

PROPOSED REVISIONS TO THE PRICE REGULATION AND LOCAL COMPETITION PLAN

Presented by: Alabama Rural LECs

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Historical Perspective

Historical Perspective (cont.)

- **1984-** AT&T Divestiture- ILECs were required to abandon old separations process and move to an access charge environment for interLATA traffic.
- **1983-4** First cellular telephones licensed by FCC.

Historical Perspective (cont.)

- **1985-** APSC implements an intrastate end-user charge (up to 85 cents) and a offsetting reduction in the CCLC component of intrastate access charge tariffs.
- **1990-** Legislature removes cellular service from APSC jurisdiction.

Historical Perspective (cont.)

- **1990-** APSC caps intraLATA NTS access revenue for rural ILECs as part of Primary Carrier Plan.
- **1993-** APSC creates Alabama Service Fund (“ASF”) to freeze revenue currently produced by that portion of Rural ILEC interLATA access charges over interstate levels.

Historical Perspective (cont.)

- **1995- Regulation Plan Adopted.**
 - Rural ILECs reduce the amounts paid by IXCs and BellSouth under the TSF by increasing local rates to BellSouth Rate Group 6 (\$16.30).
 - Rural ILECs required to offer “Lifeline Service,” with a \$7.00 credit to low income subscribers, \$3.50 of which is funded by the Rural LECs without state or federal assistance.

Historical Perspective (cont.)

- **1996-** Telecom Act becomes law.
- **1996-** Commission issued Order implementing TSF and ASF Procedures.
- **1994 – 1999 -** PCS licenses issued. Each rural ILEC service area in Alabama now has at least 4 wireless carriers.

Historical Perspective (cont.)

- **2000-** APSC grants BellSouth authority to extend “CLEC services outside of BellSouth’s franchise area under the same tariffs that BellSouth provides services inside its exchange area.”
- **2001-** APSC issues Notice of Proposed Rulemaking regarding county-wide calling plans.

Historical Perspective (cont.)

- **2001-** FCC adopts MAG Plan for Access Rates.
- **2001-** APSC approves BellSouth reduction in switched access rates, with an offsetting increase in Directory Assistance rates.
- **2001-** APSC holds regulation plan workshop

Historical Perspective (cont.)

- **2002-** BellSouth notifies Rural LECs of intention to reduce its net payments to Rural LECs under PCP and other arrangements and to ultimately go to “bill and keep.”
- **2002-** APSC issues “standstill order” regarding inter-carrier compensation arrangements.
- **2002-** FCC grants ETC status to Cellular South and Unicel for rural areas.

Historical Perspective (cont.)

- **2003-** Rural ILECs file petition for adoption of proposed Streamlined Regulation Plan.
- **2003-** Wireline to Wireless LNP Plan Adopted.
- **2003-** Multiple VoIP providers make service available in Alabama to general public.

Historical Perspective (cont.)

- **2003-** BellSouth files Metro Pricing Plan.
- **2004-** Rural ILECs and CMRS carriers reach settlement of indirect compensation dispute after APSC intervention.

The TSF Has Worked!

Rural ILEC Access Charge Reductions Since 1995

1995 Rate	0.0985
2003 Current Effective Rate	0.0606
Reduction	38.48%

Rural ILEC Concerns

- Smaller carriers shouldn't have greater level of retail regulation.
- Plan should avoid unnecessary and burdensome unbundling requirements for smaller ILECs.
- Intercarrier compensation must be addressed if calling plans are required.

Rural Retail Pricing is Constrained by Competition

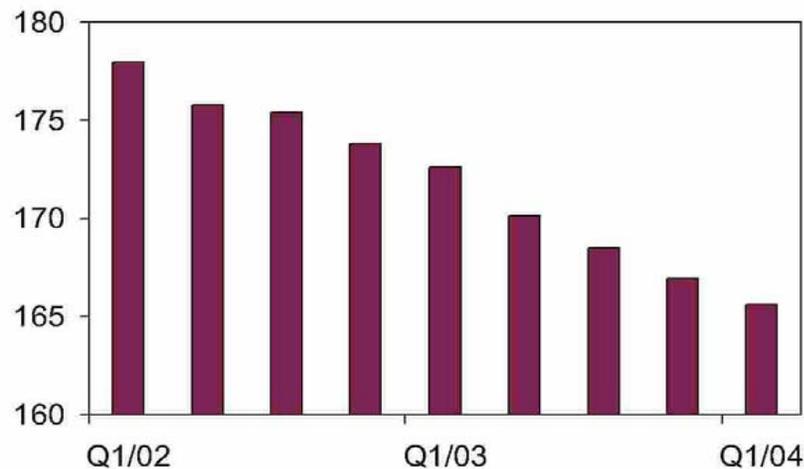
- Intermodal Competition is Robust
- Not UNE or Resale Driven
- Competitors Usually Bigger Than Incumbent!

Wireless Competition

Displacement of Landline Services is Real

- Wireline access lines declining (3-4%) – “Big 6” grow 12-13%

Total Access Lines¹ (million)

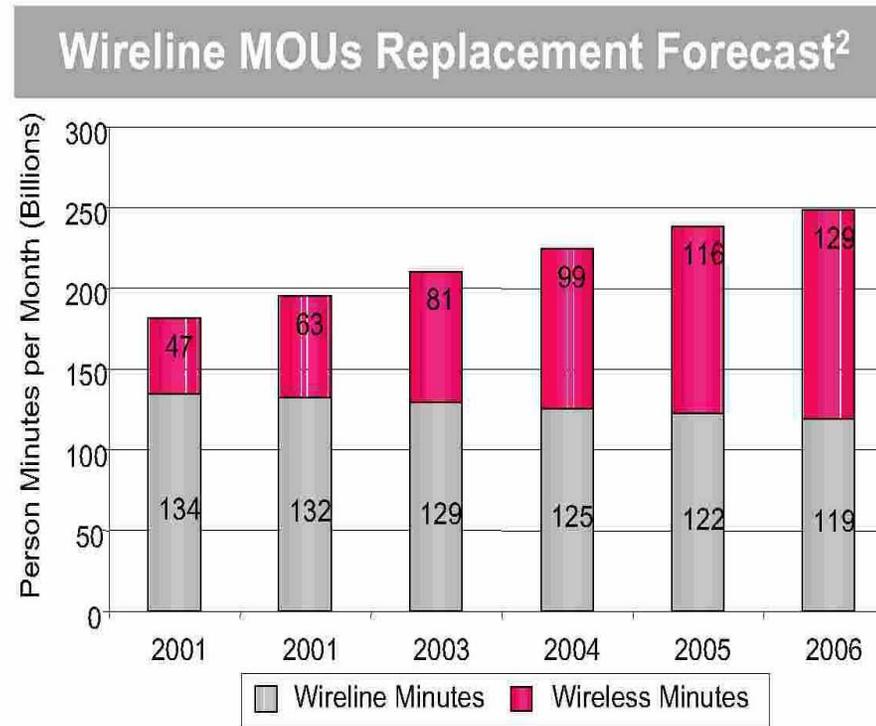


¹ Retail and wholesale, incl. ALLTEL, BLS, CenturyTel, Cincinnati Bell, Citizens, Q, SBC, FON, and VZ (source: Merrill Lynch).



Robert Dotson, CEO, Lehman Brothers 2004 Global Wireless Conference, May 25, 2004

Wireless Competition (cont.)



1 Source: TNS Telecoms

2 Source: The Yankee Group: includes business calls on mobile phones and business calls at home; all network minutes counted twice, once for each person on call.



Robert Dotson, CEO, Lehman Brothers 2004 Global Wireless Conference, May 25, 2004

CMRS Providers Serving Rural Areas

- **AT&T Wireless**
- **Cingular**
- **T- Mobile**
- **Nextel Wireless**
- **Cellular South**
- **Public Service Cellular**
- **Unicel**
- **Alltel Wireless**
- **Verizon Wireless**
- **Sprint PCS**
- **Farmers Cellular**
- **Corr Wireless**

Cellular South

- Receives High Cost Support in Rural Areas
- Offers \$29.99 rate for 300 “anytime minutes” plus unlimited weekends
- Unlimited plan at \$49.95 per month.
- Pledged to meet “federal carrier of last resort obligations”.

Unicel

- Receives High Cost Support in Rural Areas
- \$35 Unlimited Calling in Regional Area; \$10 Additive for unlimited domestic toll calling.
- Pledged to meet “federal carrier of last resort obligations”.

Sample of VoIP Offerings

- **Vonage** \$34.99-Unlimited local and long distance calling to anywhere in US and Canada ; \$24.99-Unlimited local and regional calling plus 500 LD minutes
- **Packet 8** \$19.95 Unlimited calling in US and Canada

Unnecessary Unbundling Requirements Should be Avoided

- Telecom Act recognizes that some requirements may be overly burdensome and not technically feasible.
- UNE requirements in flux.
- Rural competition is generally not UNE based.
- Appropriate to require commitment to negotiate interconnection agreements.

Solving the Calling Plan Dilemma-Why
Intercarrier Compensation is the Key

Problems

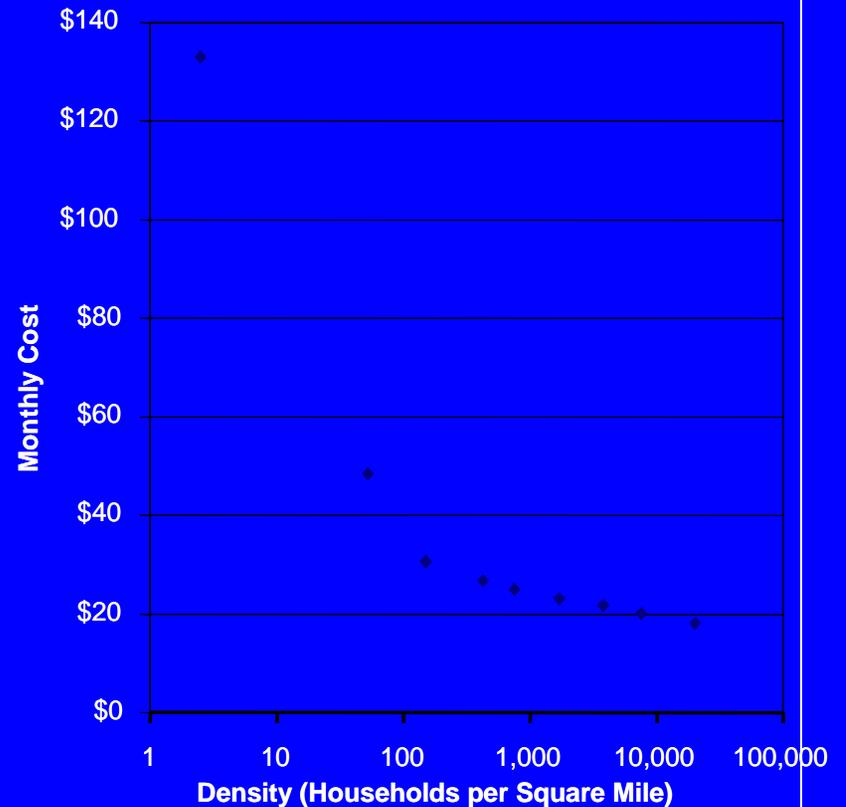
- Higher rural costs.
- Greater reliance on toll and access service revenue.
- Most expanded area calling traffic would be terminated to other ILECs, requiring the payment of terminating charges.

Comparison of Average Density of BellSouth and Rural LEC Service Territories

Household Density					Average Study Area
Study Area Name	Rural Loops	% 0 to 5 HH/sq mi	% 5 to 100 HH/sq mi	% over 100/sq mi	Density (HH/sq mi)
Non-Century Rural ILECs	232,658	7%	57%	36%	21.45
CenturyTel (Old Verizon Contel)	125,812	4.0%	52.1%	43.9%	25.9
CenturyTel (old Verizon South)	167,869	3.0%	37.8%	59.2%	25.9
Total/Averages	526,339	7%	56%	37%	21.78
BELL SOUTH-AL	2,008,385	1.2%	21.4%	77.4%	53.7

IMPACT OF SUBSCRIBER DENSITY ON COST

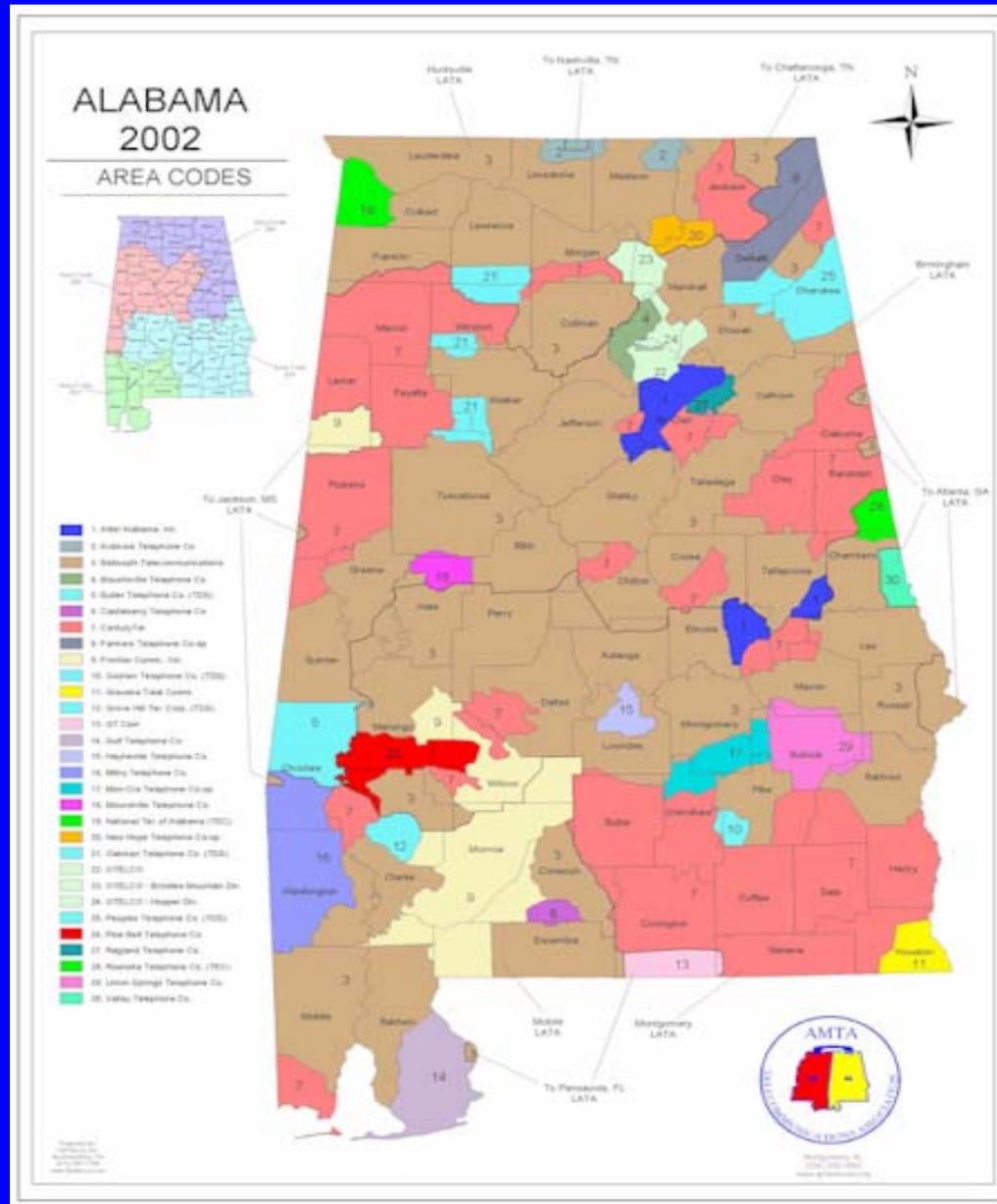
Households per Square Mile	Nationwide Average Cost
0 to 5	\$133.00
5 to 100	\$48.44
100 to 200	\$30.72
200 to 650	\$26.87
650 to 850	\$25.05
850 to 2550	\$23.11
2550 to 5000	\$21.83
5000 to 10,000	\$20.25
> 10,000	\$18.16



Source: BCPM3.0 with FCC Common Inputs

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Most rural ACS traffic terminates in other ILEC areas.



Solution- Alabama Access Reduction Fund.

- Per minute access charges collected directly from carriers would be reduced for all ILECs.
- Revenue differential placed in fund and collected from all providers of interexchange services based on relative MOUs.

Access Reductions Under AARF

	<u>Current Rate</u> ^[1]	<u>New Rate</u> ^[2]
BellSouth	\$0.0075	\$0.0050
CenturyTel	\$0.030	\$0.0175 ^[3]
Remaining ILECs	\$0.032	\$0.020

^[1] Estimated average rate.

^[2] Flat rate, inclusive of all elements. See also footnote 10 for CenturyTel.

^[3] Originating end only. On the terminating end, the current carrier common line charge would continue to be applied as it is today.

AARF Details

- Similar to TSF.
- All providers of interexchange services pay into fund based on relative MOUs.
- Fund doesn't grow based on MOU or access lines.

Why Is the AARF Necessary?

- Provides some revenue stability and predictability as the new plans are implemented.
- Reduces the disparity between access charges in rural and urban areas by shifting approximately 1/3 of the per minute rural access charges to the fund.

Will the AARF Eliminate Need for Further Intercarrier Compensation Reform?

- No; it provides an interim step pending federal reform while also facilitating countywide and other calling plans.
- The AARF is not a USF. It simply restructures the way that existing per minute access charges are collected from providers of interexchange services.

Possible Timeline for AARF

- October, 2004- AARF and Countywide Calling is approved as part of Regulation Plan.
- Oct.-Dec., 2005- Workshops held to iron out administrative details.
- March, 2005- Countywide Calling Plans Implemented.

Questions