendar year prior to the incentive regulation election, as adjusted for inflation.

2. If the HCLF as a whole is resized or re-initialized at a higher amount, electing carriers will recalculate their share based on the Study Area Total Unseparated Loop Cost (as defined in 47 C.F.R. § 36.621) and the number of access lines in the fourth quarter of the year prior to election of incentive regulation for each applicable study area.

3. The election to put HCLF under incentive regulation will be made available to price cap rural study areas in the same manner it is made available to rate-of-return study areas, although the study area will continue to operate as a price cap study area in all other respects.

VIII. Miscellaneous Provisions

A. Non-Regulated Investment, Expenses, and Revenues for All Rate-of-Return Carriers

1. Expenses and investments for services determined to be non-regulated by the FCC (such as interexchange services, information services, and CLEC operations which include retail telecommunication services and wholesale telecommunication services) will be excluded from regulated cost calculations for rate-of-return carriers.

B. Track 2 Special Access Revenue Recovery

1. A mid-course correction for recovery of special access revenue is available to Track 2 carriers upon an appropriate showing.

    a. This mid-course adjustment to recovery of special access revenue will be made if the Track 2 carrier demonstrates that:

        i. actual demand for its special access offerings is significantly less after the Plan takes effect;

        ii. the decline in demand for special access was not due to losses to competitors; and

        iii. the carrier has not been able to find alternative uses for its special access facilities.

            1) The carrier need not show an inability to find alternative uses if the facilities were reused as a result of the Plan itself, such as to accommodate increased switched access demand. In that case, the loss of revenues from those special access facilities could be included in the proposed mid-course adjustment.

    b. Track 2 carriers may seek to recoup under-recovered special access revenues for the period beginning with day 1 of the Plan through the date of the filing for a mid-course adjustment.

    c. The FCC shall give public notice of any such request and seek public comment. Any carrier may file in such a proceeding and present its position on the request.

APPENDIX A
Explanation and Support for Alternative Provisions

1. Section II.B.3.a: Alternative Proposals on Alaska Track 3 Terminating Switched Access Rates

Alternative 1:

Terminating rates for Alaska Track 3 carriers will match those for Track 3 carriers generally, under the terms of this Plan.

The cost-based rate plan proposed by the Track 3 LECs will ensure that switched access rates for rural rate-of-return Track 3 LECs in Alaska will be equivalent to the transport and termination costs for switched access traffic (both intrastate and interstate) in the remainder of the United States. This is because Alaska Track 3 LECs participate in the NECA pool, which averages the rates of all pooled Track 3 LECs through the 50 States. Support mechanisms should not be used to support or subsidize the interconnecting interexchange company by providing them with a below cost rate.

Alternative 2:

In Track 3, all rural rate-of-return Track 3 LECs (including those in Alaska) will transition to interstate cost based rates and the interstate rate structure, determined according to existing interstate cost allocation, rate structure, and rate level rules and practices.

Beginning at Step 4, for terminating switched access charges in Alaska, the rates for these charges would be further reduced to a level such that termination costs for switched access traffic in Alaska (both intrastate and interstate) would be equivalent to the transport and termination costs for switched access traffic (both interstate and intrastate) in the remainder of the continental United States. These additional terminating switched access rate reductions would be recovered from the Restructure Mechanism.

This alternative proposal is meant to ensure that Alaska consumers will be able to be offered the same types of flat-rate, all distance calling plans that are likely to be offered in the continental United States if the rest of the Plan is implemented. Without this alternative, termination costs in the Alaska market will be higher than in the continental United States, making it likely that any all distance plans in Alaska will only be available at a higher price than in the continental United States, if they are available at all. By focusing on termination charges for Alaska access traffic, the proposal should be competitively neutral between competing providers of all distance packages.

2. Section II.E.8.c.ii: Alternative Proposals for ISP-Bound Mirroring in Track 3 Areas

Alternative 1:

Track 3 ILECs are no longer required to offer reciprocal compensation rates that mirror ISP-bound rates as of the beginning of Step 1.

In the Core Order, the FCC removed the "new market" rule, finding that arbitrage opportunities that drove the rule were generally decreasing because use of broadband in lieu of dial-up was increasing. This generalization is not applicable in rural markets where the evolution from dial-up to broadband will take place at a different pace. The very underlying policy considerations that formed the basis of the FCC's "new market" rule in the most robust of markets still exist for rural markets. The arbitrage opportunity remains detrimental both to the rural carriers and to the public interest in fostering the use of the Internet.

Track 3 carriers are rate-of-return carriers operating in high cost areas that under this Plan will unify their access rates at interstate cost-based levels. The revised compensation regime for Track 3 carriers will unify rates to the extent feasible (considering the high cost areas in which they operate) and consistent with their rate-of-return status. As provided for in this Plan the unified rate will be used on an interim basis for reciprocal compensation (unless a compensation agreement exists) and until those interim rates are superseded by a State approved interconnection agreement.

While the application of these cost-based rates for termination to the rural rate-of-return carrier networks is consistent with both established FCC rules and regulations and with sound public policy, the application of this rate as a charge applied to the rural LEC by a terminating CLEC/ISP is not consistent with either sound policy or common sense. The result, in fact, leads precisely to the arbitrage that the FCC has clearly found inappropriate with respect to the termination of ISP traffic. While the FCC determined in the Core proceeding that the "new market" rule was no longer needed, the basis of its finding focused on non-rural LEC service areas where customer movement from dialup internet to broadband has been more robust, and where interconnection costs are generally lower based on the geographic and demographic characteristics of the non-rural carrier markets.

Applying the rural rate-of-return carrier terminating rate to ISP-bound traffic originating on rural networks would be nonsensical. ISPs trawling for interconnection arbitrage dollars would be encouraged to set up more so-called "CLECs" in rural areas solely for the purpose of collecting interconnection fees. This is precisely the arbitrage the FCC has sought to avoid and put an end to. Moreover, the economic consequence to the rural LEC could be dire. A customer that maintained connectivity to the ISP on a 24/7 basis would lead to a daily expense for the rural LEC that is far more than the rural LEC can charge for monthly service! (For example, the application of a $0.015 interconnection to the termination of ISP traffic would result in a charge of $0.90 per minute or $21.60 per day!) This extraordinary and inappropriate expense could inevitably only be recovered by increased reliance on the Restructure Mechanism. Instead of permitting this result in the areas served by the Track 3 carriers, either the new market rule should be reinstated (ISP-bound traffic would be bill-and-keep) or the mirroring rule would be

eliminated (*i.e.*, the ISP-bound rate of $0.0007 would not apply to other reciprocal compensation traffic) beginning at Step 1 of the Plan.

Alternative 2:

Track 3 ILECs are no longer required to offer reciprocal compensation rates that mirror ISP-bound rates as of the beginning of Step 4.

Even under this alternative, the Plan incorporates a substantial concession to Track 3 carriers, namely that they should be permitted to end mirroring at any time prior to unification of all of their intercarrier compensation rates. Notably, this proposal would not even be necessary if Track 3 unified *all* of its termination rates. In the *Core Forbearance Order*,[28] the FCC specifically eschewed the notion that ILECs should be permitted to have a "heads I win, tails you lose" intercarrier compensation mechanism:

> without the mirroring rule, incumbent LECs would too easily be able to take advantage of the discrepancy between reduced rates for ISP-bound traffic and higher rates for Section 251(b)(5) voice traffic. The mirroring rule was adopted to preclude incumbent LECs from paying reduced intercarrier compensation rates for ISP-bound traffic, which they send to competitive LECs, while collecting higher state reciprocal compensation rates for traffic that they receive.[29]

In addition, the Commission found that "the mirroring rule promotes our goal of a more unified intercarrier compensation regime by requiring LECs to offer similar rates for like traffic."[30] It would have been fully justifiable to preserve mirroring until and depending upon the *completion* of the FCC's proceeding, begun in Step 4, to consider whether Track 3 LECs should unify their rate structures and levels for all terminating traffic, not just access traffic.

The real losers, under Alternative 1, would be the customers of wireless carriers and other interconnecting LECs (both incumbent and competitive) that exchange traffic with the Track 3 carrier. These carriers and their customers would be subject to higher reciprocal compensation rates during the transition, because there would be no incentive for Track 3 carriers to moderate the levels of the reciprocal compensation fees they demand.

Finally, an earlier end to mirroring seems unnecessary. This issue arises in those areas in which the ILEC has not already opted into the FCC's ISP-bound compensation regime. Thus, it is unlikely that these LECs have a significant ISP-bound burden today, and the potential for a

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[28] Order, *Petition of Core Communications, Inc. for Forbearance Under 47 U.S.C. § 160(c) from Application of the ISP Remand Order*, 19 FCC Rcd 20179 (2004).

[29] *Id*. at 20186 ¶ 19.

[30] *Id*.

new burden will shrink as ISPs continue to shift away from dial-up access (as AOL has already announced).

APPENDIX B
Statement of Working Group on Reform of the Universal Service Contribution Methodology

A necessary component of intercarrier compensation reform is robust and sustainable universal service funding. As the intercarrier compensation rules are reformed, the revenues carriers receive from universal service funding and the Restructure Mechanism will be more important than ever and will, in many cases, have to be increased. It is therefore essential that any intercarrier compensation reform plan ensure that the universal service and Restructure Mechanism contribution methodology is designed to produce sufficient, stable, and predictable support — even in an unpredictable and dynamic telecommunications market.

That goal requires substantial overhaul of the universal service contribution rules. There is broad agreement throughout the industry and by the Commission that the rules in place today produce an inherently unstable universal service funding base. That is so because the contribution rules rely on regulatory distinctions that have become strained and arbitrary and a funding source that has been declining. While the rules provide that a carrier's universal service contribution obligation turns on the amount of its revenues from interstate (or international) telecommunications services,[31] the reality is that distinctions between "interstate" and "intrastate" services — and between "telecommunications services" and "information services" — are harder to identify. In a world of bundled, flat rate service packages, mobile wireless calling plans, and IP-based services, revenues from interstate telecommunications services cannot be readily segregated from intrastate revenues or from revenues from non-telecommunications services.[32] In addition, reliance on these distinctions encourages migration of customers to providers of non-contributing services (or to services subject to reduced or no contribution obligations). This further reduces universal service contributions, and also powers a destructive cycle: services (or carriers) that *are* clearly subject to contributions must then bear an escalating share of the universal service burden — a burden that is passed along to those providers' customers. Facing ever-higher rates, such customers will become increasingly likely to switch to services or providers that do not contribute. In short, the competitive and technological inequities inherent in today's contribution rules are inexorably eroding the funding base.

Reform of the contribution methodology can be achieved only through a plan that is designed to achieve each of the following objectives.

- First, the base for universal service and Restructure Mechanism assessments must be broadened. It is impossible to sustain a robust universal service fund and Restructure Mechanism based on contributions from only a narrow class of carriers and services. To ensure that there is sufficient funding, the responsibility for supporting this nation's

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31 *See, e.g.*, 47 C.F.R. § 54.709(a).

32 *See, e.g.*, Report and Order and Second Further Notice of Proposed Rulemaking, *Federal-State Joint Board on Universal Service*, 17 FCC Rcd 24952, 24955 ¶ 3 (2002).

universal service program must be shared across the industry. Furthermore, only a broad-based contribution methodology can achieve the Act's express command that universal service support be "equitable and nondiscriminatory" and shared by all similarly situated providers.[33]

- Second, the universal service funding base must be made more stable. Today's mechanism is collapsing because it is based on rules that are out of synch with marketplace realities. It is essential that the new contribution requirements be designed with an eye toward achieving stable and predictable funding in a constantly evolving communications market. While nothing can be predicted with certainty, the contribution obligations should be pegged to elements of providers' services that are expected to be constants in the foreseeable future, rather than to a particular class of revenues that may erode over time or to regulatory or technological distinctions that may cease to have meaning.

- Third, the contribution mechanism must be both technologically and competitively neutral. Rules that favor one group of providers or services over another will produce the distortions and negative incentives that exist under today's system: Carriers will devise a means of avoiding or reducing their contributions by choosing the preferred technologies, service configurations, or network architectures; consumers will migrate to their contribution-free services; and the level of funding will erode. The new contribution mechanism must be carefully designed to avoid advantaging any group of providers, services, or technologies. This means, among other things, eliminating the disparities in the existing rules: for example, there should be a uniform contribution rule for all providers of facilities-based, broadband information services, regardless of the specific technology they use. The special treatment VoIP providers now receive must also be eliminated; such providers should be subject to the same obligation to contribute as carriers that provide traditional voice telecommunications services.

[33] 47 U.S.C. § 254(d).

APPENDIX C
Companies/Groups Supporting the Plan

AT&T Inc.
BellSouth Corp.
Cingular Wireless
Commonwealth Tel. Co.
Consolidated Comm.
Epic Touch
Global Crossing
Iowa Telecom.
Level 3 Comm.
Madison River Comm.
The Rural Alliance

The Rural Alliance has received input from rural telecommunications associations and advisors in its efforts on behalf of the rural incumbent telecommunications industry. The following rural telephone companies support the efforts of the Rural Alliance:

Agate Mutual Tel. Coop. Assoc.
Albany Mutual Tel. Assoc.
Alenco Comm.
Allendale Comm.
Alliance Comm. Coop., Inc.
Andrew Tel. Co.
ARK Comm.
Arkansas Tel. Co.
Arlington Tel. Co.
Armour Indep. Tel. Co.
Armstrong Tel. Co.
Arthur Mutual Tel. Co.
Atlas Tel. Co.
Ayersville Tel. Co.
Ayrshire Farmers Mutual Tel. Co.
Bascom Mutual Tel. Co.
Beehive Tel. Co.
BEK Comm. Coop.
Beresford Municipal Tel. Co.
Big Bend Tel. Co.
Blair Tel. Co.
Bloomingdale Tel. Co.
Blue Valley Tele-Comm.
BPS Tel. Co.
Brazos Tel. Coop., Inc.
Bretton Woods Tel. Co.

Bridgewater-Canistota Indep. Tel. Co.
Bristol Bay Tel. Coop.
Butler-Bremer Comm.
Calavaras Tel. Co.
Cambridge Tel. Co.
Cameron Comm.
Campti-Pleasant Hill Tel. Co.
Canadian Valley Tel. Co.
Canby Tel. Assoc.
Cap Rock Tel. Coop., Inc.
Carnegie Tel. Co.
Cascade Comm. Co.
Central Oklahoma Tel. Co.
Central Texas Tel. Coop., Inc.
Chazy Westport Tel.
Cherokee Tel. Co.
Cheyenne River Sioux Tribe Tel. Authority
Chickasaw Tel. Co.
Chippewa Tel. Co.
Cimarron Tel. Co.
Citizens Mutual Tel. Coop.
Citizens Tel. Corp. (Indiana)
Citizens Tel. Coop.
City of Brookings Utilities
City of Faith Tel. Co.
Clarks Telecom. Co.
Clay County Rural Tel. Coop., Inc
Coleman County Tel. Coop., Inc.
Colo Tel. Co.
Colorado Valley Tel. Coop., Inc.
Columbus Tel. Co.
Comanche County Tel. Co., Inc.
Community Tel. Co., Inc.
ComSouth Telecom.
Consolidated Comm.
Consolidated Tel. Co.
Consolidated Telco, Inc.
Consolidated Telecom, Inc.
Cooperative Tel. Co.
CopperValley Tel. Co.
Cordova Tel. Coop.
Council Grove Tel. Co.
Craigville Tel. Co.
Craw-Kan Tel. Coop.

Cross Tel. Co.
Crown Point Tel. Co.
Cumberland Tel. Co.
Cumby Tel. Coop., Inc.
Cunningham Tel. Co.
Curtis Tel. Co.
Dakota Central Telecom. Coop.
Danville Mutual Tel. Co.
Darien Tel. Co.
Daviess-Martin County Rural Tel.
Dell Tel. Coop., Inc.
Dickey Rural Tel. Co.
Diller Tel. Co.
Direct Comm. Rockland
Dixville Notch Tel. Co.
Dobson Tel. Co.
Doylestown Tel. Co.
Ducor Tel. Co.
Dumont Tel. Co.
Dunbarton Tel. Co.
East Buchanan Tel. Coop.
Eastern Nebraska Tel. Co.
Eastern Slope Rural Tel. Co.
Eastex Tel. Coop., Inc.
Egyptian Tel. Co.
Empire Tel. Corp.
Enhanced Telecom. Corp.
ENMR Tel. Coop., Inc.
Etex Tel. Coop., Inc.
F&B Comm.
FairPoint Comm., Inc.
Farmers Coop. Tel. Co.
Farmers Mutual Coop Tel. Co.
Farmers Mutual Tel. Co. (Bellingham, MN)
Farmers Mutual Tel. Co. (Nora Springs, IA)
Farmers Mutual Tel. Co. (Shellsburg, IA)
Farmers Tel. Co.
Federated Tel. Co.
Fenton Coop. Tel. Co.
Five Area Tel. Coop., Inc.
Flat Rock Tel. Coop
Franklin Tel. Co.
Ganado Tel. Co., Inc.
Genesco Tel. Co.

Georgetown Tel. Co.
Germantown Indep. Tel. Co.
Gervais Tel.
Glandorf Tel. Co.
Glenwood Tel. Co.
Golden Belt Tel. Assoc.
Golden West Telecom. Coop
Goldfield Tel. Co.
Gorham Tel. Co.
Granite State Tel. Co.
Great Plains Comm., Inc.
H&B Comm., Inc.
Hancock Rural Tel. Co.
Harrisonville Tel. Co.
Hartington Telecom. Co.
Haviland Tel. Co.
Heart of Iowa Comm. Coop.
Hershey Coop. Tel. Co.
Hiawatha Tel. Co.
Hinton Tel. Co.
Home Tel. Co.
Hospers Tel. Co.
Hubbard Coop Tel. Assoc.
Humboldt Tel. Co.
Huxley Comm. Coop.
Industry Tel. Co.
Interstate Comm.
Interstate Telecom. Coop.
James Valley Coop. Tel. Co.
JBN Tel. Co.
Jefferson Tel. Co.
K&M Tel. Co.
Kadoka Tel. Co.
KanOkla Tel. Assoc.
Kennebec Tel. Co.
Kingdom Tel. Co.
La Ward Tel. Exchange, Inc.
LaHarpe Tel. Co.
Lake Livingston Tel. Co.
Laurel Highland Tel. Co.
Leaf River Tel. Co.
Lennon Tel. Co.
Le-Ru Tel. Co.
Liberty Comm.

Ligonier Tel. Co.
Lincoln County Tel. System
Lipan Tel. Co., Inc.
Livingston Tel. Co.
Lone Rock Coop Tel. Co.
Lost Nation / Elwood Tel. Co.
Madison County Tel. Co.
Madison Tel.
Margaretville Tel. Co.
Mark Twain Rural Tel. Co.
Marne & Elk Horn Tel. Co.
Matanuska Tel. Assoc. Coop.
McClure Tel. Co.
McCook Coop. Tel. Co.
McNabb Tel. Co.
Mechanicsville Tel. Co.
Medicine Park Tel. Co.
Middle Point Home Tel. Co.
Middleburgh Tel. Co.
Mid-Plains Rural Tel. Coop., Inc.
Midstate Comm., Inc.
Midstate Tel. Co.
Midway Tel. Co.
Millry Tel. Co.
Minburn Telecom., Inc.
Minerva Valley Tel. Co., Inc.
Missouri Valley Comm., Inc.
Modern Coop Tel. Co.
Montrose Mutual Tel. Co.
Moultrie Indep. Tel. Co.
Moundridge Tel. Co., Inc.
Mt. Rushmore Tel. Co.
Mutual Tel. Co. (Iowa)
Mutual Tel. Co. (Kansas)
Nebraska Central Tel. Co.
Nemont Tel. Coop., Inc.
New Knoxville Tel. Co.
New Lisbon Tel. Co., Inc.
New Port Tel. Co.
Nortex Comm. - Tel. Operations
North Dakota Tel. Co.
North Penn Tel. Co.
North Pittsburgh Tel. Co.
Northeast Missouri Rural Tel. Co.

Northeast Nebraska Tel. Co.
North-Eastern Pennsylvania Tel. Co.
Northern Arkansas Tel. Co.
Northwest Comm. Coop.
Northwest Tel. Coop
Northwest Tel. Coop. Assoc.
Nushagak Electric & Tel. Coop.
Ogden Tel. Co.
Oklahoma Western Tel. Co.
Ontonagon County Tel. Co.
Oran Mutual Tel. Co.
Oregon-Idaho Utilities
Oregon Farmers Mutual Tel. Co.
Ottoville Mutual Tel. Co.
Palmer Mutual Tel. Co.
Panhandle Tel. Coop., Inc.
Panora Comm. Coop.
Park Region Mutual Tel. Co.
Partner Comm. Coop
Pattersonville Tel. Co.
Peetz Coop.
Peoples Tel. Coop., Inc.
Peoples Telecom.
Perry-Spencer Rural Tel. Coop., Inc.
Pierce Tel. Co.
Pine Drive Tel. Co.
Pine Tel. Co., Inc.
Pinnacle Comm.
Pioneer Comm.
Pioneer Tel. Assoc., Inc.
Pioneer Tel. Coop., Inc.
Plains Coop. Tel. Assoc.
Plains Co-Operative Assoc.
Poka Lambro Tel. Coop., Inc.
Polar Comm.
Ponderosa Tel. Co.
Pottawatomie Tel. Co.
Prairie Grove Tel. Co.
PrairieWave Community Tel., Inc.
Premier Tel. Co.
Preston Tel. Co.
Project Tel. Co.
Pulaski/White Rural Tel. Coop.
Rainbow Tel. Co-op

Randolph Tel. Co.
Range Tel. Coop.
RC Comm., Inc.
Red River Tel. Co.
Reservation Tel. Co.
Ringsted Tel. Co.
River Valley Telecom.
Riviera Tel. Co., Inc.
Roberts County Tel. Coop. Assoc.
Rochester Tel. Co., Inc. (Indiana)
Rock County Tel. Co.
RTC Comm.
Rural Tel. Service Co.
Rye Tel. Co.
S & A Tel. Co.
S & T Tel. Coop.
Salina-Spavinaw Tel. Co.
Sandwich Isles Comm., Inc.
Santa Rosa Tel. Coop., Inc.
Santel Comm. Coop.
Schaller Tel. Co.
Shidler Tel. Co.
Sioux Valley Tel. Co.
Siskiyou Tel. Co.
Skyline Tel. Co.
South Arkansas Tel. Co.
South Central Tel. Assoc. (Kansas)
South Central Tel. Assoc. (Oklahoma)
South Park Tel. Co.
South Plains Tel. Coop., Inc.
Southern Kansas Tel. Co.
Southern Montana Tel. Co.
Southwest Arkansas Tel. Co.
Southwest Oklahoma Tel. Co.
Spencer Municipal Utilities
SRT Tel. Co.
Stanton Tel. Co.
Star Tel. Co.
State Long Distance Tel. Co.
Stockholm-Strandburg Tel. Co.
Stratford Mutual Tel. Co.
Sully Tel. Assoc.
Surry Tel. Membership Corp.
Swayzee Tel. Co.

Swisher Tel. Co.
Sycamore Tel. Co.
Taylor Tel. Coop., Inc.
TDS Telecom
Tel. Service Co.
TelAlaska
Tenino Tel. Co.
Terral Tel. Co.
The Ft. Jennings Tel. Co.
Three River Telco
Titonka-Burt Comm.
Toledo Tel. Co., Inc.
Topsham Tel. Co.
Totah Comm., Inc.
Triangle Tel. Coop.
Tri-County Telecom, Inc.
Tularosa Basin Tel. Co.
Twin Valley Tel., Inc.
Union Tel. Co.
United Tel. Assoc.
Valley Telecom. Coop.
Valliant Tel. Co.
Van Buren Tel. Co., Inc.
Van Horne Tel. Co.
Venture Comm. Coop.
Vermont Tel. Co.
Vivian Tel. Co.
Volcano Tel. Co.
Waitsfield and Champlain Valley Telecom.
Wamego Telecom.
West Kentucky Rural Tel. Coop.
West River Coop. Tel. Co. (Bison, SD)
West River Telecom.
West River Telecom. Coop. (Hazen, ND)
West Texas Rural Tel. Coop., Inc.
Western New Mexico Tel. Co., Inc.
Western Tel. Co.
Wes-Tex Tel. Coop., Inc.
Westphalia Tel. Co.
Wheat State Tel.
Wiggins Tel. Assoc.
Wilson Tel. Co.
Winneabago Tel. Coop.
Woodstock Tel. Co.

XIT Rural Tel. Coop., Inc.
Yukon Tel. Co.
Zenda Tel. Co.

APPENDIX D
Modeling the Impact of Intercarrier Compensation Reform

THE MODELING EFFORT

The Missoula Group recognizes the importance of understanding the impacts of the proposed plan including estimating the size of the Restructure Mechanism. The main objective of the Modeling is to calculate the annual amount of the Restructure Mechanism (RM) that will be needed when switched access rates reach their final levels under the new plan. In an effort to develop the best estimate possible, the group undertook two independent modeling efforts. One modeling effort was led by AT&T experts; the other modeling effort was led by the Rural Alliance experts. For each ILEC, the Models start with current switched access revenue and then estimate the amount of switched access and SLC (subscriber line charge) revenues to be collected under the plan. The reduction in switched access revenue is compared to the increase in SLC revenues. To the extent that reduced access revenues cannot be offset by increased SLC rates, the shortfall is recovered via the new RM. An estimate of CLEC RM requirements was then added to the ILEC RM results of each modeling effort.

Remarkably, these two modeling efforts resulted in estimates of the Restructure Mechanism that were close not only overall but also for each Track. The modeling experts collaboratively analyzed the differences in order to evaluate assumptions and the model results. The Missoula Group's best estimate is that the annual amount of the Restructure Mechanism at the final phase of the plan will be an average of $1.5 billion including an estimate of the RM for CLECs. The estimates of the annual amount of the Restructure Mechanism at the final phase of the plan range from $1.4 billion to $1.6 billion. Common assumptions were used in each modeling effort where possible. Based on these modeling efforts and the collaborative work to analyze each plan, the group agreed that the best estimate of the total size of the Restructure Mechanism at the final phase of the plan is $1.5 billion.

AT&T MODELING ASSUMPTIONS

For each ILEC, the Model starts with current switched access revenue and then estimates the amount of switched access and SLC (subscriber line charge) revenues to be collected under the plan. The reduction in switched access revenue is compared to the increase in SLCs revenues. To the extent that reduced access revenues cannot be offset by increased SLC rates, the shortfall is recovered via the new RM. Because accurate data is not publicly available, the model does not include other LECs such as CLECs and wireless providers, nor does it include revenue effects resulting from changes in reciprocal compensation, EAS arrangements, transiting arrangements, and the billing of phantom traffic.

For all incumbent LECs in aggregate, total annual switched access revenues are estimated to be about $8.9 billion. In the pricing scenario presented here, these revenues decline by nearly $6 billion under the Plan. This reduction is offset by $4.7 billion from increased Subscriber Line Charges and $1.3 billion in funding from the new Restructure Mechanism. Estimated funding from the Restructure Mechanism includes $320 million for Track 1 carriers, $548 million for Track 2 carriers, and $458 million for Track 3 carriers, with an additional $125 million estimated for CLECs. These calculations are all based on the use of base period (generally 2004) demand volumes. Small rate of return LECs are treated in the model as a single entity.

Access Rates

Switched access rates under the new plan depend on whether an ILEC study area is in Track 1, Track 2, or Track 3. In the version of the model presented here, the following rates are assumed:

Track 1 study areas:

- End Office Switching = $0.0005 per switched access (i.e., local switching) minute for terminating access, $0.002 for originating access.
- Tandem Switched Transport = $.0025 for each originating minute that goes through an access tandem switch, no charge for terminating traffic.
- Dedicated transport: Current interstate rates apply to both interstate and intrastate traffic.

Track 2 price cap study areas:

- End Office Switching = $0.0005 per switched access (i.e., local switching) minute for terminating access, $0.002 for originating access.
- Tandem Switched Transport = $.0075 for each minute that goes through an access tandem switch, for both originating and terminating traffic.
- Dedicated transport: Current interstate rates apply to both interstate and intrastate traffic.

Track 2 ROR study areas:
80% of the access minutes are priced at the Track 2 price cap rates. Prices for the remaining 20% are:

- End Office Switching = $0.0005 per switched access (i.e., local switching) minute for both terminating and originating access.
- Tandem Switched Transport = $.0105 for each minute that goes through an access tandem switch, for both originating and terminating traffic.

The rates assumed for Track 2 ROR study areas are a weighted average of these rates and the rates of Track 2 price cap study areas. For dedicated transport, current interstate rates apply to both interstate and intrastate traffic.

Track 3 study areas:

- Current interstate rates are applied to both interstate and intrastate traffic.

Access Revenues Under the Plan

Access revenues under the plan are estimated by applying the rates described above to base period demand quantities, using the following assumptions about traffic characteristics:

- For all carriers, 60% of the access minutes are assumed to be terminating while 40% are originating.

- For all Track 1 and price cap carriers in Track 2, 35% of the access minutes go through a tandem switch, while the other 65% use direct dedicated transport.

- For Track 2 ROR carriers, 59% of the access minutes go through a tandem switch, while the other 41% use direct dedicated transport.

Other assumptions include:

- For Track 1 and Track 2 carriers, dedicated transport revenue is estimated on the assumption that under the plan, intrastate dedicated transport revenue per minute will be the same as interstate dedicated transport revenue per minute. First, interstate revenue per minute is calculated by dividing interstate dedicated transport revenue by interstate switched access minutes. The result is then multiplied by intrastate switched access minutes to obtain intrastate dedicated transport revenue.

- For Track 3 carriers, total switched access revenue is estimated on the assumption that under the plan, intrastate switched access revenue per minute will be the same as interstate switched access revenue per minute. The calculations are similar to those described above for dedicated transport. First, interstate revenue per minute is calculated by dividing interstate switched access revenue by interstate switched access minutes. The result is then multiplied by intrastate switched access minutes to obtain intrastate access revenue.

SLC Rates and Revenues

SLC rates are increased to offset much of the reduction in switched access revenues and are calculated as follows:

1. The *access shift per line* is calculated by subtracting switched access revenues under the plan from current switched access revenues and then dividing the difference by the number of switched access lines.

2. The new revenue requirement per line is calculated by adding the *access shift per line* to the amount of current SLC revenue per line.

3. The new SLC rates are equal to the lesser of the new revenue requirement per line or the applicable SLC cap. SLC caps vary by track and customer class:

    - For Track 1 carriers, the SLC cap is $10 for all lines.

    - For Track 2 carriers, the SLC cap is $8.75 for residential and single-line business lines and $10 for multiline business lines.

    - For Track 3 carriers, the SLC cap is $8.75 for residential and single-line business lines, while SLCs for multiline business lines remain at their current levels.

4. SLC revenues are equal to the new rates times the base period lines.

Restructure Mechanism

Payments from the new Restructure Mechanism (RM) are equal to the total access shift (the reduction in switched access revenue) minus the increase in SLC revenue.

SOURCES OF DATA

Overview

For the price cap companies, interstate rates, volumes, and revenues are obtained from their TRP (Tariff Review Plan) filings submitted on June 16, 2005. Demand volumes are for the 2004 base year, while revenues consist of July 1, 2005 proposed rates applied to the 2004 base year volumes. Interstate rates for rate-of return (ROR) companies are also obtained from their TRP filings, but data on access lines and interstate minutes are obtained from two reports that are available on the FCC's website. Intrastate data is generally obtained from the ILECs' ARMIS reports for 2004 and by various approximations described herein.

SLC Rates and Access Lines

The number of access lines consists of lines for which the SLC (Subscriber Line Charge) is assessed and consists of the sum of the lines reported in each month of the year, so that multiplying the number of lines by the monthly rate yields annual revenue.

- For price cap companies, SLC data are reported in the RTE-1 form of their TRPs in Rows 102, 104, and 106, with lines shown in Column A and rates in Column D. SLC rates consist of average rates for Ameritech and BellSouth, both of which have state-specific rates that are averaged across states. SLC rates were also averaged across filing entities for those companies that have multiple filing entities, such as GTE and Sprint.[34]

- For ROR companies in the NECA Common Line pool, the number of lines by study area is obtained from Column R in the report *Universal Service Fund Data: NECA Study Results* (2004 report, submitted 9/30/05), which is available on the FCC's website. These lines are then multiplied by an industry-wide factor of .988 to obtain the number of lines for which SLCs are charged. This factor consists of the NECA pool's 2004 end user lines (reported in Exhibit 1 of Volume 3 in NECA's 2005 Annual Filing, Transmittal 1077) divided by the NECA pool's 2004 USF loops. The number of lines is then apportioned between Residential/SLB lines and Multiline business lines in the same proportion as that for the total NECA End User Common Line pool. In addition, the number of lines is multiplied by 12 in order to make the data on lines consistent with that for price cap companies.

- For ROR companies that do not participate in the NECA Common Line pool, SLC rates are reported in the RORREV-1 form of their TRPs in Column C, Rows 110, 120, and 130, with lines shown in Column F.

- SLC rates for companies in the NECA Common Line pool vary by rate band. Information on rate bands and a listing of companies in each band are available from the rate tables found in Section 17.5.1 of NECA's Tariff FCC No. 5. For simplicity, however, residential/SLB and multiline SLC rates are assumed to be $6.50 and $9.20, respectively, for all Track 3 study areas.[35]

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[34] The current MLB SLCs of several companies – Sprint, Citizens, Iowa Tel., Nevada Bell, Valor, and Frontier - still include about $30.4 million of "pooled" revenue, which is in the process of being phased out.

[35] This assumption does not significantly affect the amount of RM (Restructure Mechanism) support estimated by the model. Only 2 Track 3 study areas have a residential/SLB SLC below $6.50. As for the MLB SLC, it is not expected to increase for Track 3 companies under the Plan, regardless of what the initial rate is. Since the MLB SLC does not change, it has no effect on the RM.

Interstate Switched Access

Price Cap Companies

For price cap companies, interstate access minutes consist of "chargeable" local switching minutes and are reported on the TGT-1 form, Row 420 of their annual TRP filings.

Interstate switched access revenues are obtained from the SUM-1 form of the TRPs, Column C, with local switching reported in Row 130, CCL (carrier common line) revenue in Row 110, PICC (presubscribed interexchange carrier charge) revenue in Row 112, common transport (also known as tandem-switched transport) revenue in Row 175, and dedicated transport revenue as the sum of Rows 180 and 200. The common and dedicated transport revenues do not include "non-ATS-related" revenues – revenues that are not included in calculating a company's ATS (average traffic sensitive) rate per minute.

Revenues under Pricing Flexibility

Because a substantial portion of dedicated transport service has obtained Phase II pricing flexibility, it is no longer under price caps and its revenues are not reported in the TRP. For most of the price cap companies, revenues associated with pricing flexibility are estimated on the basis of a comparison of transport revenues reported in ARMIS and those reported in the TRPs. The estimated pricing flexibility revenue is based on the difference between ARMIS revenues, which include all such revenues, and TRP revenues, which do not include pricing flexibility revenues. Revenues associated with pricing flexibility are estimated by dividing dedicated transport revenues obtained from the TRP by the estimated percentage of total dedicated transport revenue that is under price caps.

This percentage is estimated as follows:

- Total dedicated transport revenue (both price cap and deregulated) is calculated by subtracting TST revenue obtained from the TRP from switched transport revenue reported in ARMIS. The percentage of total dedicated transport revenue under price caps is then calculated by dividing dedicated transport revenue from the TRP by the dedicated transport revenue derived from ARMIS.

- The TRP transport revenues are obtained from rows 175 through 201, Column A of the Sum-1 form, which consists of "base period demand times rates at last PCI update." In the 2005 TRP, this refers to 2004 demand times the rates that went into effect on July 2004.

- In order to estimate the amount of transport revenue realized in calendar year 2004, the TRP revenues are adjusted for any rate changes that occurred in July 2004. For several companies, the July 2004 rates differed from the rates in effect during the first half of the year, as measured by the service band price indexes (SBI) reported in the IND-1 form of the 2004 TRP. To account for the rate changes that occurred in July 2004, the TRP revenues are adjusted by multiplying them by "rate change factors" derived from these

SBIs. The basic assumption here is that half of 2004 demand is priced at the July 2004 rates as measured by the 7/04 SBI, while the other half is priced at the pre July 2004 rates, as measured by the "existing" (pre July 2004) SBI.[36]

Note: If there were no price level changes for either tandem switched transport or dedicated transport on July 2004, the total amount of transport revenue calculated above is equal to the amount shown in ARMIS.

For the Century Tel, ARMIS data is not available for all of its price cap filing entities. Hence, data for 2 of its study areas (CNAN and CNAS) was used to calculate the percentage of revenue under price caps for the entire company. For Sprint, the percentage of revenue under price caps for the entire company was applied to both its Track 1 and Track 2 entities. Because of inconsistencies in the way ARMIS and TRP data are reported for certain companies, pricing flexibility revenues are not estimated for Alltel, Citizens, and Iowa Tel.

Rate of Return Companies

For ROR companies, 2004 interstate access minutes (i.e., local switching minutes) for individual companies are obtained from Table 8.4 of the FCC's *Monitoring Report* released December 2005.

For ROR companies that do not participate in the NECA Traffic Sensitive pool, switched access rates are found in Column A of the RORREV-1 form, with local switching on line 260 and the information surcharge on line 220. For ROR companies that are in the NECA pool, these rates consist of the NECA information surcharge rate *and* the NECA local switching rate for the company's specific rate band. The rate band assignment for each carrier is obtained from the rate tables found in Section 17.5.1 of NECA's Tariff FCC No. 5.

The interstate local transport rate consists of local transport revenue divided by the interstate access minutes. The minutes used in this calculation are local switching minutes from the TRP, as reported on the DMD-1 form, Row 430, Column D. Local transport revenue is obtained from the RORREV-1 form, Column G and consists of common transport revenue (the sum of rows 340, 350 and 360) and dedicated transport revenue (the sum of rows 400 through 480). For companies in the NECA pool, the local transport rate consists of interstate transport revenue divided by interstate local switching minutes for the entire Traffic Sensitive pool.

Interstate switched access revenue consists of the rates described above multiplied by the interstate access minutes. The local transport revenues for companies in the NECA pool are then

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[36] The proposed SBIs are reported in Column C of the IND-1 form, while existing SBI's are shown in Column G. The SBI for tandem switched transport is in Row 310, while the SBI for "High cap & other - switched" category, which is used here to represent the price of all dedicated transport, is reported in Row 340. The rate change factor is equal to: (Proposed SBI + Existing SBI)/(2*Proposed SBI).

split between common transport and dedicated transport in the same proportion as that for the NECA pool in aggregate.

Intrastate Switched Access

Access Minutes

For most of the companies that provide ARMIS reports[37], intrastate access minutes are obtained directly from the ARMIS 43-08 report, Table 4, which shows interLATA intrastate access minutes. For other companies that provide ARMIS reports, there were several difficulties in using ARMIS data in combination with the TRP data. The ARMIS reports either do not include all their study areas or the study areas reported in ARMIS do not coincide with the TRP filing entities. Various approaches are used to circumvent these difficulties:

- For Rochester Tel (RTNY) and Citizens, intrastate minutes are obtained by multiplying interstate minutes from the TRP by the ratio of intrastate to interstate minutes obtained from ARMIS 43-08, Table 4.

- For the Sprint companies, there were difficulties in apportioning the ARMIS data between Track 1 and Track 2 study areas. Intrastate minutes for Track 1 are obtained by multiplying their interstate access TRP minutes by the ratio of intrastate to interstate minutes shown in the ARMIS report for Sprint of Florida, the largest Sprint entity in Track 1. Similarly, for the Sprint companies in Track 2, intrastate minutes are obtained by multiplying their interstate access TRP minutes by the ratio of intrastate to interstate minutes from the ARMIS report of Sprint of Ohio, the largest Sprint entity in Track 2. Both of these ratios are consistent with data previously provided by Sprint for the year 2003.

- For several entities owned by Rochester/Frontier, designated by the study area codes RTCS (Frontier of Rochester) and VITC (Frontier of Minnesota and Iowa), ARMIS data is not available. Their intrastate minutes are obtained by multiplying their interstate access TRP minutes by the ratio of intrastate to interstate minutes shown in the ARMIS report for Rochester Tel of New York (RTNY).

- Similarly, ARMIS data is also not available for all of Century Tel's study areas. For Century's price cap companies, intrastate minutes are obtained by multiplying their interstate access TRP minutes by the ratio of intrastate to interstate minutes from their ARMIS report, which includes only their Alabama and Washington study areas.

- For GTE's Puerto Rico Tel. subsidiary, the use of ARMIS intrastate revenue divided by intrastate minutes yielded an implausibly low figure. Their intrastate minutes are estimated by multiplying their lines by an *intrastate minute per line* factor obtained from a recent

[37] These companies consist of the RBOCs, GTE, Cincinnati Bell, Iowa Tel., Lincoln Tel (LTNE), Alltel's price cap companies in Kentucky, Valor's price cap companies, and Surewest.

National Telecommunications Cooperative Association (NTCA) *ex parte presentation*,[38] as was done for the companies that do not provide ARMIS data.

- Because the ARMIS report for SNET reports its intrastate access minutes as zero, intrastate minutes are estimated by multiplying SNET's interstate access TRP minutes by the ratio of intrastate to interstate minutes shown in the ARMIS report for Bell Atlantic of Rhode Island.

For ROR companies that do not provide ARMIS data, intrastate minutes are estimated by multiplying their lines by an *intrastate minutes per line* factor obtained from the NTCA *ex parte* cited above. The NTCA data shows intrastate access minutes per line for its member companies by size of company. Finally, data on intrastate minutes and rates for Alascom were obtained directly from the company.

Intrastate Rates

The intrastate switched access rate consists of revenue per minute and is calculated as follows:

- For the RBOCs and GTE, intrastate switched access revenue from the ARMIS 43-04 report (Table I, Row 4011, Column C) is divided by the intrastate access minutes from the ARMIS 43-08 report. The intrastate switched access rate used for GTE's Hawaii and Puerto Rico companies is the same as that for GTE as a whole.

- For all other companies, the intrastate access rate is obtained by multiplying the interstate rate by a factor that consists of AT&T's intrastate switched access expense per minute divided by its interstate switched access expense per minute, based on AT&T's access billing data from those companies. The underlying data consists of pre-merger AT&T's switched access expenses and local switching minutes for both interstate and intrastate traffic. Switched access expenses include AT&T's payments for CCL and PICC charges, non-recurring charges, and dedicated switched transport, but do not include any payments for special access. Separate factors were calculated for Track 1 (Sprint only), Track 2, and Track 3 study areas.

Revenues

For the RBOCs, SNET, and GTE (including Hawaii and Puerto Rico), intrastate switched access revenues are obtained directly from the ARMIS 43-04 report. For the other companies, it is calculated as the product of intrastate minutes times the intrastate rate, both of which are described above.

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[38] "Intercarrier Compensation and Incumbent Rural Exchange Carriers" (pp. 9, 34, 36), NTCA *ex parte* presentation to the FCC, January 6, 2004.

For all companies, intrastate dedicated transport revenues are estimated by assuming that dedicated transport revenue per access minute is the same for intrastate as it is for interstate. Intrastate dedicated transport revenues are thus calculated by multiplying intrastate access minutes by interstate dedicated transport revenue per minute.

RURAL ALLIANCE MODELING ASSUMPTIONS

The following assumptions were made in developing the model. Changes to these basic assumptions could result in significant changes to the RM calculation. As updated data is available, the baseline rates and demand quantities will change and could result in material changes to the estimate.

Basic Assumptions:

1. All data was taken from the 2004 calendar year. Publicly available data was used except for Track 2 price cap intrastate rate levels, which are based on input from industry participants.
2. The following changes were not incorporated into the RM estimate since accurate data is not available: (a) Reciprocal compensation revenue changes, (b) EAS revenue changes, (c) transiting expense changes, (d) dissolution of intrastate funds resulting in higher intrastate ICC rates prior to plan implementation, (e) effect of billing phantom traffic or (f) changes to interconnection rules. The effect of reducing access payments to other carriers was also not modeled, but could be material.
3. Access lines and minutes were held constant for the four-year transition period.
4. For non-ARMIS companies, access lines were assumed to be 98.8% of loops. 81.8% of access lines were assumed to serve residential or single line business customers.
5. SLC rates were extracted from June 16, 2005 Tariff filings and applied to calendar year 2004 data to establish baseline SLC revenues.
6. When available, lifeline lines were obtained from ARMIS report 43-08. The percentage of lifeline lines (3.8%) was calculated by dividing the ARMIS companies' lifeline lines by ARMIS companies' total residential and single line business lines. For companies that do not file ARMIS, this percentage was applied to each company's residential and single line business lines.
7. Terminating to originating ratios were assumed to be 60% for all tracks.
8. For non-ARMIS companies, 40% of total switched revenue was assumed to be transport.
9. 9.8% of intrastate revenues were assumed to be related to special access. This estimate was calculated by dividing Other ILEC revenues by intrastate revenues in Table 1.5 of the 2005 Federal/State Joint Board Monitoring Report.
10. For track 1 and 2 companies, 35% of transport revenue was assumed to be common transport. This assumption was provided by AT&T. For Track 3 companies, 59% of transport revenue was assumed to be common transport.
11. In year 1, other carriers RM draw for track 1 companies was assumed to be 20% of the track 1 companies' RM. This percentage changed to 30% in year 2 and 40% in years 3 and 4. The other carrier draw for track 2 and 3 companies was assumed to be 0%.

Access Revenue Change Methodology:

Intrastate			
Track	Revenues	Minutes	Historical Rate
1	FCC ARMIS 43-04 Report, row 4011, Col. C	43-08 Report	Calculated: Revenues/Minutes
2	FCC ARMIS 43-01 Access Report, Network Access Services Revenues (row 1020), Col. G less: 499A Revenue % PL to Total[a]	NTCA Usage by Line Size Group	Calculated: Revenues/Minutes[a]
3	Calculated: Minutes * Rate	NTCA Usage by Line Size Group	NCTA Rates by Line Size Group

Interstate			
Track	Revenues	Minutes	Historical Rate
1	FCC ARMIS 43-01 Access Report, Network Access Services Revenues (row 1020), Columns N and P	Table 8.4	Calculated: Revenues/Minutes
2	FCC ARMIS 43-01 Access Report, Network Access Services Revenue (row 1020), Columns N and P[a]	Table 8.4	Calculated: Revenues/Minutes[a]
3	Calculated: Minutes * Rate	Table 8.4	NECA's 2004 Tariff Review Plan ($.0203)

[a] For Track 2 companies that file ARMIS data, the Track 1 methodology was used. For Track 2 companies that do not file ARMIS data, the Track 3 methodology was used.

	Avg Orig ICC Rate	Avg Term ICC Rate
Track 1	$ 0.0034	$ 0.0014
Track 2 Price Cap	$ 0.0059	$ 0.0080
Track 2 RoR	$ 0.0068	$ 0.0081
Track 3	$ 0.0170	$ 0.0170

NTCA Study Data: March 2004 ex parte by NTCA in FCC Docket 01-92

Lines	Historical Intrastate Rate	Intrastate Minutes/Line
0-500	$ 0.0870	350
501-1000	$ 0.0810	282
1001-2500	$ 0.0740	250
2501-5000	$ 0.0690	224
5001-10000	$ 0.0700	232
10001-20000	$ 0.0690	192
20001-50000	$ 0.0740	108
Over 50000	$ 0.0480	124
Overall	$ 0.0690	195

SLC Revenue Change Sources:

Subscriber Line Charges					
Track	Revenues	Residential and Single Line Business Lines	Multi-line Business Lines	Residential and Single Line Business Rate	Multi-line Business Rates
1	Calculated: Lines * Rate	ARMIS 4301, Table 2 [a]	ARMIS 4301, Table 2 [a]	Tariff Survey	Tariff Survey
2	Calculated: Lines * Rate	ARMIS 4301, Table 2[b]	ARMIS 4301, Table 2 [b]	Tariff Survey - or- NECA pool rate	Tariff Survey - or- NECA pool rate
3	Calculated: Lines * Rate	Calculated: Total loops * 0.988*.818[c]	Calculated Total loops * 0.988*.182[c]	NECA pool rate	NECA pool rate

[a] For certain GTE and Sprint companies, 2005 TRP data was used for SLC line counts.
[b] For Track 2 companies that file ARMIS data, the Track 1 methodology was used.
For Track 2 companies that do not file ARMIS data, the Track 3 methodology was used.
[c] Loops were obtained from HC-20 Report, CETC Reported Lines by Incumbent Study Area.