Before The
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	FCC 03J-1

COMMENTS OF THE NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES

I. Introduction

The National Association of State Utility Consumer Advocates ("NASUCA")[1] welcomes this opportunity to provide comments on the need for modifications to the high-cost universal support mechanism and to the eligible telecommunications carrier ("ETC") designation process.[2] The current system of high-cost support and ETC eligibility criteria developed during a period of rapid changes in the U.S. telecommunications industry. Given recent substantial changes in the regulation of telecommunications markets and the changes in those markets themselves, it is now time for the Federal-State Joint Board on Universal Service ("Joint Board") and the Federal Communications Commission ("Commission") to reevaluate the system as a whole and take steps to protect the integrity and sustainability of the universal service fund.

Under the current ETC designation rules, in the near future there will likely be a sharp upward curve in the growth of the high-cost fund related to the issues being examined here. A substantial portion of this growth is a result of additional funds needed to support multiple lines per customer and to support lines provided by new competitive

[1] NASUCA is an association of 41 consumer advocates in 40 states and the District of Columbia. NASUCA's members are designated by the laws of their respective states to represent the interests of utility consumers before state and federal regulators and in the courts.

[2] See Public Notice, FCC 03J-1 (rel. February 7, 2001).

eligible telecommunications carriers ("CETCs"), mostly wireless ETCs. The hypothesis that the high-cost fund may be at the beginning of a steep growth curve is supported by the fact that an entire industry has only recently begun qualifying for high cost support. The wireless industry may currently account for only a small part of the current needs of the fund, but that is likely to change dramatically as additional eligible wireless carriers obtain ETC designation and apply for support.

The growth in the number of CETCs has been substantial, just since the issuance of the February 7, 2003 Notice seeking comment in this proceeding. The Notice cited Universal Service Administrative Company ("USAC") data showing that there were 45 CETCs as of the third quarter of 2002. However, as of the second quarter of 2003, USAC reported that there were 148 CETCs. Currently, many other competitive carriers' applications for ETC status are pending and that number will again grow substantially before any decision results from this proceeding.

The dollars being expended to support CETCs, especially wireless carriers, tell a similar story. As of the first quarter of 2002, USAC projected that wireless ETCs would receive $4.3 million in high cost support, which amounted to $17 million on an annual basis. See Attachment A. By the second quarter of 2003, USAC projected that wireless ETCs would receive $34 million, which amounts to $136 million on an annual basis. *Id*. This is an almost eight-fold increase in quarterly high-cost support in a little over a year Moreover, in 2002, nearly 94% of high-cost support actually paid to CETCs went to wireless CETCs.[3] Undoubtedly, wireless and other competitive carriers are beginning to catch on to the benefits of CETC status. Thus under the current rules that provide support for all lines in high-cost areas, a substantial portion of the growth of the high-cost fund will be attributable to the support of additional lines provided by wireless carriers.[4]

The current and anticipated rate of growth in fund requirements needed to support additional lines suggests that the current support mechanisms will be strained unless the Commission makes substantial changes to the ETC designation rules. The fact that this

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[3] During 2002 USAC disbursed $47.7 million in high-cost support to CETCs. Of this amount, $44.8 million, or 94%, went to wireless ETCS. See USAC Annual Report 2002, Appendix B.

[4] According to an ILEC source, wireless ETC payments from the USF could add $2 billion a year to the demand for the fund. *Telecom Policy Report* (April 14, 2003) at 4.

growth is being accompanied by a steady or declining revenue base on which contributions can be assessed exacerbates the problem.[5] Moreover, NASUCA has serious concerns about the current system's efficiency, equity, administrative burden and, perhaps most importantly, its consistency with the essential purposes of a universal service fund.

Central to any consideration of these issues will be the Joint Board's determination of the *essential* purposes of universal service and the nature of services that should be supported by the high-cost fund under Sections 214 and 254 of the Act. NASUCA suggests that the original intent of universal service support was to allow all Americans to have an affordable connection to the public switched telephone network. Given the projected growth of the fund under current rules, it is now necessary to return to that essential purpose and limit high-cost support to only one connection per household as originally recommended by the Joint Board. The Universal Service Fund should be competitively neutral, but it should not be used to artificially *create* competition. Any such policy would be doomed to failure and would represent a particularly inefficient use of public support. Support for multiple lines and multiple networks does not materially advance the true goals of universal service.

NASUCA also urges more stringent requirements for ETC designation. Such designation should be granted only to entities providing communications service that is reliable, affordable and comparable to that of current incumbent providers of last resort. NASUCA presumes that providers using wireless and other technologies would continue to be eligible for ETC status. However, NASUCA recommends that eligible services by such providers must constitute basic, reliable, and affordable connectivity. In addition, any ETC must be subject to certain aspects of state regulation even if it provides service using a technology that is not otherwise regulated by the state.

Finally, NASUCA recommends that the support to which any ETC is entitled should be based on that ETC's costs. That support must be capped, however, at the per-line support that would result from the current use of the costs of the incumbent LEC. While there will be some administrative burden in determining the costs of unregulated

[5] See Supplemental Comments of the National Association of State Utility Consumer Advocates (February 28, 2003), p. 9.

carriers such as CMRS carriers, that cost will be low compared to the cost of providing uneconomic support entirely unrelated to carriers' costs of service.

In the following sections, NASUCA comments on many of the specific issues raised in the February 7, 2002 Notice.

II. The High Cost Support Mechanism of the Universal Service Fund Should Provide Support For Only One Line Per Household Or Business

NASUCA agrees with the Joint Board's recommendations of November 8, 1996 that stated:

> We find that support for designated services provided to residential customers should be limited to those services carried on a single connection to a subscriber's principal residence. We find that supporting one connection per residence is consistent with section 254(b)(3), which states that access to services for low income consumers and those in rural, insular and high cost areas should be reasonably comparable to that available in urban areas. We conclude that support for a single residential connection will permit a household complete access to telecommunications and information services. All supporting services, including access to emergency services, would be available to a household by providing support for this residential connection. The Joint Board, however, declines at this time to provide support for other residential connections beyond the primary residential connection. Support for a second connection is not necessary for a household to have the required "access" to telecommunications and information services…. Accordingly, we conclude that eligible carriers should receive support for designated services carried on the initial connection to a customer's primary residence.

First Recommended Decision of the Joint Board, FCC Docket 96J-3, November 8, 1996, ¶90. Although the Commission ultimately declined to accept those recommendations in 1996, it recognized their merits. The Commission stated:

> We share the Joint Board's concern that providing universal service support in high cost areas for second residential connections, second residences, and businesses with multiple connections may be inconsistent with the

> goals of universal service in that business and residential consumers that presumably can afford to pay rates that reflect the carrier's costs to provide services nevertheless would receive supported rates. We are also mindful that overly expansive universal service support mechanisms potentially could harm all consumers by increasing the expense of telecommunications services for all.

First Report and Order, FCC 97-157, May 8, 1997, ¶ 95.

The Commission's warnings have come true. In the fourth quarter of 1999, the contribution factor for the USF fund was 0.028872. The current second quarter 2003 contribution factor has risen to 0.091. This represents more than a 315% increase in the contribution factor in three and a half years. USAC's current projection of the contribution factor for the third quarter of 2003 is 0.095. This growth in the contribution factor is clearly not sustainable. Unfortunately, the expansion of the high-cost mechanism from the emergence of CETCs has only just begun.

It is important that the Commission act now to send the right signals to all players in the telecommunications market. Competitive business plans should not rely on public high-cost fund support unless the competitor offers a reliable, affordable substitute for the basic exchange service that is available to all households in the service area and subject to sufficient regulation to protect its customers.

Moreover, to the extent that CETCs can meet those requirements, CETCs must be prepared to compete for high-cost fund support on a customer-by-customer basis. A system that would allow each new competitive entrant to impose incremental costs on all existing telecommunications customers is unsustainable and inconsistent with universal service goals. Unfortunately, under current rules, such incremental support is available to existing carriers that are granted ETC status, even if those carriers provide no service that they would not have otherwise provided at rates that could be just as high as they would be without support. Currently, there is little doubt that the vast majority of CETC lines are secondary lines, especially when the CETC is a wireless carrier. Most consumers are not choosing wireless service as a substitute for existing landline service, but as a complementary additional service.

By limiting the scope of high-cost support to one line per household or business, the Commission would protect the sustainability of the universal service fund and, at the

same time, re-focus and enhance high-cost support in a manner that is more consistent with the essential purpose of universal service policies. The primary principal of universal service is to provide affordable access to telecommunications service in every household in the United States. Although other goals are permissible under the 1996 Act, none of the permissible goals suggest any intent of Congress that universal service funds be used primarily to support competition or to support multiple connections for a single household. Given the recent and projected growth in the needs of the fund, it is apparent that under the current rules the essential purposes of universal service may be harmed in favor of either secondary or impermissible goals.

NASUCA acknowledges that limitation of support to a single line per household will present some administrative challenges. The primary line should be designated by each customer with more than one line, and carriers should be free to compete for the designation as "primary." The Commission should allow a reasonable transition period within which consumers could exercise their choice if they have more than one line or if they are served by more than one ETC. However, the Commission will have to devise a system to deal with customers who fail to indicate a choice by the end of the transition period. One way to determine the primary line would be to designate the initial ILEC line as the default primary line.[6] Another alternative is to require a ballot to be submitted by every customer with multiple lines, which entails more administrative burden. While the default assumption would be that a single address represents a single household, there should be flexibility to allow a customer to rebut that presumption by submitting contrary information to the carrier.

If only one line is supported, CETCs will have competitively-neutral access to that primary line support to the extent that their service replaces ILEC service. In addition, to the extent that CETCs serve customers who are currently unserved, there is no question that the CETCs will be entitled to support for those primary access lines. Substitution of service should result in portable support. Adding services should not. Most importantly, the choice of primary line should remain with the customer. In effect, each customer will decide whether the service provided by an ETC is truly a substitute for basic universal service.

[6] CETCs would be free to induce their customers to declare that the CETC's line is the primary line.

Although there will be some administrative burden associated with a new process to determine primary lines, such processes are not unprecedented or unworkable. Local telephone companies currently must determine which lines are primary and which are secondary in order to assess primary and secondary line subscriber line charges. When equal access and intraLATA presubscription began, every customer had to make new choices that were more complicated than a selection of what firm provides the primary line.

Not giving support to multiple lines per household or business would not necessarily significantly impact the affordability of second wireline or wireless connections. That is because the incremental cost of providing second lines may be very small. If that is the case, continued support for such second lines may actually represent a windfall for carriers. Accordingly, such support may not be necessary even if the Commission's policy were to ensure the affordability of second lines. Limiting support to primary lines would not likely reduce incentives to provide second lines or to create barriers to entry.

The question of whether high-cost support should be available for second residences is more complex. NASUCA recognizes that not all owners of second residences are wealthy. NASUCA also recognizes the importance of the availability of an affordable access line and access to emergency services when the customer inhabits the second residence. However, on balance, NASUCA recommends that high-cost support not be available for access lines in second residences. Such residences are likely to be occupied for only a fraction of the year, while support would be provided year-round by the general body of customers. This constitutes an inefficient use of public support, especially when affordability issues are much less likely to be prevalent in the population of second residence owners.

By supporting multiple lines per household and, indeed, multiple lines in multiple residences for a single household, the current mechanism goes beyond the intent of Congress. The costs of reining in that excess -- determining primary lines and primary residences -- will be substantially less than the burden on customers of funding this unnecessary support.

III. The High Cost Support Mechanism of the Universal Service Fund Should Provide Support Only For Carriers that Provide Flat Rate Basic Exchange Service, Access to Emergency Services, And Equal Access To IXCs

On April 14, 2003, NASUCA filed its comments in response to the Joint Board's recommended decision on supported services.[7] In those comments, NASUCA substantially agreed with the Joint Board's recommendations to maintain the current list of supported services. However, NASUCA recommended that equal access and flat rate basic service be added to the required list of services eligible for Universal Service support. NASUCA also suggested that further study should be made to determine whether soft dial tone, public interest payphone deployment, service quality standards for certain CETCs, and expansion of rural local calling areas should be added to the requirements for USF support. NASUCA expands upon its recommendation that CETCs should be required to meet service quality standards in Section IV.b. below.

IV. The Commission Should Adopt New Specific ETC Eligibility Guidelines To Which States Must Adhere When Designating Carriers As ETCs

ETC eligibility should entail specific public interest obligations in exchange for public support. In the case of ILEC ETCs, the quid pro quo is self-evident and traditional. ILECs typically provide high quality, highly reliable service ubiquitously throughout their service territory and are providers of last resort for that territory. Moreover, customers of ILECs have the substantial benefit of state regulation, which enforces service quality rules, billing and collection rules, and ensures just and reasonable rates. By contrast, wireless carriers are generally unregulated entities that provide highly variable service quality, varying levels of customer service, unilaterally determined billing and collection policies, unilaterally determined rates and have no requirement to provide facilities in specific areas.

Federal ETC designation guidelines would ensure that all states receive federal support in a consistent manner. Under current rules, states have something of a conflict of interest. That is, there may be a bias toward granting of ETC status because, when

[7] Comments of the National Association Of State Utility Consumer Advocates Regarding Joint Board Recommended Decision on Supported Services (April 14, 2003).

new ETCs are created, more federal dollars flow into the state. Conversely, there is a disincentive for states to ensure that the public interest is fulfilled on a national basis because the benefit of additional federal funds may outweigh state regulators' concerns about the sustainability of the federal program. The bias and potential for inconsistent rules governing ETC designation can only be overcome by more specific and mandatory federal guidelines.[8]

Further, when considering the designation of ETC status in rural areas where the 47 U.S.C. 251(f)(1)(A) rural exemption from the market-opening requirements of 47 U.S.C. 251(c) has not been lifted, state commissions should be required to consider whether granting ETC status is inconsistent with the protection intended by the rural exemption provision of the Act. This should be part of any "public interest" test that state commissions are currently required to examine.

It appears that, in finding that CETCs should be designated in rural ILECs' territories, the Commission and some states have found the mere encouragement of competition sufficient under the law to meet the public interest test. If that were sufficient, Congress would not have needed to establish the public interest test; the Commission and states would simply have been directed to authorize multiple ETCs in all ILECs' territories, rural or not.

The Commission should also provide guidelines that would make the ETC designation process more consistent among the states. There has already been a fair degree of inconsistency with respect to state proceedings considering the designation of a CETC.[9]

Given the many differences between wireless, CLEC and ILEC services and markets, disparity in regulation is reasonable. However, ETC designation and the concomitant acceptance of public support should require CETCs to meet certain

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[8] These guidelines should not restrict states from imposing additional requirements on ETCs. *Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393, 418 (5th Cir. 1999).

[9] For example, ETC status has been denied in some jurisdictions based on "public interest" criteria that do not appear to have been applied in a consistent manner among the states. See, e.g., *In the Matter of GCC License Corporation For Designation as an Eligible Telecommunications Carrier*, South Dakota PUC, TC98-146, May 19, 1999, *WWC Holding Co v. Public Service Commission of Utah*, 2002 UT 23, March 5, 2002.

obligations that approach those required of ILEC ETCs. NASUCA suggests the following standards, in addition to existing ones, for states to follow in designating ETCs:

a. Universal Service Calling Plan

An ETC should be required to offer at least one calling plan that provides unlimited local calling minutes, equal access to IXCs, and a monthly price comparable or lower than that charged by the ILEC.[10]

b. Consumer Protection Regulation

An ETC should be required to submit to the regulatory authority of the state and be subject to the consumer protection rules, including billing and collection rules, that apply to ILECs in the state. CETCs may be granted waivers from any rules that are not practical with respect to the technology they employ. CETCs should be subject to all consumer assistance, mediation, or adjudication processes that are normally employed by the state to protect ILEC customers.

c. Provision of Financial Data/Limited Use of Funds

For ILECs, the Commission and state commissions have financial data to provide a basis to determine the need for support in order to improve service and facilities. Currently, there is no such data for CETCs. ETCs should be required to provide all financial data necessary to demonstrate their need for high-cost support. Such data should include current capital spending budgets and all relevant data necessary to demonstrate the degree of profitability and incremental cost of service in any given study area.

As discussed in Section V., below, ultimately, state commissions must be charged with the responsibility of ensuring that enhancements to facilities and improved service quality will result as a direct result of high-cost support. If an applicant for ETC status cannot demonstrate the required improvements would not occur *but for* the support, ETC status should not be granted. It may also be prudent to require the segregation of support

[10] If the ILECs flat rate is low due to the application of permissible intrastate implicit support, it makes no economic sense to support as an ETC a carrier whose rates are higher.

dollars to enable regulators to determine that such support is used for its intended purpose. Such a requirement is necessary to avoid waste and abuse in the high-cost program.

d. Plan To Provide Ubiquitous Service

A CETC should be required to provide a plan to provide service to all customers within its study area within particular time frames. However, waivers could be granted when new service to a particular customer cannot be provided without burdensome cost.

V. Support For CETCs Should Be Based On The Costs Of The CETC And Not On The Unrelated Costs Of The Incumbent ILEC

Under current rules, CETCs may be receiving a windfall by collecting support based on costs that have nothing to do with their own costs of service. There is no necessary connection between the embedded costs of an ILEC and the amount of support required to stimulate new investment by a CETC, especially where the CETC employs a non-wireline technology to provide service. It is theoretically possible for a CETC to collect public support even if it earns super-normal profits or already has abundant incentives to expand its network in any given designated service territory. This lack of connection between CETC costs and support represents a fundamental flaw in the current framework. Providing support to competitors who have not demonstrated any need for support does not enhance the public interest and fails to ensure that public funds are being used for any purpose consistent with 47 U.S.C. 254.

There is no mechanism in place that would ensure that support given to CETCs is actually used for the purposes allowed. Absent rate regulation or a review of planned capital spending budgets, there is no basis to conclude that support for wireless ETCs will actually result in incremental investment in facilities. Although support must be used to upgrade or enhance facilities, dollars are fungible. Universal Service support may simply replace other private dollars that would have been used to invest in the same facility enhancements. Public support should not be provided without adequate assurances that real public benefits will accrue as a direct result of the expenditure of those public dollars. Therefore, the high-cost support mechanisms should directly relate the amount

of support to the costs of network expansion of the lowest-cost carrier in a given service area which uses the same technology platform as the applicant.

ILECs continue to serve as the only reliable carrier of last resort. Thus it would not be workable, for example, to limit ILEC support to the level of a lower-cost wireless carrier's support. However, support for CETCs must be capped at the level of ILEC support in order to ensure a sustainable high-cost program and mitigate the risk of uneconomic support for very high-cost carriers. If below the ILEC cost ceiling, support should be based on the CETCs forward-looking costs because those are the costs upon which a rational firm will base incremental investment decisions. Support for CETCs should be based on their own line counts, and be provided on a per-line basis.

Finally, a CETC's own costs, associated with its purchase of UNEs, should be considered in formulating a cap on their support. CETCs should not continue to qualify for 100% of their UNE costs simply because the combined UNE price is less than per-line support available to the incumbent. CETCs should be required to demonstrate that their non-UNE costs are sufficient to demonstrate a need for support, especially where the geographic area for which support is calculated for the CETC is different from the area for which a state commission calculates the applicable UNE price.

If the goal underlying support for CETCs is to provide incentives to invest in facilities that provide telecommunications services in high-cost areas, the rules should require that tangible benefits result from that support. For example, if a given rural area is well served by two wireless carriers, it does not make sense to subsidize a third wireless carrier to serve the same area as an ETC. If a wireless carrier is planning to upgrade facilities in a given area based on its current expected return on investment, it does not make sense to subsidize that carrier to do what it would have done anyway. Under current rules, millions of dollars of public support are provided to CETCs without any assurance that any public benefits are accruing. Neither universal service nor enhanced competition necessarily results from this type of support. For those reasons, the current system must be modified to more closely link the rules with the statutory universal service goals.

Support of multiple unregulated competitors, regardless of the technology employed, and based solely upon the costs of the incumbent regulated wireline provider,

may also be counter-productive. In the instant request for comments, the Commission recognizes that "excessive growth in the fund might be possible during the life of the five-year plan under certain circumstances" citing the Rural Task Force Order:

> As an incumbent "loses" lines to a competitive eligible telecommunications carrier, the incumbent must recover its fixed costs from fewer lines, thus increasing its per-line costs. With higher per-line costs, the incumbent would receive greater per-line support, which would also be available to the competitive eligible telecommunications carrier for each of the lines that it services. Thus a substantial loss of an incumbent's lines to a competitive eligible telecommunications carrier could result in excessive fund growth.

Rural Task Force Order, 16 FCC Rcd at 11325-11327. This circularity causes more harm than just excessive growth of the fund. By creating a link between the incumbent's costs (which will grow on a per-line basis as competition succeeds), and the support to which the competitor is entitled, each cause and effect may be infinitely repeated. As competition increases, more support is required by the incumbent -- as a result, more support is provided to the competitor -- as a result, the competitor builds more facilities and wins more of the incumbent's revenue share -- as a result, the incumbent's per-line costs are again higher, making it easier for the competitor to price below the incumbent's higher cost, with the aid of still higher per-line USF support.[11]

This illustrates that the current rules may be allowing the uneconomic funding of competitors to ILECs. If consumers across the country are required to pay surcharges to fund both the incumbent in a rural area and a successful competitor on an escalating basis, there will be no public interest benefit from such competition. Rather, public harm may result from artificially induced competition in markets that cannot support additional networks. Such harm may not yet be readily apparent because we are only at the beginning of trend that is likely to accelerate in the next few years. The Joint Board and the Commission should not wait until the fund has grown excessively before taking action to correct the fundamental anomalies of the current rules. The Universal Service Fund will not be predictable, sufficient, or affordable if current trends are allowed to

[11] The Commission should reconsider its rules that allow this upward spiral of support.

continue.[12] At best, support for multiple ETCs in the same high-cost services areas, based on the costs of the incumbent, is an inefficient use of public support.

VI. The Commission Should Enhance The Goals Of Sufficiency of Support And Affordability Of Rates By Targeting More Support to High-Cost Areas

Provided that the Commission chooses to limit high-cost support to a single line per household and chooses to support only basic access to a telecommunications network, it will be possible to reduce the funding needs of the high-cost mechanism while enhancing the level of support for that narrower purpose. Under current rules, the high-cost mechanism may be increasingly generous to those who least need support and this has forced the Commission to be frugal with respect to the level of support made available to those who most need it. Therefore, if the rules are changed in a way to focus high-cost support as recommended in these comments, the Commission would be able to initiate a proceeding to determine more meaningful levels of support for truly high-cost communities and states while simultaneously reducing or stabilizing the contribution factor.

VII. Under Current Rules, High-Cost Support For CETCs Will Not Necessarily Result in Enhancement of Economic Competition in Rural Areas

There is little or no evidence that high-cost support to CETCs has enhanced economic competition or universal service in rural areas. In fact, NASUCA finds no logical connection between high-cost support for potential competitors and healthy competition or universal service goals. Any direct connection between high-cost support and competitive alternatives in telecommunications services would require financial data to prove that incremental investment allowing for new connections would not have occurred but for the high-cost support. No such data is currently available.[13]

As long as support is based on the embedded costs of incumbent carriers, there can be no reasonable assumption that the same amount of support will be effective in

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[12] Under current trends, the quarterly contribution factor will likely rise to double digits within the next few quarters.

[13] Certainly, the CETCs have presented no such evidence.

causing incremental competition by CETCs. The current level of high-cost support for CETCs may be too high or too low to efficiently cause any change in deployment or enhancement of facilities that would allow for increased telecommunications penetration or enhancement to competition. Public support should not be expended in such an uncertain fashion.

In developing policies to enhance competition for recommendation to the Commission, the Joint Board should recognize that not all competition promotes the public interest. For example, cream skimming might occur if wireless carriers attract a disproportionate number of high-volume customers from ILECs.[14] The remaining ILEC customers who cannot afford wireless service or who live in specific geographic locations without adequate wireless coverage may then be faced with higher wireline rates. Cream skimming and subsidized uneconomic competition in rural ILECs' territories is a likely result because there is no state regulation that holds wireless carriers accountable with respect to marketing strategy, prices, quality of service, or billing and collection practices. For that reason, NASUCA has recommended that all ETCs be required to provide calling plans that provide unlimited local usage at rates that are no higher than those offered by the ILEC and be subject to state consumer protection rules that are applicable to ILECs. Public support should not be available to foster a type of competition that could harm universal service and fail to require accountability to consumer protection rules imposed on other ETCs.

High cost support can also result in fostering uneconomic competition when support for a second, third, or fourth network in a given area is not reasonably sustainable by the market. If the size of the pie is limited, support for second lines on multiple networks will inevitably harm the ILEC, which is the entity that will continue to fulfill the lion's share of "carrier of last resort" obligations in the foreseeable future. As discussed above, any harm to the ILEC also has the potential to cause an increase in the support amount needed for each line, thereby increasing the support allowed to all ETCs. For those reasons, any attempt to fund competition itself is not sustainable under current rules. Some markets can only support one network. Neither universal service nor healthy competition is necessarily enhanced by an attempt to support multiple networks

[14] Cream skimming is encouraged when a CETC can serve self-selected portions of a rural ILEC's territory.

with public funds. The current system is both inefficient and inconsistent with the purposes of Section 254 of the Act.

Respectfully submitted,

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Attachment A

HIGH COST SUPPORT
PAID TO WIRELESS COMPANIES
SECOND QUARTER 2003

State	Company	Rural	Quarterly High Cost Support	Annual High Cost Support
Alabama	Pine Belt Cellular		$15,975	$63,900
Alabama	Cellular South	R	$16,814	$67,256
Alabama	Cellular South		$22,626	$90,504
Arizona	Smith Bagley	R	$2,354,989	$9,419,956
California	Western Wireless		$18,774	$75,096
Colorado	Northeast Col. Cell.	R	$915,961	$3,663,844
Colorado	Western Wireless	R	$108,001	$432,004
Guam	Guam Cellular	R	$227,151	$908,604
Iowa	Midwest Wireless	R	$741,102	$2,964,408
Iowa	US Cellular	R	$3,876,347	$15,505,388
Iowa	Western Wireless	R	$119,318	$477,272
Iowa	Iowa Wireless	R	$45,543	$182,172
Iowa	MAC Wireless	R	$1,956	$7,824
Iowa	Southeast Wireless	R	$1,418	$5,672
Iowa	WAPSI Wireless	R	$7,672	$30,688
Iowa	Community	R	$1,384	$5,536
Iowa	SE Iowa Wireless	R	$23	$92
Iowa	Cedar Wireless	R	$7,209	$28,836
Kansas	Western Wireless	R	$858,172	$3,432,688
Michigan	RFB Cellular	R	$357,496	$1,429,984
Minnesota	Western Wireless	R	$8,409	$33,636
Mississippi	Cellular South	R	$1,493,181	$5,972,724
Mississippi	Cellular South		$5,428,071	$21,712,284
North Dakota	Western Wireless	R	$3,115,252	$12,461,008
New Mexico	Smith Bagley	R	$181,872	$727,488
New Mexico	Western Wireless	R	$692,329	$2,769,316
Nevada	Western Wireless	R	$982,939	$3,931,756
Puerto Rico	Centennial PCS		$3,624,087	$14,496,348
South Dakota	Western Wireless	R	$381,384	$1,525,536
South Dakota	Western Wireless	R	$1,989,888	$7,959,552
Texas	Western Wireless	R	$1,052,202	$4,208,808
Washington	US Cellular	R	$1,789,797	$7,159,188
Wisconsin	US Cellular	R	$2,253,557	$9,014,228
West Virginia	Highland Cellular		$286,455	$1,145,820
Wyoming	Western Wireless	R	$1,044,142	$4,176,568
TOTAL			$34,021,496	$136,085,984

Support Paid to 18 Companies in 20 States and Territories
Annual Total Support by Company

Western Wireless	$41,051,236
US Cellular	$31,678,804
Cellular South	$27,842,768
Centennial PCS	$14,496,348
Smith Bagley	$10,147,444
All Others	$10,869,384
TOTAL	$136,085,984

Source: USAC Second Quarter Report, Appendix HC01
Annual support derived by multiplying quarterly support by four.

HIGH COST SUPPORT
PAID TO WIRELESS COMPANIES
FIRST QUARTER 2002

State	Company	Rural	Quarterly High Cost Support	Annual High Cost Support
Arizona	Smith Bagley	R	$37,302	$149,208
Kansas	Western Wireless	R	$375	$1,500
Minnesota	Western Wireless	R	$28,125	$112,500
Nevada	Western Wireless	R	$1,398	$5,592
New Mexico	Smith Bagley	R	$2,430	$9,720
Puerto Rico	Centennial PCS		$2,434,843	$9,739,372
Texas	Western Wireless	R	$3,096	$12,384
Washington	US Cellular	R	$1,743,909	$6,975,636
TOTAL			$4,251,478	$17,005,912

Support Paid to 4 Companies in 8 States
Annual Total Support by Company

Centennial PCS	$9,739,372
US Cellular	$6,975,636
Smith Bagley	$158,928
Western Wireless	$131,976
TOTAL	$17,005,912

Source: USAC First Quarter Report, Appendices HC01, HC04, HC05 & HC09
and Second Quarter 2002 Report, Appendix HC19
Annual support derived by multiplying quarterly support by four.
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