

hello

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Proud to be the next best way to say hello.[™]



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Telecommunications Elections:

Recipe for Consumer Choice in Rural America

September 2004

Telecommunications Elections

Recipe for Consumer Choice in Rural America:

- **Why Wireless?**
 - **Voice**
 - **Broadband**
- **Universal Service: Freedom to Choose**
- **Local Number Portability: Electronic Ballot box**

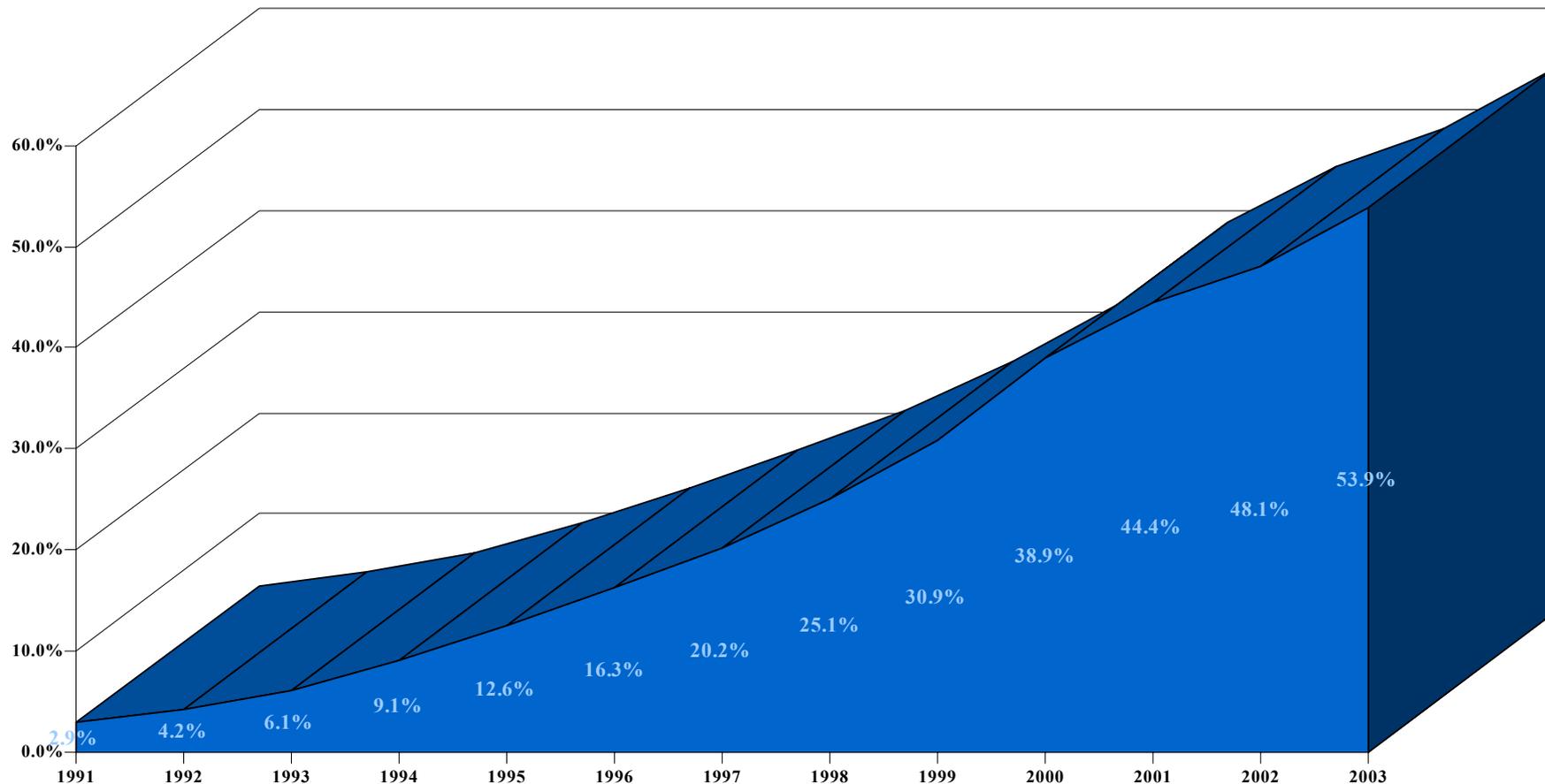
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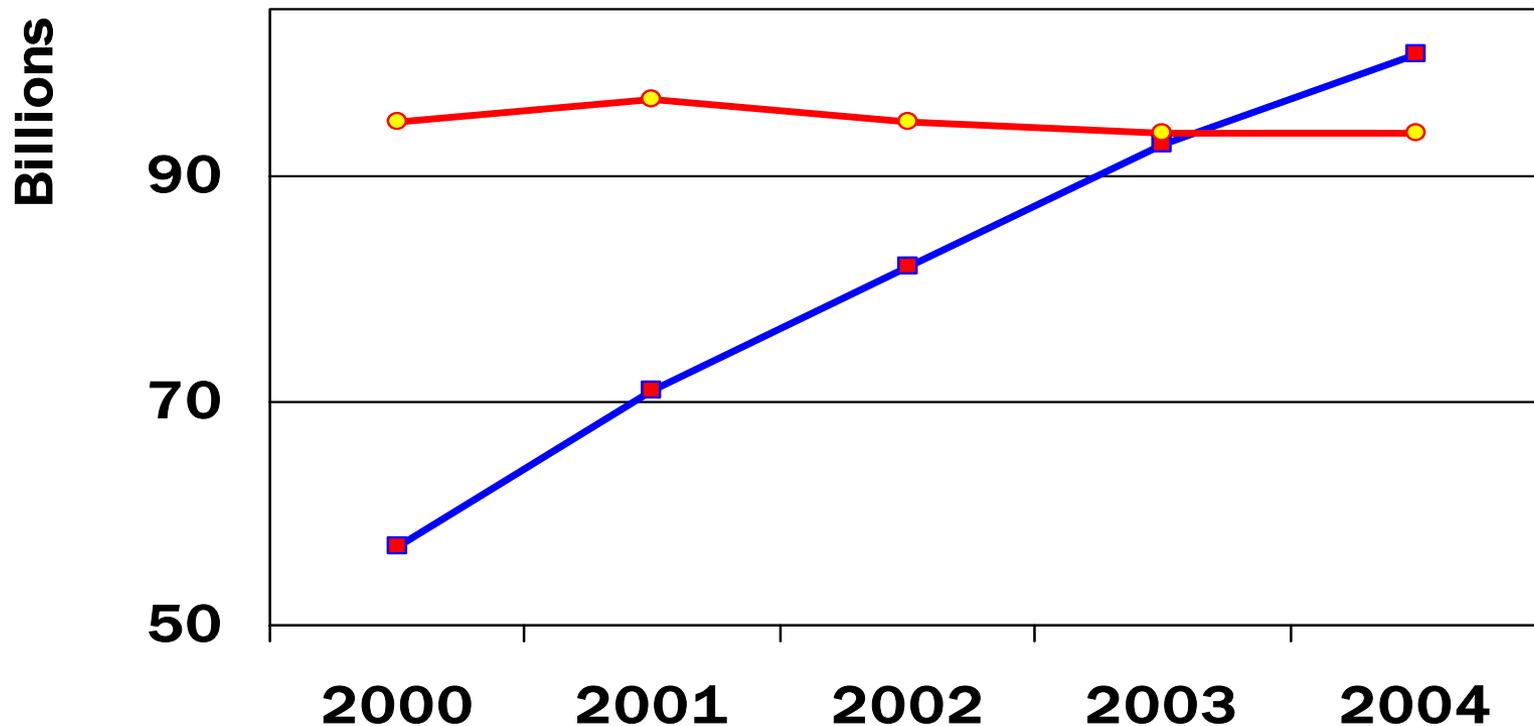
Why Wireless?

Consumers Are Choosing Wireless Service



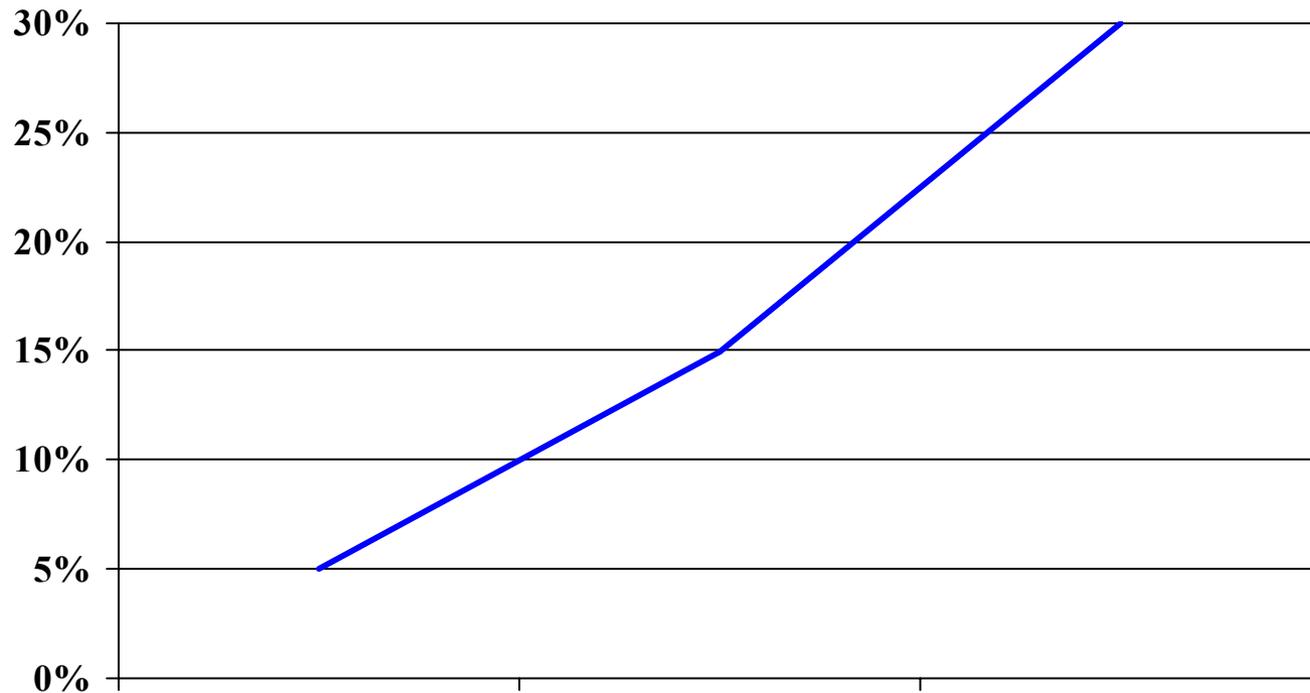
Consumers have spoken!!!

Wireless industry revenues passed wired in 2003



Consumers Are Relying On Wireless Service

... increasing numbers of consumers have “cut the cord” or are primarily using their wireless phone for their telecommunications needs



Source: Install/MDR 2004

2006

2008



Consumers Are Relying On Wireless Service

- And, other consumer groups are fast followers to jump on the wireless bandwagon

Rural teens say (based upon NTCA 2004 Rural Youth Telecom Survey):

- 86% use a mobile phone
- 20% rarely use a landline phone
- 14% never use a landline phone

Wyoming elderly say (based upon AARP survey August 18, 2004):

- 66% use a mobile phone
- 47% have or are considering switching to wireless for all of their telephone needs

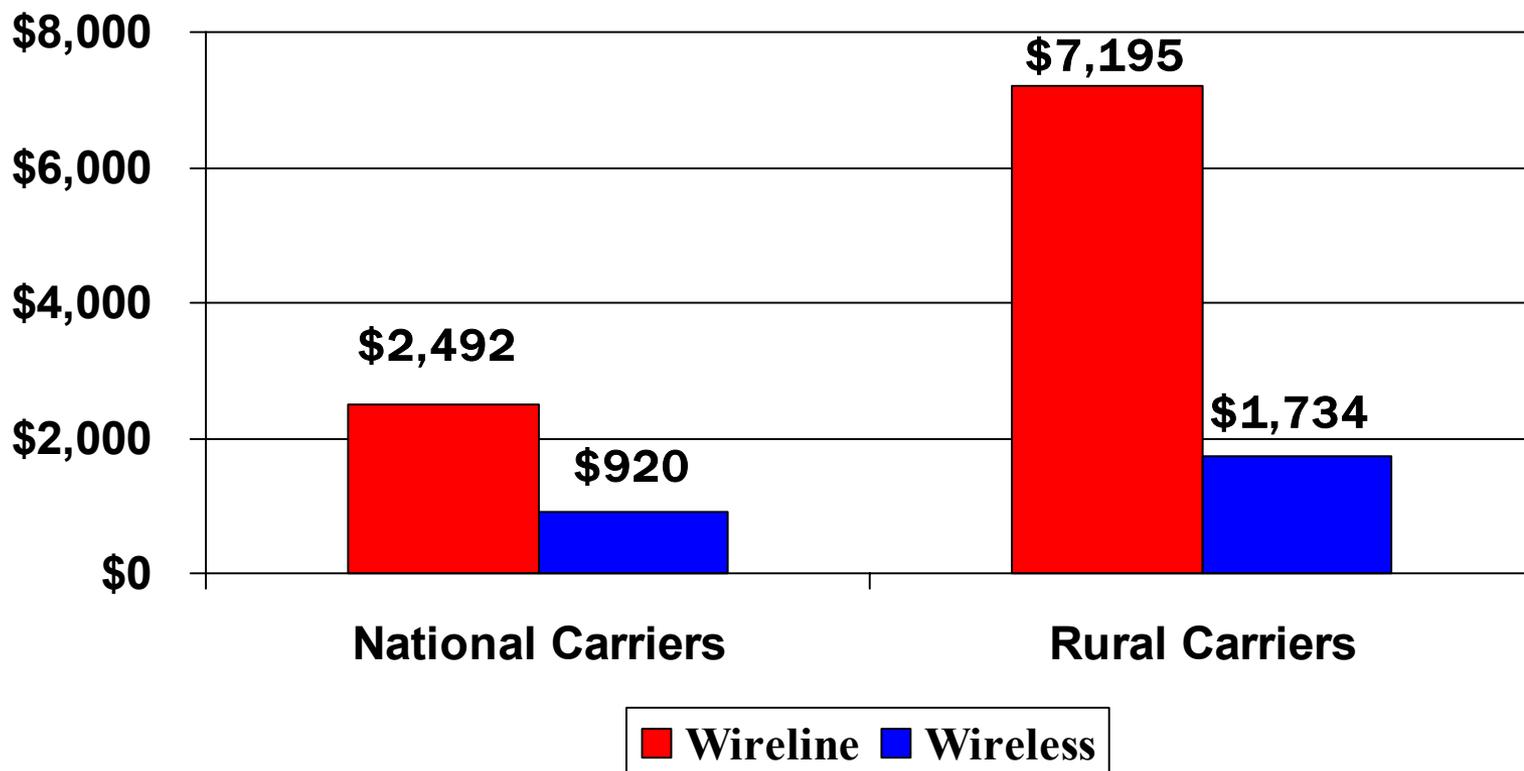
Why Wireless?

Wireless is the most cost-effective way to serve consumers

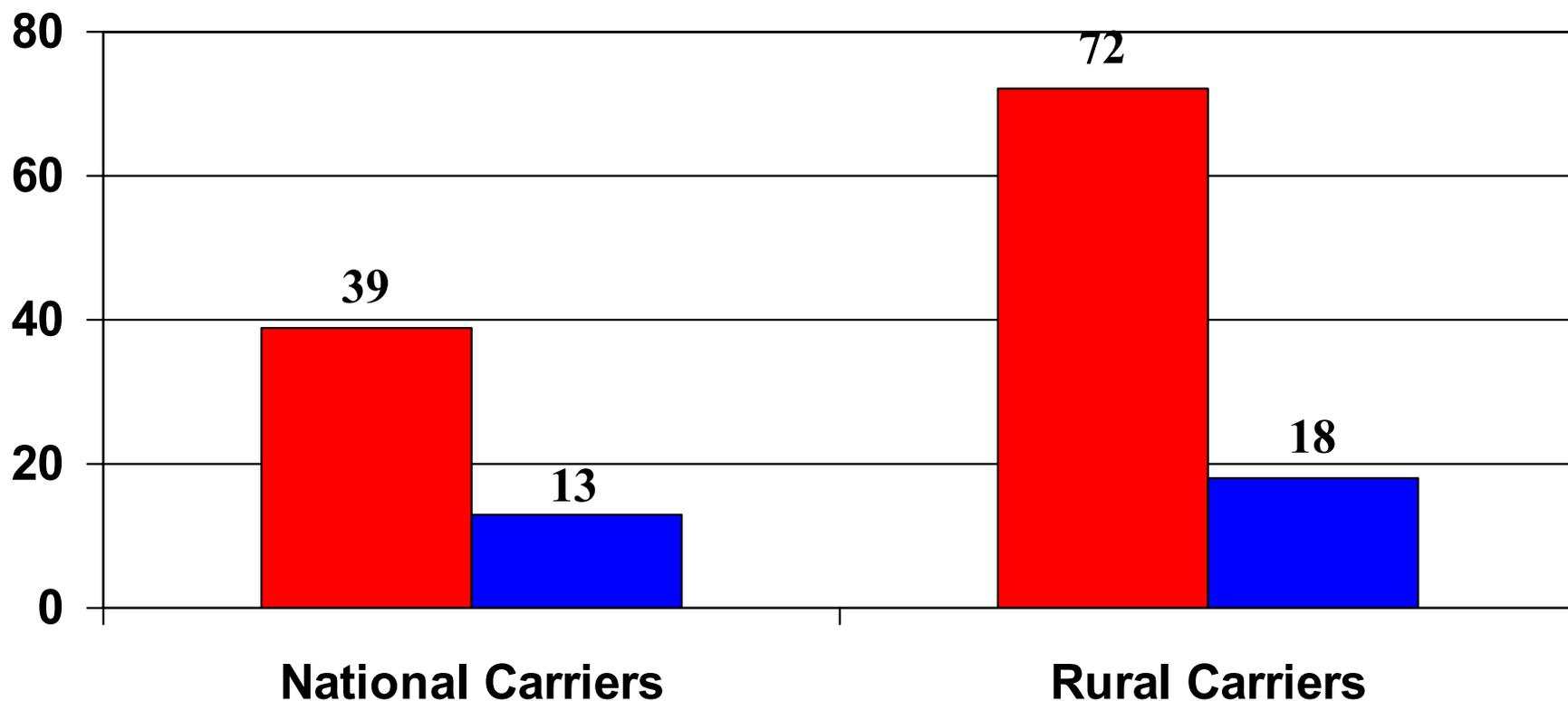
- **Convenience – access when you need it**
- **Cost – most cost effective means of communications**
- **Safety – 911 service**
- **Service Availability – ability to make calls anywhere and everywhere**
- **New and Innovative Services – voice, features, data,**
- **Broadband – high speed internet service**

Wireless is the most cost-effective way to serve consumers

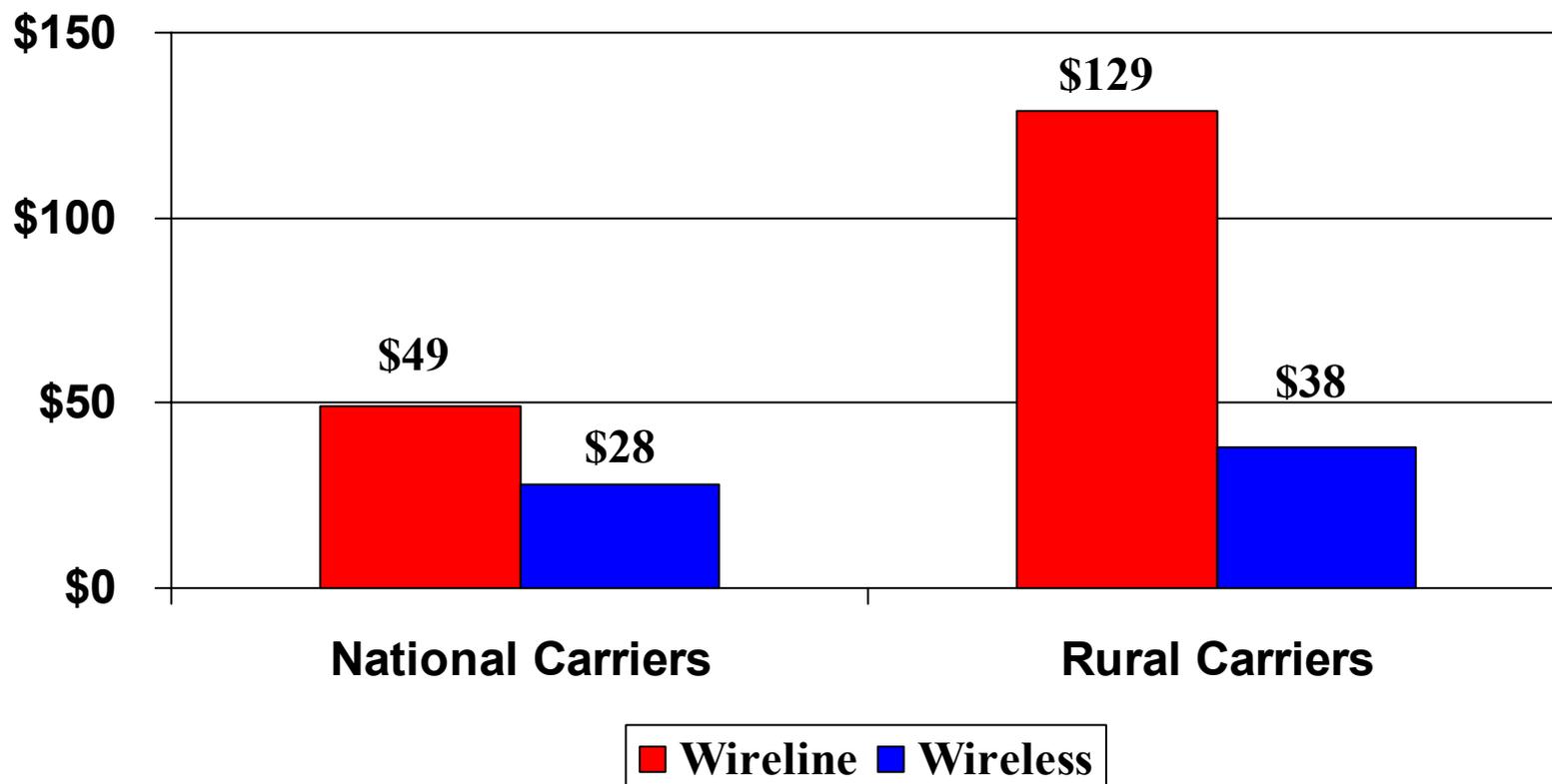
Wired service require substantially more investment...



... and three to four times as many employees per 10,000 customers



... and as a result ILEC operating expenses per customer per month are substantially higher...



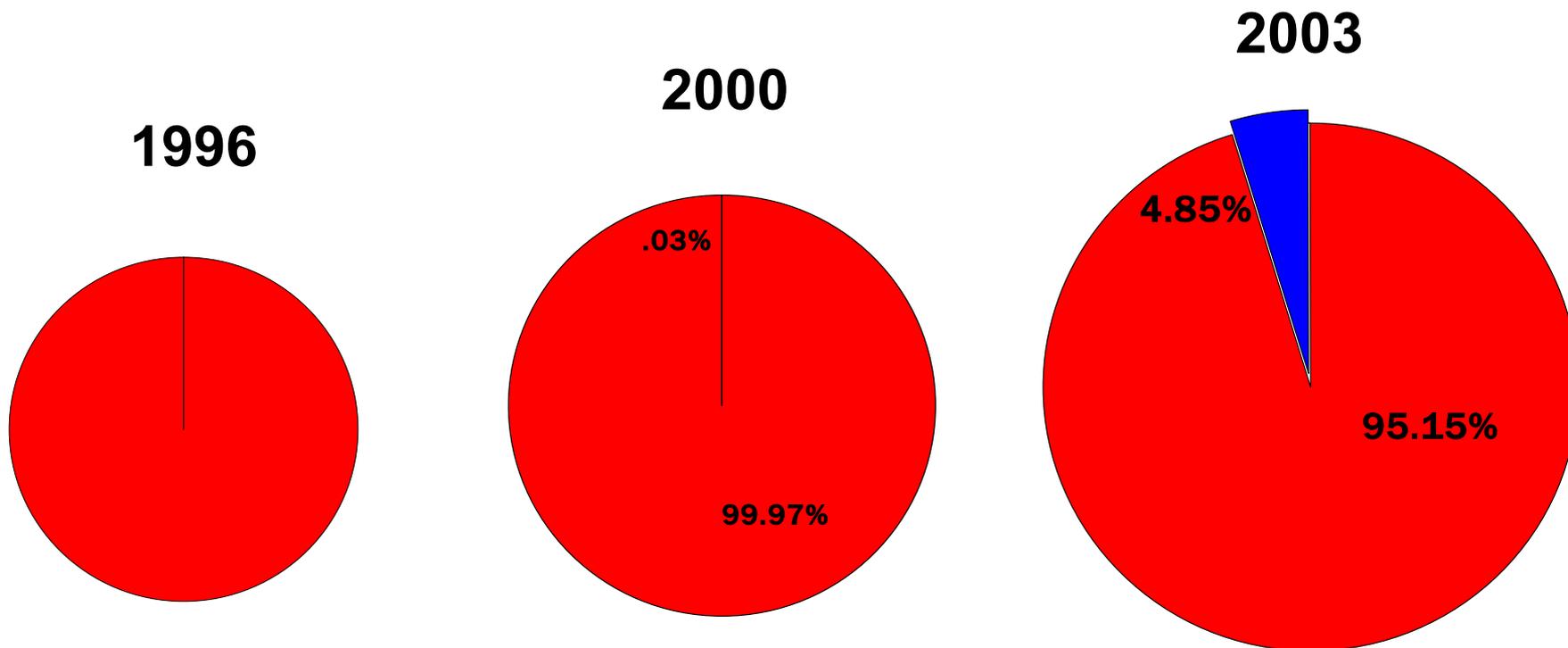
Wireless is the most cost-effective way to serve consumers

In Electra Telephone case study, wireline carrier received **127% higher implicit support** than Federal USF monies

	Wired	Wireless
Customer Revenue	\$24.51	\$24.81
Federal USF Support	\$54.65	\$54.65
Texas State Support	\$29.04	\$29.04
Implicit Support	\$69.78	\$0

Wireless is the most cost-effective way to serve consumers

- 91% of subsidy increases since 1996 went to ILEC's



Services evolving at lightning speeds

Past

Mobility

Roaming

Increased capacity

Voice quality



Present

Ring tones

Photo messaging

Video-On-Demand

Broadband Access

Video Telephony

Future

Remote office conferencing

Location-based Services

Network-based Gaming

Push to Talk



Video Telephony



Location-based Services

Western Wireless.

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Recipe for Consumer Choice

3 Pillars of Revenue That Support The Wireless Network



Prepaid Customer



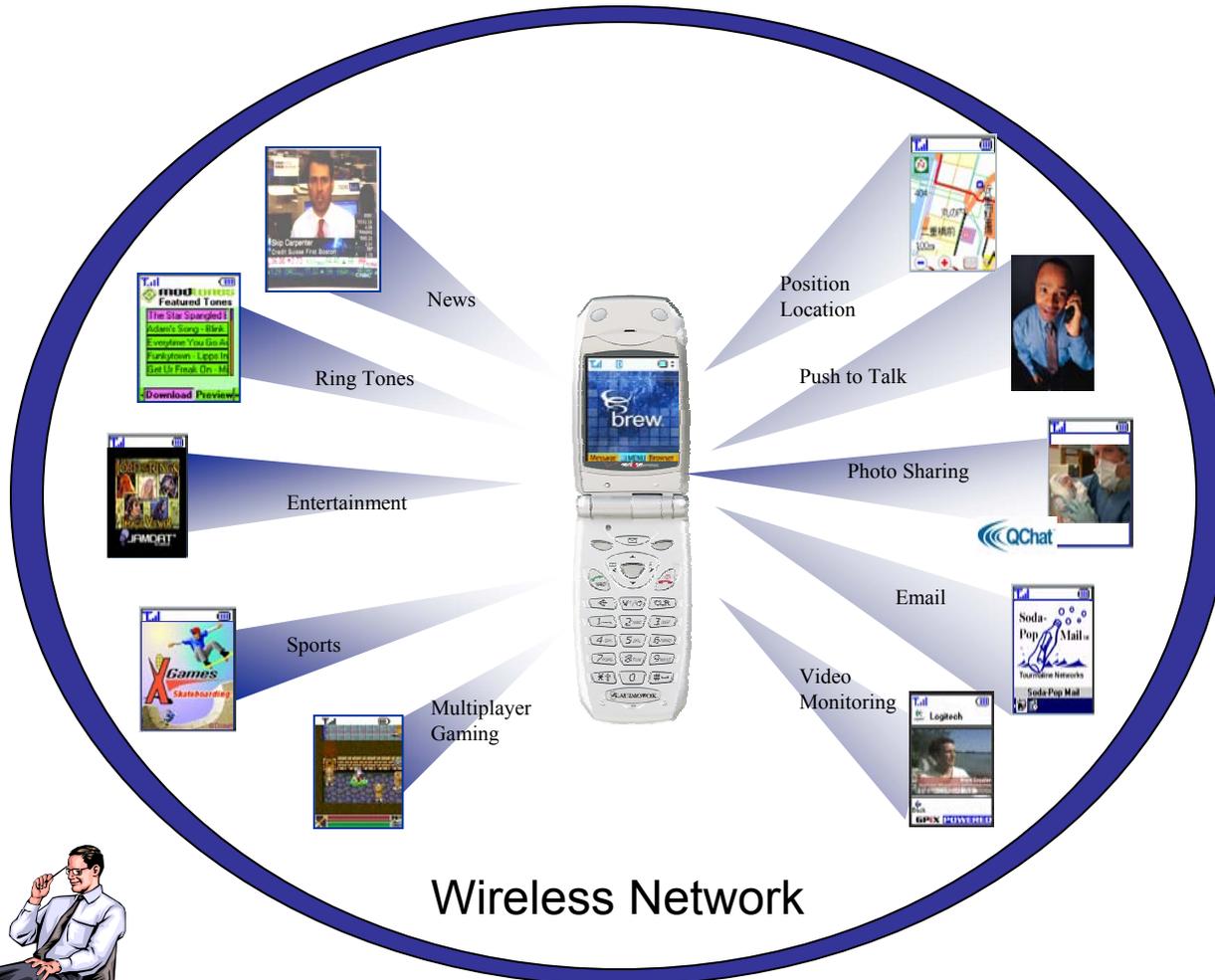
Intermodel LNP Customer



New Customer



Wireless LNP Customer



Customer Revenue

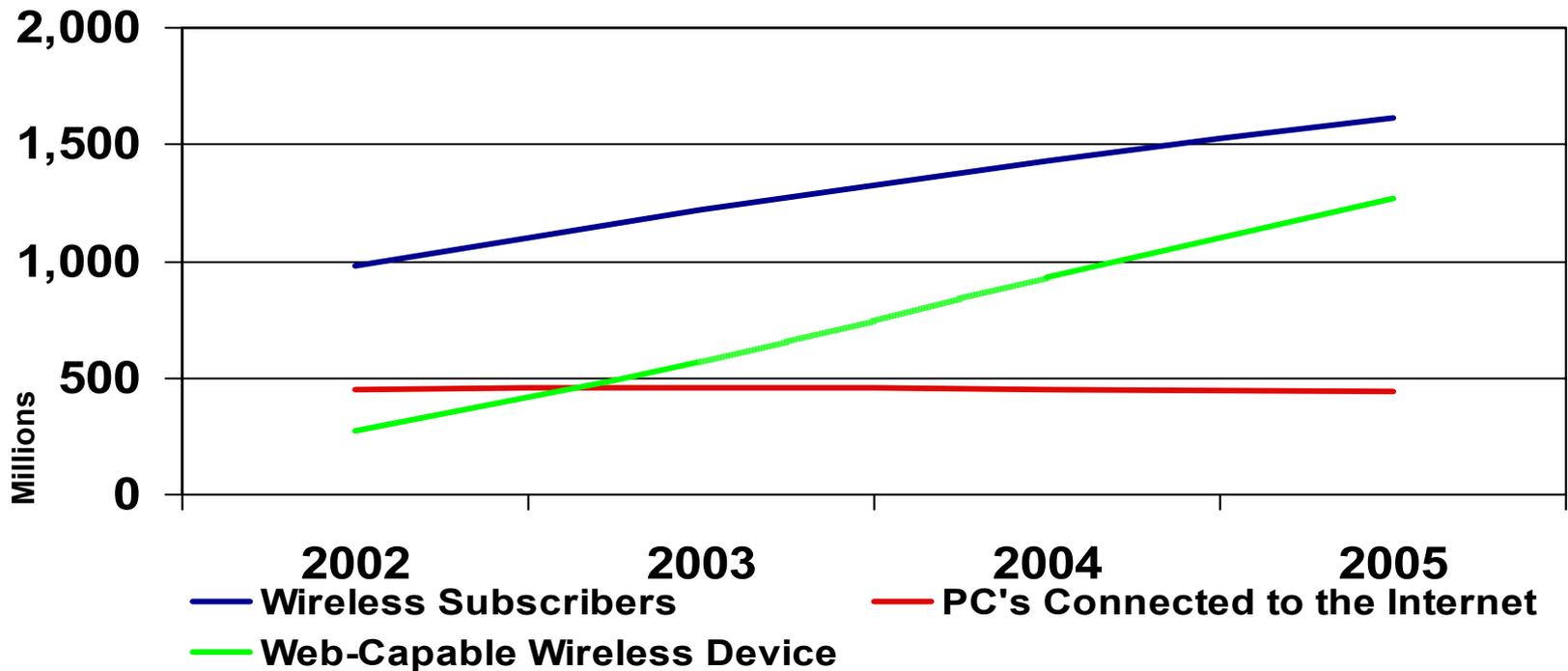
Roaming Revenue

USF Revenue

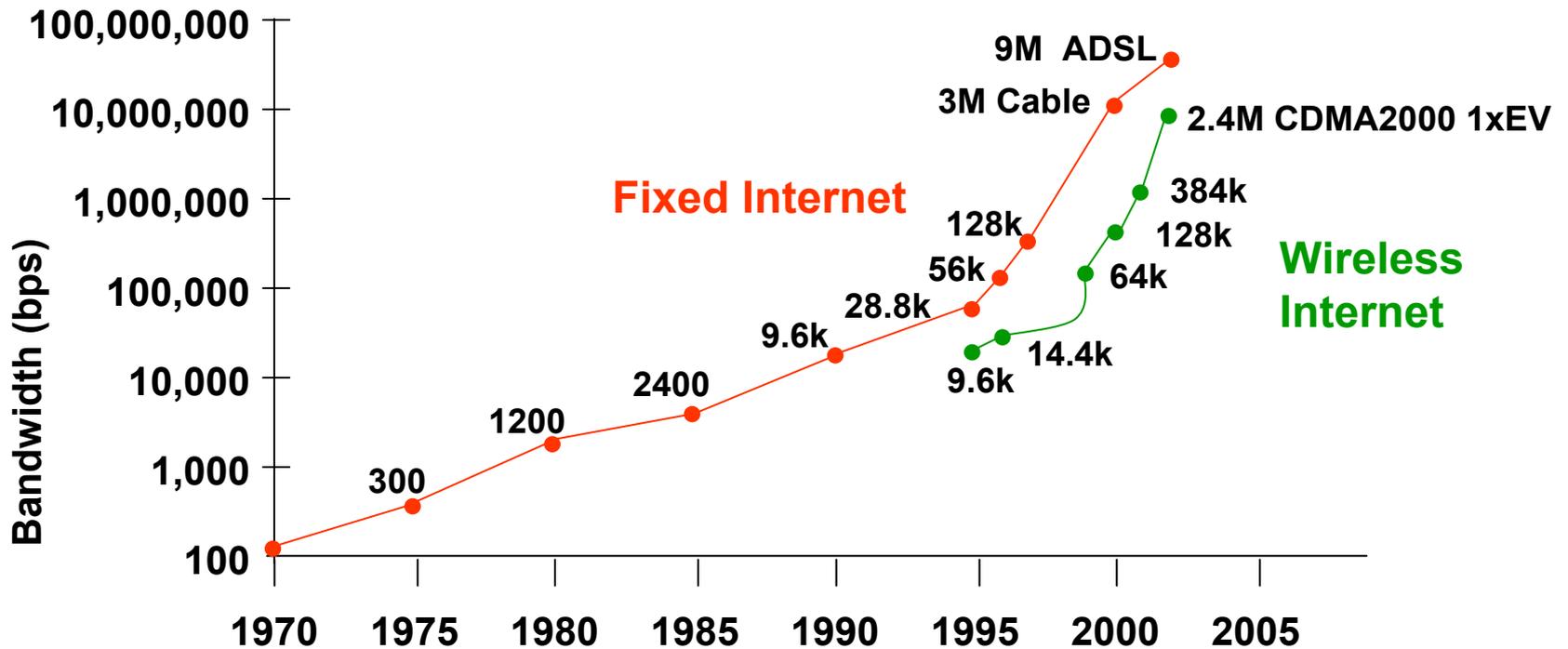


Wireless delivers broadband services

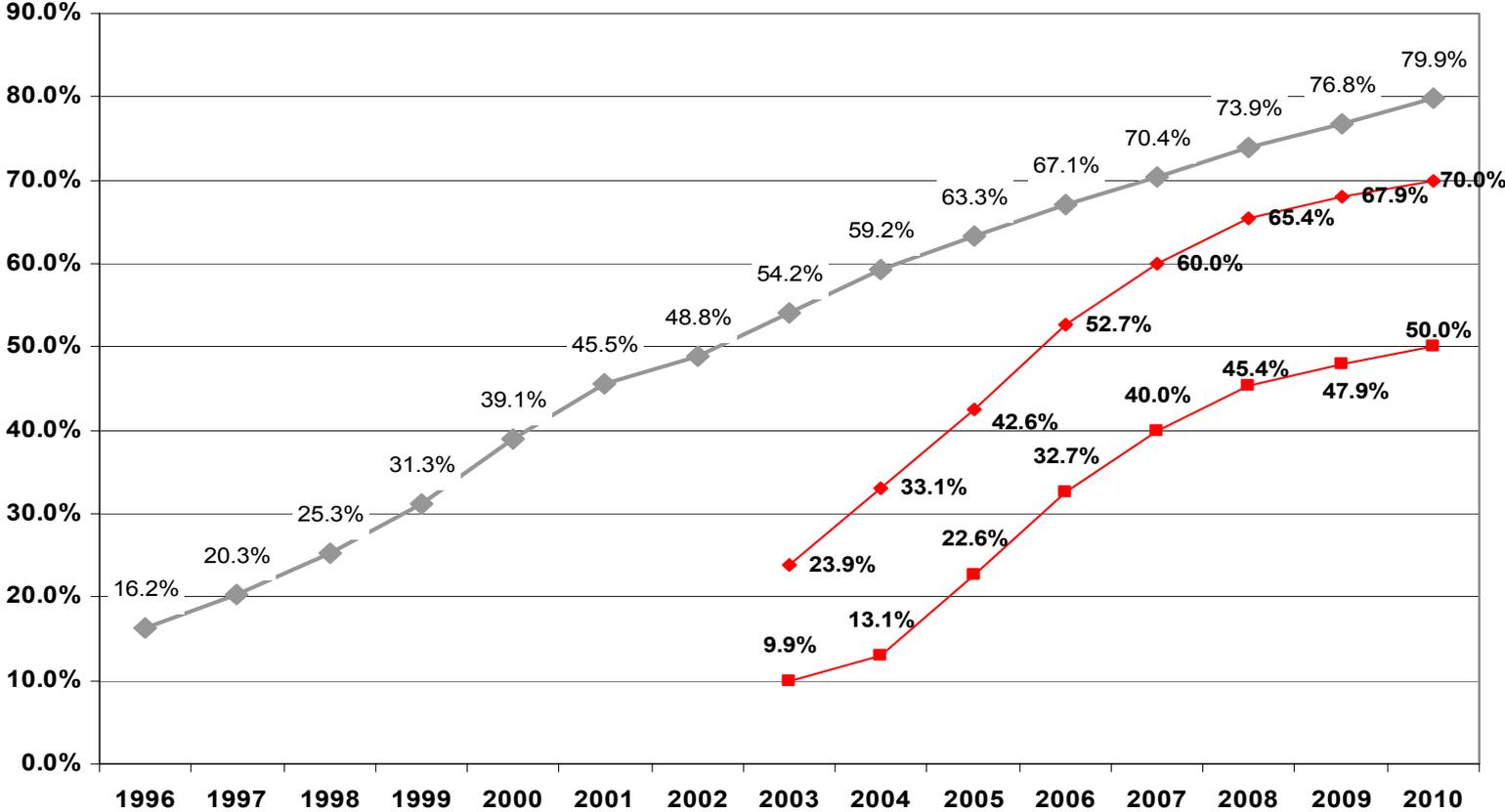
- Wireless Devices Surpass Wired PCs in Access to the Internet
- Western Wireless commitment to broadband



Wireless delivers broadband services



Rural Broadband Penetration depends on Wireless



Universal Service Policies Should Be Responsive ...Not Protect RLECs From Competition

Present policy: levels of USFs to carriers based on regulatory classification

- **Rural ILECs: USFs based upon guarantee rate of return**
- **Non-Rural ILECs: USFs based upon forward looking costs**
- **Competitive Carriers: USFs based upon explicit USF available to ILECs**

Universal Service Policies Should Be Responsive ...Not Protect RLECs From Competition

Marketplace Abnormality #1: USF Winners and Losers

State	High-Cost Non-Rural Carrier USF Support
North Dakota	\$0
South Dakota	\$0
Nebraska	\$0
Wyoming	\$11.2 Million
Montana	\$22.4 Million
Mississippi	\$159.6 Million

* Other Qwest states receiving \$0 in non-rural high-cost USF support include: AZ; CO; IA; ID; MN; NM; OR; and UT

Universal Service Policies Should Be Responsive ...Not Protect RLECs From Competition

Marketplace Abnormality : More RLECs = More USF Support

Case Study: Nevada vs. Iowa

State	# of RLECs	Square Miles Served	Annual USF Support
Nevada	11	110,000	\$28.8 Million
Iowa	145	56,000	\$91.2 Million

Universal Service Policies Should Be Responsive ...Not Protect RLECs From Competition

USF Policy: varying state commission policies towards the entry of CETCs into the universal service market

- AZ; CO; IA; MN; ND; NM; OR; SD; WA; WY: public interest is served by CETCs
- ID; UT: public interest not served by CETCs
- MT and NE: market entry barriers for CETCs

Rural consumers benefit from universal service funds

Texas Economic Study

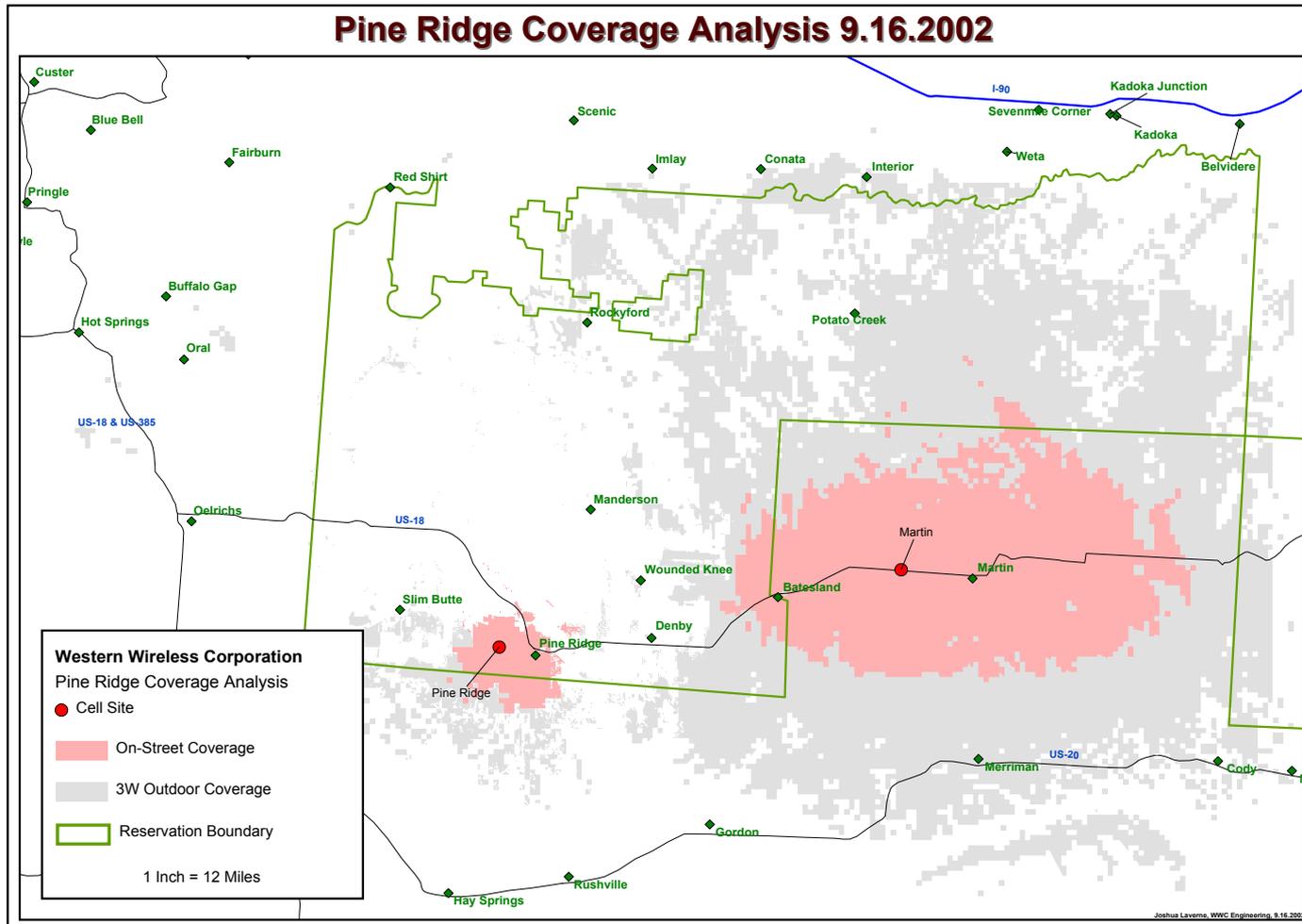
- Two professors at the University of North Texas studied the economic impact of Western Wireless' entry into the universal service market and concluded
 - Western Wireless' capital expenditures in Texas = \$625M
 - Total economic activity from Western Wireless' market entry = \$641M
 - Increase in labor income from Western Wireless' market entry = \$18M
 - Creation of full-time equivalent jobs from Western Wireless market entry = 463
- Conclusion: A competitive universal service market results in rural economic development

Rural consumers benefit from universal service funds

Pine Ridge Indian Reservation Illustrates How CETCs Are Making A Difference

	Prior to ETC Status	After ETC Status
Telephone Penetration	32%	75%*
Number of Cell Sites Serving the Reservation	1	5
Lifeline Service	Not readily available from Telco	\$1.00 per month readily available for tribal members
Access to Broadband Service	Very limited to selected institutions	- Widely available - Sept. 2003 Classlink laptop and broadband offering

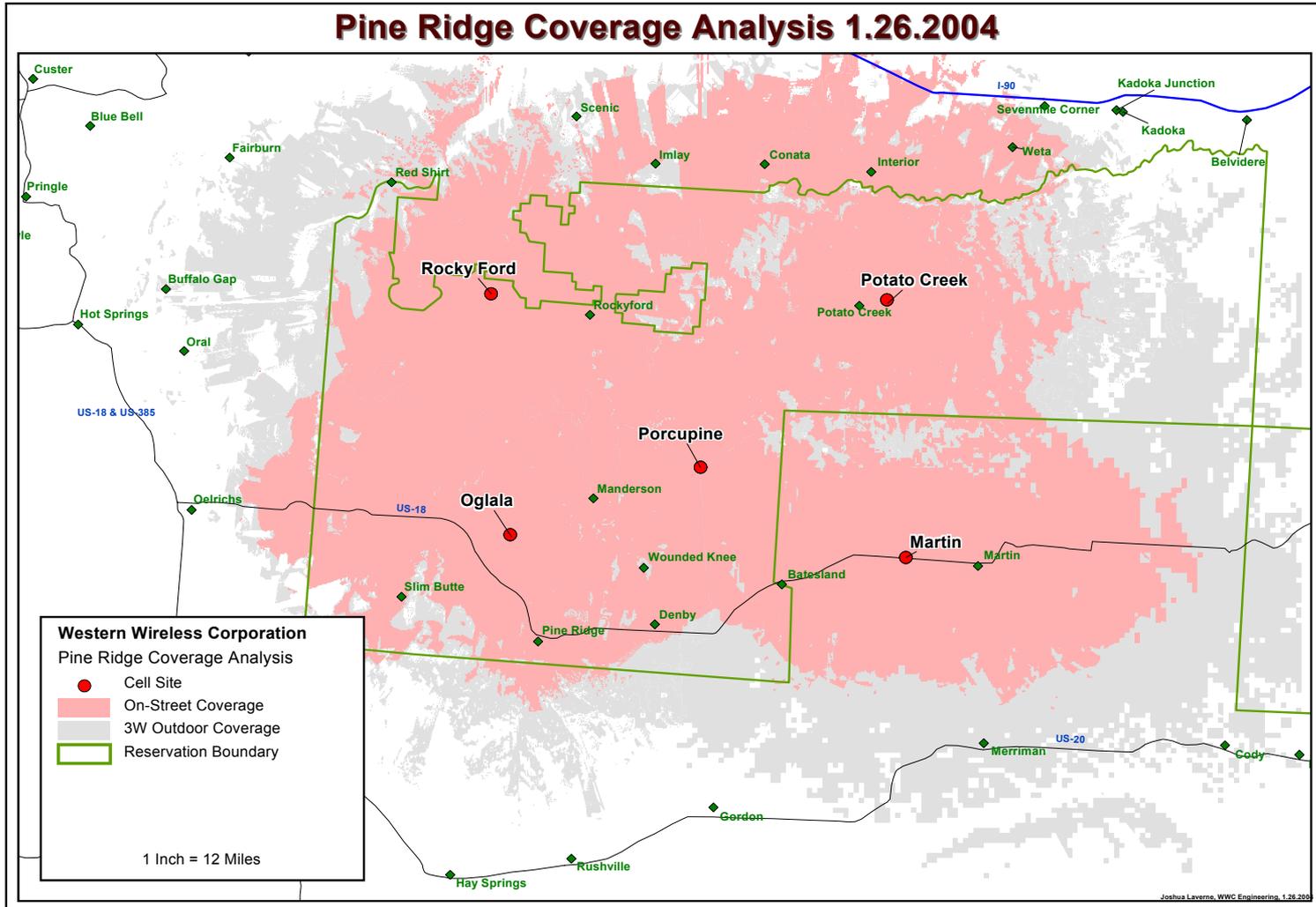
Rural consumers benefit from universal service funds



Coverage prior to USF Support



Rural consumers benefit from universal service funds



Local Number Portability: An Enabler of Competition

- **Past: Carriers Leased (Owned) Telephone Numbers**
 - Consumers were Hostage To Their Current Service Provider Unless They Give Up Their Telephone Numbers

- **Today: Consumers Lease (Own) Telephone Numbers**
 - Enabling Consumers To Switch Service Providers and Retain Their Telephone Numbers

- **Exception: Certain Rural Consumers Served By Rural Telephone**
 - Companies That Have Had Their LNP Obligations Suspended By A State Commission

Local Number Portability: An Enabler of Competition

Denying rural consumers the ability to port their telephone numbers furthers the rural – urban divide

Case Study: Nebraska vs North Dakota

	North Dakota	Nebraska
Consumers Without LNP in 2004 and 2005	0	115,000
Rural Telcos: LNP Suspension	0 of 23 Rural Telcos	36 of 37 Rural Telcos

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