

The Broad Convergence:

Act II

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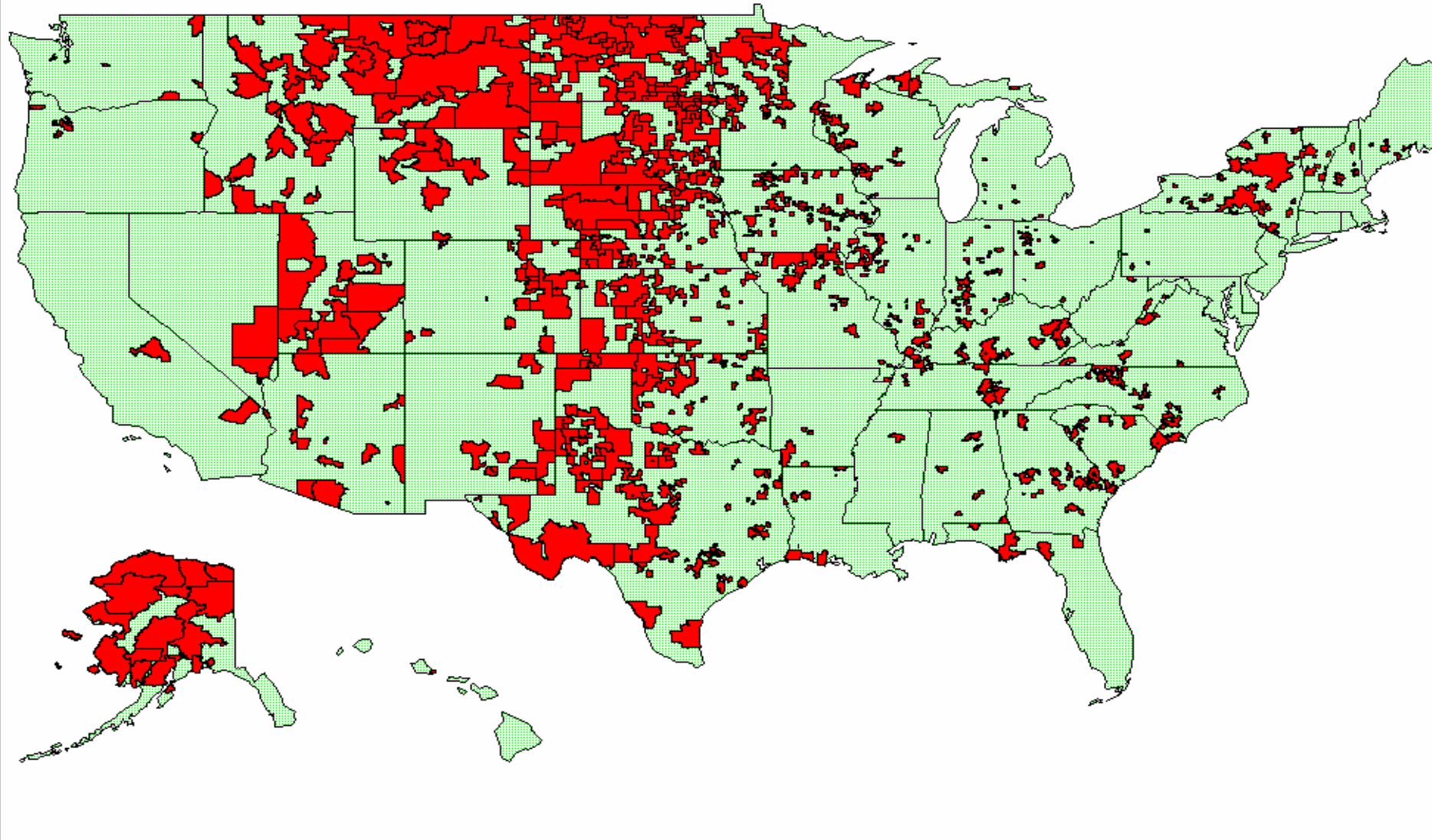
Who we are...


- We are the National Telecommunications Cooperative Association. Since 1954, the voice of small, rural telecommunications carriers connecting the heartland of America to the world. We are community-based, locally owned companies, dedicated to providing vital telecommunications services – ensuring the economic future of rural America.

**...the voice of rural
telecommunications**

Advancing the Communications Revolution

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 NTCA Member Coverage

Convergence Impacts

Small Carrier Protections

- Regulatory models of the past promoted universal service with degrees of financial support for certain carriers serving rural areas
- Carrier size and service area governed level of access to universal service support
- Carriers operated in niche markets
 - Sparse populations and difficult terrain

1996 Act Did Not Consider Impact of Convergence

- Rural support becomes available to multiple carriers serving the same customer
- Wireless carriers supported on the basis of ILEC costs
- Rural carriers go outside their boundaries to compete
- Support becomes explicit-the consumer sees what universal service costs

Landscape Changes- Mobility IS Choice

- Migration from landline to wireless facilitated by wireless carrier access to support \$\$
- Wireless is lightly regulated and advantaged in rural and urban markets
- Rural carriers offer wireless services themselves

Rural Service-Migration To IP

- VoIP emergence as an alternative to circuit switching
- Cost recovery based on circuit switching is threatened
- Rural carriers reliance on access charges becomes a problem
- Rural carriers adapt by piloting IP services themselves

Regulatory threats to Rural Carrier revenues

- Impact of FCC cable modem and wireline broadband orders
- Mandatory assessments for universal services based on provision of “telecommunications services”
- Shrinking contributor base causes assessments on remaining contributors and consumers go up
- FCC set to reform access charges and reciprocal compensation

Solutions- Regulatory Changes Must Address Impacts

- Creative cost recovery recommendations from rural carriers address access shortages
- Expand base of contributors to universal service
- Companies are continuing diversification strategies

Convergence-Need for Level Playing Field

- Rural Carriers have traditional obligations of carrier of last resort
- Rural Carriers are expected to provide secure and redundant facilities
- States are allowed to regulate the rates of landline carriers but not wireless and VoIP.

Maintaining Universal Service in the Converged Market

- Broad access to communications is in the best interest of the society
- In a country with vast geography and wide ranges of prosperity, some areas and consumers will not have access unless society provides support to provide service to these areas

Challenge of Convergence

- How does society foster universal service and innovation at the same time?
- How do regulators balance the interests of competing parties at different stages of development in the convergence process?
- How do regulators distinguish between essential services and luxuries?