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NEWS RELEASE

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QSI CONSULTING AND LEVEL 3 RELEASE REPORT ON INTERCARRIER COMPENSATION FOR IP-ENABLED VOICE TRAFFIC

Applying Access Charges on VoIP Traffic Detrimental to Broadband Growth

ST. LOUIS, Missouri, FEBRUARY 1, 2005 – QSI Consulting, Inc. (www.qsiconsulting.com) released a report today entitled *IP-Enabled Voice Services: Impact of Applying Switched Access Charges to IP-PSTN Voice Services*. The report, commissioned by Level 3 Communications, LLC, concludes that the growth of VoIP traffic will not have a significant impact on access revenue streams for the major local telephone companies over the next four years, and that imposing access charges would be detrimental to broadband growth.

The study was conducted in response to arguments that Level 3 Communications, LLC's forbearance petition, currently before the FCC, would harm universal service objectives. Level 3 submitted the QSI report and modeling program to the FCC in support of its *Petition*. The *Petition*, filed in December 2003, asks the FCC to reaffirm that service providers should exchange IP to PSTN VoIP traffic using reciprocal compensation rates and not interstate switched access charges.

“In our view, these figures show strongly that there is no compelling need to apply access charges to Voice over IP,” said Bill Hunt, Vice President of Legal and Public Policy for Level 3. “First, granting the petition will have very little disruptive impact on ILEC access charge revenue. Second, and perhaps more importantly, imposing access charges would burden VoIP providers with an unnecessary payment obligation that is likely to slow the growth of this important technology.”

“In the long run, consumers and the economy will benefit far more if emerging VoIP technologies are allowed to continue to develop without being hindered by outdated access charge regimes,” said Hunt, “especially when the FCC is already undertaking a broad review of the entire intercarrier compensation system.”

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The report indicates that maintaining reciprocal compensation as the primary intercarrier compensation model for IP to PSTN traffic would cause little disruption in the incumbent local exchange carriers' (ILECs') existing switched access revenue stream between now and 2006 (a timeframe within which the FCC is expected to undertake more comprehensive intercarrier compensation reform).

The report finds that switched access revenues applied to VoIP traffic would increase non-rural ILEC switched access revenues by only about 1.9 percent in 2005 with that impact growing to about 3 percent in 2006; an amount unlikely to have any real impact on universal service objectives. The report indicates that public demand for VoIP service is a strong catalyst for broadband build-out. However, imposing access charges on VoIP traffic will make the service less desirable and, in turn, weaken demand for broadband build-out. That translates into nearly \$95 million in lost broadband revenues for the ILECs in the same timeframe.

The data strongly supports the notion that any impact on universal service related to switched access minutes lost to new technologies will have already been realized by the substantial impact of wireless services. Wireless technology has already reshaped the long distance calling market and is expected to continue its dramatic trend in the foreseeable future. The impact of wireless offerings will dwarf the impact of VoIP over the study period.

“The report includes a model with user-adjustable inputs,” said Michael Starkey, President of QSI. “We used publicly-available data and forecasts to populate the model and made sure that the model was easy to review and verify. Our task was to do the research and provide the FCC with a tool for evaluating the data.”

For a complete copy of *IP-Enabled Voice Services: Impact of Applying Switched Access Charges to IP-PSTN Voice Services*, or for an executable version of the *QSI VoIP Impact Model*, please contact QSI's Information Liaison, Patrick Phipps at pphipps@qsiconsulting.com.

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