Docket #99-11

OVERCOMING OBSTACLES TO TELEPHONE SERVICE FOR INDIANS ON RESERVATIONS

Testimony of Richard Watkins Before the Federal Communications Commission
Glendale, Arizona
March 24, 1999

Good morning, I am Richard Watkins, the General Manager of Smith Bagley, Inc., which holds A-band cellular telephone licenses in Northeast Arizona and Northwest New Mexico, operating as Cellular One. It is a privilege to present testimony at this hearing on behalf of our company. I am hopeful that this hearing will be a productive step toward increasing telephone subscribership among the Native American population, which, as I will detail in a moment, is the nation's lowest. The purpose of my testimony is twofold. First, because I'm sure most of you have never heard of us, I want to highlight for you who we are, what we do, and describe how and why we ready, willing and able to assist the FCC and the Arizona and New Mexico Public Utility Commissions in meeting the communications needs of every person within our authorized service area. Second, I want to suggest that we think about the universal service problems facing Native Americans in unique and innovative ways and offer a few ideas in this area.

Let me briefly describe our company. We operate cellular facilities in a number of small markets in Northeast Arizona and Northwestern New Mexico, as well as vast rural areas in the region. Our coverage area in Arizona alone is over 21,000 square miles. Our reliable service area on the Navajo Nation alone is roughly as large as the state of West Virginia. The largest town in Arizona we serve is Show Low, with a population of approximately 7480. An average of six persons live in each square mile that we cover. Over the past eight years, we have aggressively grown our subscriber and revenue base to permit us to expand beyond the highways and to the point where we now cover over 90 percent of the service area originally licensed by the FCC.

We provide usable signal to four Native American reservations - the Navajo Nation, the Hopi Nation, the White Mountain Apache Tribe and the Pueblo of Zuni. The collective service area of these four reservations is 15,577 square miles. Our best guess is that, geographically, we serve approximately 85% of the Navajo Nation, 75% of the Hopi Nation, 95% of the White Mountain Apache Tribe, and 95% of the Pueblo of Zuni. We provide our customers with free calls to emergency numbers, including 911, as well as public health and safety agencies.

We have recently made a decision to replace our current switch and all transmission sites, which is the precursor to adding channels at each cell site and eventually upgrading the network with digital capacity. Given the vast size of our authorized service area, the relatively low income demographics, and extremely low population density, we are very proud of the speed within which we have built and expanded our network.

We market our services to all four of the Native American reservations. We believe our relationship with the various tribes to be excellent. We have worked very hard to honor the procedures that are in place for locating transmission facilities on

Native American property and to work with each tribe to develop methods for increasing telephone subscribership. For example, we have developed rate structures and prepaid plans that enable many people to obtain their first telephone. Additionally, the size of our home footprint enables our Native American customers to move throughout our service area without incurring roaming charges. We also offer different rate plans which include no roaming charges throughout the state of Arizona and within those areas we serve in New Mexico.

Since most of our Native American customers are prepaid, we must track replenishments, calling patterns and date of activations in order to estimate usage. We believe the average customer spends approximately $40 per month. Our Native American customers generate very few roaming minutes - it is apparent to us that the vast majority of phone usage is at or near home.

As we have expanded our footprint into remote areas within our market the need for universal service support has come into focus. Here are the hard facts:

- ab The per capita income of the Navajo Nation is approximately $4100 per year.
- ab The 1990 Census showed 57.4% of Navajo families live below the poverty line.
- ab While landline phone penetration nationwide is approximately 94.6%, it is 23% on the Navajo reservation. That's right, 77% of the people have no telephone.

For many areas of the country, the universal service problem is one of access. That is, people currently live in or move to remote areas which cost literally thousands of dollars to string a hard wire. In our area, the access problem is largely solved. We do not need financial assistance to construct facilities - in many of these remote areas the signal quality for a home user is comparable to a wireline facility and, believe it or not, more reliable in these areas. The problem is simple: the vast majority of Native Americans who do not have a phone simply cannot afford one and the basic cost of any carrier providing that customer with basic service is well above what they can afford. Unless universal service support is made available to wireless carriers, our company has no hope of ever serving the vast majority of the Native American population in our service area.

Rather than spend my few minutes talking about the nuances of costs and rate structures, I believe it would be more productive to touch on our company's vision for universal service on Native American lands. We see Native American lands as unique. The levels of telephone subscribership and income require bold solutions. The good news in our particular situation is that experimenting with a bold solution does not require any significant capital outlay for new infrastructure. We believe that the system we have in place is the perfect platform to build a model universal service system for Native Americans, which can be studied, improved, and eventually exported across the country.

Let me give you one way to think about this. The problem for nearly 100,000 Native American people in our service area is phonelessness. Phonelessness is different from unserved, because an unserved customer could not use a phone even if one were available. A phoneless person has access to service - it is simply not affordable. Our company has the front end of the equation, access, under control. It is the affordability problem we must attack.

We recognize that the current regulatory structure for universal service requires us to become an Eligible Telecommunications Carrier (ETC). We have prepared applications to become and ETC in Arizona and New Mexico, however the process is expensive, time consuming and often adversarial. We have delayed filing these applications for a short time as these hearings have developed in the hope of finding some way to short cut the process. We believe that an experimental program, focused on Native Americans is in order.

We propose for your consideration a new program for "First Time Users" through which persons living on Native American lands could obtain their first telephone. Under such a program, a carrier would offer local service at a fixed price. Given what we know about demographic and usage patterns in these areas, as discussed above, we believe that a relatively wide local calling area would provide users with virtually all of their basic

telecommunications needs.

An experimental program such as "First Time User" can be developed and quickly rolled out on a limited scale, enabling both the carriers and regulators to learn about calling patterns and usage. From our perspective, phonelessness is so widespread on Native American lands, it is nearly impossible to now predict which of many possible programs will best serve people without exploding the universal service fund. An experimental program, which develops and adjusts proposed solutions over time, based upon real data, will best serve the public, while enabling the government to assess its costs and contain them before the program is rolled out nationwide.

Our company finds itself in a unique position to be able to support an experimental program. The capital investment is in place and we seek no reimbursement for our embedded network. We have successfully worked through the initial phases of operating on Native American lands on all four tribes that we serve. The importance of this factor should not be discounted because each tribe has its own culture, governmental regulations, and practical problems, such as site acquisition procedures.

In closing, as I expressed earlier and re-emphasize now, the problem for over 100,000 Native Americans in our area is not one of unserved area - the system is already built. The problem is a lack of income to afford telephone service. What is needed is an imaginative program to support "First Time Users" of telephones. We would be happy to participate in a program pursuant to which wireline and wireless carriers compete for these new customers and stand ready to work with the FCC and the state utility commissions to design a model innovative new program for Universal Service that will guarantee every Native American in our service area telephone access.

We find ourselves in a unique position, dictated much by the timing of our system's development coinciding with the current push to overcome these obstacles. The Native American people have waited a long time to receive telecommunications service, and we believe a pilot program could be developed and rolled out within months, not years. It is my hope that all of the regulatory bodies represented here recognize the unique opportunity which has surfaced due in large part to Chairman Kennard, Commissioner Ness and the other Commissioner's passion and concern for Native Americans.

On behalf of Smith Bagley, Inc. I want to offer my sincere thanks for the opportunity to provide you with this testimony.