PURC Conference

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TELECOMMUNICATIONS INDUSTRY TRENDS AND REGULATORY CHALLENGES

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Sprint

INDUSTRY TRENDS

- Growing competition: all sectors
- Revenue growth limited by price competition
- Substitution/sector growth differences
  - Wireless and broadband/data are growth markets
  - Voice stable or declining
  - Access lines declining
    - Wireless substitution
    - Competition-CLECs, cable
    - Broadband
  - Access minutes declining more rapidly than access lines
    - Wireless substitution
    - email

INDUSTRY TRENDS

- Bundling---leading to product integration
  - Standalone long distance declining (especially in consumer market)
  - Bundle penetration increasing—local/ld/broadband/wireless
  - Integration of services (e.g., wireless/wireline) beginning
- Packetization/VOIP
  - Drivers of packetization
    - Efficiencies
    - New product/feature opportunities
  - Voice becoming just another data application
- Trends are leading to a redefinition of the market and the industry
  - Traditional categories of carriers and services becoming obsolete

SPRINT STRATEGY IN A CHANGING INDUSTRY

- Positioned across all sectors
  - ILEC, wireless, long distance, CLEC, data, voice
- Transformation (initiated in 2004)
  - Customer-facing Organization (rather than organizing around products)
    - Sprint Business Solutions (wireless and wireline)
    - Sprint Consumer Solutions (wireless and wireline)
    - Sprint Local Consumer Solutions (ILEC operations)
    - Integration of systems and network
  - Objective: Integration of services—not just bundling
  - Customer service—”table stakes”
    - Companies that don’t provide superior customer service will be at a significant competitive disadvantage

REGULATORY CHALLENGES

- Traditional regulatory “boxes” increasingly out of sync with the marketplace
  - State/interstate
  - Voice/data
  - Local/toll
  - Wireless/wireline
  - Cable/telco
  - information service/telecom service
- Industry evolution driving a fundamental reevaluation of the regulatory framework

INTER-CARRIER COMPENSATION

- Access (long distance) and reciprocal compensation (local)
  - Over $10 billion a year
- System full of inconsistencies, contradictions
  - And huge incentive for arbitrage
- Rate structure differences
  - Access: compensation paid on originating and terminating
  - Reciprocal compensation: paid for termination

INTER-CARRIER COMPENSATION

- Rate level differences
  - Interstate access: .6 cents per minute of use (mou)—large ILECs
  - State access: 2.4 cents per mou (average)
    - Lows: e.g., WY at .9 cents per mou
    - Highs: e.g., some companies in AZ at 15 cents, NM at 18 cents per mou
    - Florida is one of few states to tackle the issue of state and interstate access rate disparity
  - Reciprocal compensation rate
    - .07 cents per mou (for most companies)

INTER-CARRIER COMPENSATION

- Carrier differences: wireless
  - MTA local calling area
    - Gainesville to Jacksonville call
      - Local if wireless
      - Long distance (access) if wireline
    - Pensecola to New Orleans—local call
  - Wireless pays but doesn’t receive access
    - Example: Gainesville to Atlanta call
      - Wireless to wireline: access paid to wireline carrier
      - Wireline to wireless: no access paid to wireless carrier

INTER-CARRIER COMPENSATION

- Carrier differences: ISP bound
  - Carriers with ISP bound in 1Q 2001: recip comp (on 2001 mou)
  - Carriers with ISP bound after 1Q: bill and keep
- Access exemption
  - Enhanced or information services
- VOIP access rules—don’t exist
  - AT&T petition: VOIP anywhere in call stream—no access
    - How much VOIP is required to qualify for access exemption—1 foot, 1 mile, etc.?

INTER-CARRIER COMPENSATION

- Enormous industry/regulatory/legal resources expended in policing the system
  - PIUs, PLUs, intra-MTA factors, etc
- Need to get to unified inter-carrier compensation system ASAP
  - Compensation the same regardless of:
    - Jurisdiction
    - Carrier classification
    - Information or telecom service
    - Technology

VOIP

- VOIP—not just the public Internet
  - Private networks as well
- Access issue should not be allowed to obscure the larger issues
- Wide variety of flavors of VOIP—don’t all fit in one regulatory box
  - Technology replacement in traditional network
  - Computer to phone over broadband
    - Cable
    - But also Vonage (core vs edge)
  - Computer to computer over public Internet

VOIP issues

- Public safety: E911, CALEA
  - Legitimate concern
- Economic regulation: tariffs, service quality, billing, etc.
  - Less need for all carriers as competition evolves
- Rights of VOIP providers should not be lost sight of
  - Interconnection
  - Numbers
  - UNEs
- Need framework that doesn’t stifle or retard development of new services—not unique to VOIP
  - Wireless/wireline integration poses same issues
- But also protects rights of VOIP to essential capabilities

USF

- Another broken system
  - $6.5 b fund today
  - Pressures to grow
    - Rural USF—wireless
    - Inter-carrier comp reform likely to require further USF
  - Funding base
    - Interstate retail revenue:
      - not growing
      - Difficult to measure in integrated product world
    - Inequitable
      - Traditional IXCs shoulder most of the burden
      - Cable modem vs DSL
      - VOIP implications—can they avoid USF as well as access?

USF

- Efforts to constrain fund
  - Rural USF: for rural companies only
    - Rural customers of non-rural ILECs not “in the system”
  - Proposals to limit USF to “primary line”
  - Resistance to USF for wireless carriers
- Need to rationalize USF funding
  - Broaden the base by assessing telephone numbers
    - Technology/service neutral
    - Doesn’t depend on ultimate legal classification of VOIP

- <u>SUMMARY</u>
  - Challenge to regulators (and industry) is to resolve these inter-related issues consistently and in a short time span

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  - and in a short time span