
**Before the
Federal Communications Commission
Washington, DC 20554**

In the Matter of)
)
Federal-State Joint Board on Universal Service) CC Docket No. 96-45
)
High-Cost Universal Service Support) WC Docket No. 05-337
)
)

COMMENTS OF CTIA - THE WIRELESS ASSOCIATION®

Michael F. Altschul
Senior Vice President and
General Counsel

Christopher Guttman-McCabe
Vice President, Regulatory Affairs

Paul W. Garnett
Assistant Vice President,
Regulatory Affairs

CTIA - The Wireless Association®
1400 16th Street, N.W.
Suite 600
Washington, D.C. 20036
(202) 785-0081

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SUMMARY

As a significant net contributor to the universal service system, the wireless industry is uniquely positioned to comment on the non-rural high-cost universal service mechanism in light of the United States Court of Appeals for the Tenth Circuit's decision in *Qwest Corp. v. FCC*. Wireless carriers collectively are responsible for approximately 34% of contributions to universal service, while receiving only approximately 12% of payments. On behalf of their over 200 million customers, wireless carriers have strong incentives to ensure that the universal service fund is no larger than necessary, while ensuring that support is available to committed eligible telecommunications carriers ("ETCs") on a non-discriminatory basis. As discussed below, the wireless industry's incentives align with the universal service principles enunciated in Section 254(b) of the Act.

To best achieve the Act's universal service principles, high-cost universal service support should be based on efficient costs. Support based on efficient costs appropriately balances the desire to ensure that customers in rural, high-cost areas have access to affordable and reasonably comparable services against the burden on customers that ultimately pay for universal service. To that end, basing all high-cost universal service support on efficient costs is long overdue. Whatever changes are made to the underlying mechanisms, the FCC must ensure that universal service support continues to be distributed in both a competitively- and technologically-neutral manner, as required by the Act. That way, consumers, and not state or federal regulators, will determine who competes for and delivers services to them.

CTIA has developed short- and long-term proposals that will better achieve these goals. Under these proposals, the FCC would modify the existing high-cost mechanisms, while transitioning to a new high-cost mechanism for all eligible carriers. CTIA's proposed reforms

will: (1) Improve the operation of the high-cost support system; (2) Ensure that eligible carriers continue to have competitively neutral access to high-cost support; and (3) Decrease the need for universal service subsidies over time by encouraging and rewarding efficiency and better targeting the right amount of support to high-cost areas.

The ultimate result of such reform should be a single, simplified, and unified support mechanism that replaces the five high-cost mechanisms currently in place. Under such a mechanism, support for all eligible carriers would be based purely on efficient, forward-looking economic costs of serving a geographic area. In addition to the reforms that CTIA has proposed, CTIA is open to other market-based proposals that would achieve the goals of universal service while improving upon the current inefficient high-cost universal service mechanism that often does not target support to the areas where it is needed. Particularly, CTIA supports market-driven mechanisms that reward efficiency, such as reverse auctions or competitive bidding, to determine high-cost support levels for both incumbents and competitors.

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COMMENTS OF CTIA - THE WIRELESS ASSOCIATION®

CTIA - The Wireless Association® (“CTIA”) submits the following comments in response to the Commission’s Notice of Proposed Rulemaking (“NPRM”)¹ regarding the United States Court of Appeals for the Tenth Circuit’s decision in *Qwest Corp. v. FCC* (“*Qwest II*”).² As a significant net contributor to the universal service system, the wireless industry is uniquely positioned to comment on proposals to reform the universal service system. Wireless carriers collectively are responsible for approximately 34% of contributions to universal service, while receiving only approximately 12% of payments. On behalf of their over 200 million customers, wireless carriers have strong incentives to ensure that the universal service fund is no larger than necessary, while ensuring that support is available to committed eligible telecommunications carriers (“ETCs”) on a non-discriminatory basis. In general, CTIA supports reforms that will

¹ *Federal-State Joint Board on Universal Service; High-Cost Universal Service Support*, CC Docket No. 96-45, WC Docket No. 05-337, Notice of Proposed Rulemaking, 20 FCC Rcd 19731 (2005) (“NPRM”).

² *Qwest Corp. v. FCC*, 398 F.3d 1222 (10th Cir. 2005) (“*Qwest II*”).

ensure both incumbents and competitors receive no more support than is necessary to achieve the goals of universal service.

CTIA supports efforts to reduce demand for universal service, while ensuring that support is available to both incumbent and competitive ETCs on a non-discriminatory basis. Specifically, CTIA has proposed combining the current five high-cost universal service mechanisms into one mechanism that calculates support based on the most efficient technology – whether wireline or wireless – in a small geographic area. As discussed below, CTIA believes that a well-designed mechanism that calculates support based on efficient costs will satisfy the goals of universal service.

I. SUPPORT BASED ON EFFICIENT COSTS BEST SATISFIES THE “SUFFICIENT” AND “REASONABLY COMPARABLE” REQUIREMENTS OF SECTION 254(B) OF THE ACT

The NPRM notes that *Qwest II* directed the Commission to demonstrate that it has appropriately considered all of the principles in Section 254(b) in defining the term “sufficient”³ (the Commission’s prior Order had defined it solely in terms of “reasonable comparability”). The NPRM seeks comment on the appropriate application of each of the principles in Section 254(b) to the determination that support is “sufficient.” As discussed in greater detail below, application of the relevant principles in Section 254(b) shows that support based on efficient costs will be sufficient and will achieve reasonable comparability.

A. In the Context of a High-Cost Support Mechanism, Reasonably Comparable Rates Satisfy the Affordability Principle

Although the *Qwest II* court took issue generally with the Commission’s failure to address the other Section 254(b) principles, it seemed particularly concerned that the

³ NPRM at ¶ 8.

Commission must address on remand affordability in determining whether the support mechanism is sufficient.⁴ It is important to note, however, that the court did not determine that rural rates are not currently affordable. Instead, the court directed the Commission to more adequately address the concept in defining a sufficient fund.

While an agency cannot ignore statutory principles, each of the goals of Section 254(b) cannot be considered in isolation. Indeed, the Tenth Circuit stated that “any particular principle can be trumped in the appropriate case” as long as the Commission balances the principles against each other.⁵ Where, as is the case here, a statute directs a regulatory agency to consider a number of principles, the agency necessarily must balance those principles against one another. Moreover, as discussed below, the level of granularity achievable when addressing a particular principle may differ depending on the goal being furthered (in this case, addressing cost differences between urban and rural areas).

In the case of Section 254(b) of the Act, it may be appropriate to give the principle of “affordability” less weight than some other principles when considering a high-cost universal service support mechanism and more weight than some other principles when considering the lawfulness of a low-income support mechanism. Specifically, in the context of a high-cost

⁴ See, e.g., 398 F.3d at 1234 (“The Commission has not demonstrated ... why reasonable comparability conflicts with or outweighs the principle of *affordability*, or any other principle for that matter, in this context.”) (emphasis added); *id.* (“We are troubled by the Commission's seeming suggestion that other principles, including *affordability*, do not underlie federal non-rural support mechanisms.”) (emphasis added).

⁵ See, *Qwest II* at 1234. For example, the portions of Section 254(b) that address schools and libraries and rural healthcare are not relevant to the determination of whether the high-cost mechanism is sufficient, because there are separate support mechanisms in place to meet these goals.

support mechanism, it would be appropriate to consider whether affordability is achieved for the average customer; and, in the context of a low-income mechanism, it would be appropriate to consider whether a support mechanism achieves affordability for a subset of customers. Within this prism, and taking into account the “reasonable comparability” principle, it is appropriate for the high-cost support mechanism to be measured as “sufficient” if it is able to ensure that customers in rural, high-cost areas receive services at prices comparable to those available in urban areas. Then it can be left to the Lifeline and Link-Up mechanisms to provide additional amounts of support to ensure that individual low-income customers receive affordable services.

Taking into account the other Section 254(b) principles, a high-cost support mechanism satisfies the “affordability” principle if rural rates are reasonably comparable, but not necessarily the same, with urban rates.⁶ While Congress intended for rural rates to be reasonably comparable to urban rates, there is no statutory directive or policy rationale for urban consumers to subsidize rural rates below average urban rates. In the context of a high-cost support mechanism, affordability is not a question of low-income versus high-income consumers, or what one rural customer pays as compared against what another rural customer pays; rather, it is a question of what the typical consumer that receives unsubsidized supported services pays for the supported services. Therefore, it would be reasonable for the Commission to measure what is affordable based on the national average urban consumer pays for supported services.

⁶ It is reasonable for a customer in a high-cost, rural area to pay more for telecommunications services than a customer in a low-cost, urban area. Such higher rates will create incentives for competitive entry by more efficient carriers. Therefore, similar to the current non-rural mechanism that sets the benchmark at two standard deviations above the average cost, a rate benchmark should be higher than the average urban rate.

The FCC should reject arguments that affordability should achieve rates lower than those in urban areas. As the Commission acknowledges in the NPRM, incumbent LECs' rates in rural areas are often *lower* than the incumbent LECs' rates in metropolitan areas – even though the cost of service in rural areas is generally much higher.⁷ The FCC should likewise reject the argument that affordability in rural areas should be lower than rates in urban areas, because rural consumers allegedly have lower incomes. The data does not bear this out. Although incomes are somewhat lower on average in rural areas than in urban areas, there are in fact a higher percentage of urban customers living below the poverty line in urban areas, than in rural areas.⁸ In addition, the Commission's Lifeline and Link-Up programs provide substantial discounts for low-income consumers, including low-income consumers in rural areas. So, to the extent that affordability is a particular and more acute concern for low-income consumers, that concern is being addressed in both urban and rural areas by the FCC's low-income support mechanisms.

Another compelling argument for measuring affordability only in terms of average urban rates is that achieving lower than average rates in rural areas threatens the affordability of services for those customers paying into the fund. The *Qwest II* court stated that “excessive subsidization arguably may affect the affordability of telecommunications services, thus violating the [affordability] principle.”⁹ As the size of the high-cost fund continues to grow, the

⁷ NPRM at n.71 & ¶ 25. Interestingly, in the highly competitive mobile wireless industry, wireless carriers provide national one-rate plans that provide consumers in rural, high-cost areas services at the same basic rate that is available to customers in non-rural, low-cost areas.

⁸ *The Myths and Realities of Universal Service: Revisiting the Justification for the Current Subsidy Structure*, Joseph S. Kramer, Richard O. Levine and Randolph J. May, at 15 (Progress & Freedom Foundation, Jan. 2005).

⁹ 398 F.3d at 1234.

Commission must consider the burden on universal service contributors in order to ensure affordability,¹⁰ as well as sustainability of the fund. To this end, instead of using an income-based approach to defining affordability,¹¹ the Commission should apply a national rate benchmark, set above the national average urban rate. Then, based on the understanding that in a competitive market rates are a reasonable proxy for costs, the Commission should subsidize a percentage of *efficient* costs above the affordable rate benchmark.¹² Thus, if a carrier's imputed rate is thirty dollars and the forward looking economic cost to serve the relevant geographic area is fifty dollars, the carrier would be eligible for some portion of the difference between fifty and thirty dollars. If, on the other hand, a LEC's rate is set at seventeen dollars, and the national average urban rate is thirty dollars, the carrier may receive a subsidy, but only to the extent to cover some portion the costs above the national average urban rate, not the carrier's artificially lower rate. This will prevent unreasonably low incumbent LEC rates in rural areas from overburdening the support mechanism and those customers that support it.¹³

By establishing a national average urban rate benchmark, and subsidizing a percentage of carriers' costs that exceed that benchmark, the Commission also can further the role Congress intended for states under Section 254(f). Under this paradigm, states that continue to regulate

¹⁰ NPRM at ¶ 11.

¹¹ *See id.* at ¶ 10.

¹² We note that use of a rate benchmark does not amount to rate regulation if the benchmark is imputed to eligible carriers regardless of what they actually charge their end-user customers.

¹³ While the problem of excessive subsidization of unreasonably low rural rates is most serious among *rural* LECs, the problem also presents itself in some cases among non-rural LECs. *See* NPRM at n.71 & ¶ 25. CTIA advocates a unified high-cost support mechanism for all carriers, (continued on next page)

LEC rates would have incentives to consider whether to keep carrier rates artificially low or increase those rates after examining a carrier's operations to determine whether such rate increases are in fact justified. This also potentially would create incentives for carriers to seek rate reviews or, in the case of competitive markets, rate deregulation.

B. Deployment of Advanced Services is Progressing at a Rapid Pace

Section 254(b)(2) establishes “access to advanced telecommunications and information services” as a universal service principle.¹⁴ As the NPRM notes, even though advanced services, including broadband, is not a supported service, the Commission has long acknowledged that “the use of high-cost support to invest in infrastructure capable of providing access to advanced services is not inconsistent with the requirement” that universal service funding only be used for the supported services, given that the “telephone network is not a single-use network.”¹⁵ With some indirect assistance from the high-cost universal service mechanisms, but mostly in response to market forces, access to advanced services, including broadband deployment, is proceeding rapidly in the areas served by non-rural carriers, and wireless carriers' networks are part of that effort. In its recent report on deployment of advanced services in rural markets, the National Telecommunications Cooperative Association (“NTCA”) stated that 97% of its members are deploying advanced services and three-fifths of its members' subscribers can access

and believes an imputed rate benchmark can protect against excessive subsidization across the board.

¹⁴ 47 U.S.C. § 254(b)(2); NPRM at ¶ 12.

¹⁵ NPRM at ¶ 12.

advanced services.¹⁶ Non-rural incumbent LECs and cable modem providers also are deploying advanced services at a rapid pace.¹⁷ As CTIA described in its comments for the Commission's *Eleventh Annual CMRS Competition Report*, wireless carriers are aggressively deploying advanced and broadband networks throughout the country, including in rural areas.¹⁸

As a highly competitive industry, wireless broadband providers are emerging as an important alternative to the duopoly of wireline and cable broadband. Wireless carriers ranging from the largest nationwide operators to small, rural-specific operators are deploying high-speed data networks such as EV-DO and UMTS.¹⁹ Wireless providers' entry into the high-speed data marketplace brings much-needed competition, which (as the competitive mobile wireless market has shown so clearly), broadens the array of available services and potentially will lower prices for consumers.²⁰

In light of current deployment efforts, and existing demands on the fund, CTIA recommends that the Commission thoroughly investigate whether existing mechanisms are achieving the desired ends with regard to the deployment of advanced services – as appears to be

¹⁶ See *Advanced Services in Rural America*, National Telecommunications Cooperative Association, available at http://www.ntca.org/content_documents/pp_advancedservices.pdf.

¹⁷ According to the National Cable and Telecommunications Association, “cable's advanced digital services, such as high-speed Internet access, digital cable, video-on-demand, and telephone service, are available to more than 105 million homes, or 88 percent of U.S. households passed by cable.” See <http://www.ncta.com/Docs/PageContent.cfm?pageID=37>.

¹⁸ Comments of CTIA - The Wireless Association, WT Docket No. 06-17, at 14-22 (filed Feb. 17, 2006).

¹⁹ *Id.* at 15-18.

²⁰ Lower prices may be the key to translating access to broadband services to subscribership.

the case. To the extent that the Commission concludes that additional support is needed for such deployment in non-rural high-cost areas, the Commission must ensure that the additional support is available on a competitively neutral basis.²¹ The Commission must not pick winners and losers in the broadband marketplace – especially as wireless, a potential third broadband option to the home is just now being broadly deployed.²²

C. Rural Consumers Should Have Access to Reasonably Comparable Services from a Variety of Service Providers

Section 254(b)(3) provides that “[c]onsumers in all regions of the Nation ... should have access to telecommunications and information services ... that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably

²¹ See *infra* discussion of section 254(b)(7) principle of competitive neutrality.

²² See *Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996*, CC Docket No. 98-146, *Report*, 14 FCC Rcd 2398, 2401 (1999) (“Our role is not to pick winners and losers, or to select the best technology to meet consumer demand. We intend to rely as much as possible on free markets and private enterprise.”); *Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*; *Review of Regulatory Requirements for Incumbent LEC Broadband Telecommunications Services*; *Computer III Further Remand Proceedings: Bell Operating Company Provision of Enhanced Services*; *1998 Biennial Regulatory Review -- Review of Computer III and ONA Safeguards and Requirements*; *Inquiry Concerning High-Speed Access to the Internet Over Cable and Other Facilities*; *Internet Over Cable Declaratory Ruling*; *Appropriate Regulatory Treatment for Broadband Access to the Internet Over Cable Facilities*, CC Docket No. 02-33; CC Docket No. 01-337; CC Docket Nos. 95-20, 98-10; GN Docket No. 00-185; CS Docket No. 02-52, *Policy Statement*, 20 FCC Rcd 14986, 14988 (2005) (“To encourage broadband deployment and preserve and promote the open and interconnected nature of the public Internet, consumers are entitled to competition among network providers, application and service providers, and content providers.”) (emphasis in original) (citing Preamble, Telecommunications Act of 1996, P.L. 104-104, 100 Stat. 56 (1996) (enacting 1996 Act “to promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies”)).

comparable to rates charged for similar services in urban areas.”²³ Although the Tenth Circuit’s remand focused on the need to take further steps to ensure the reasonable comparability of *rates*, the Commission also must grapple with the need to ensure the reasonable comparability of *services* as between urban and rural areas. In this regard, the support mechanism should be judged by its ability to ensure that consumers in rural and high-cost areas have access to comparable, but not necessarily the same, services that are available to consumers in urban and low-cost areas, including advanced, competitive wireless services.²⁴ This is especially true in light of the ubiquity of wireless services in urban and now most rural areas. There are over 200 million wireless subscribers and the Commission must ensure that the operation or availability of the support mechanism does not impair rural consumers’ access to wireless service or to the choice of wireless providers that urban consumers enjoy.²⁵

²³ 47 U.S.C. § 254(b)(3); *see also* NPRM at ¶¶ 18-22.

²⁴ In other phases of this docket, some incumbent LECs have argued that this would be an inappropriate application of support, given that mobility is not a supported service. *See, e.g.*, Comments of Balhoff & Rowe, LLC, CC Docket No. 96-45, at 31 (filed Sept. 30, 2005). But these same commenters also argue that existing support flows are crucial to ensuring broadband deployment in rural areas – although broadband is not a supported service either. *See id.* at 47. In fact, it is probably possible for the Commission to ensure both broadband and wireless deployment with the existing supported services list – or it can consider adding *both* services to the list. If, as envisioned by Section 254(c)(1)(B) of the Act, subscribership was the primary determiner of whether to add a service to the list of supported services, mobility should be added prior to broadband.

²⁵ As noted above, however, this does not mean that urban consumers should subsidize *lower* rates for wireline, wireless or any other service in rural areas that are available in urban areas.

D. A Unified Mechanism, Basing Support on Efficient Costs, Will be Specific, Predictable, and Sufficient

Section 254(b)(5) requires that the support mechanisms be specific, predictable, and sufficient.²⁶ CTIA believes that a high-cost support mechanism based on efficient costs can comply with this statutory requirement. Each of the five existing support mechanism for high-cost areas, taken alone, may be specific. When viewed as a whole, however, the entire structure is so complicated that it no longer meets the specificity requirement of the Act. Therefore, as we discuss below, a single mechanism for all carriers and all areas must be put in place.²⁷

Further, to be predictable, the support mechanism must calculate support based on efficient costs (or, at least divorce support from an individual carrier's embedded costs). The existing non-rural mechanism with its use of a model to approximate forward-looking economic costs is superior in this regard to the Commission's existing rural high-cost support mechanisms basing support on a carrier's embedded costs. A mechanism that calculates support based on efficient costs – divorced from any individual carrier's actual costs – will be more predictable. By contrast, a support mechanism that allows individual carriers to determine support amounts by spending more makes support less predictable for policy-makers and contributors.

Similarly, a support mechanism based on efficient costs will target *sufficient* levels of support to high-cost areas. Support based on efficient costs appropriately balances the need for support to serve high-cost areas against the burden that places on customers that ultimately contribute to universal service. The goal of universal service is to bring services to *consumers*

²⁶ 47 U.S.C. § 254(b)(5); NPRM at ¶ 15. CTIA's comments in this area are informed by its overall reform proposal, which is described in detail in section II, *infra*.

²⁷ *See infra* section II.

through sufficient funding. There is no requirement that providers have a sufficient return on investment. As the United States Court of Appeals for the Fifth Circuit previously concluded, “[t]he act only promises universal service, and that is a goal that requires sufficient funding of *customers*, not *providers*.”²⁸ A mechanism that calculates support based on individual carriers’ expenditures, regardless of the area served, will run afoul of the sufficiency requirement because, as the Fifth Circuit has stated, “excessive funding may itself violate the sufficiency requirements of the act.”²⁹ Thus, the Commission should consider market-driven approaches, including forward-looking costs and other alternatives, to ensure it meets the goals of Section 254(b).

E. Competitive Neutrality is Required Under the Act

Pursuant to Section 254(b)(7), the Commission adopted the principle of “competitive neutrality.”³⁰ This principle was important when the Commission adopted it in 1998, and it has become only more vital as the telecommunications marketplace has become more competitive. Competitive neutrality “is made necessary, not only by the economic realities of competitive markets but also by statute.”³¹ In order for the Commission to ensure that rural consumers have access to services that are reasonably comparable to those available to their urban counterparts, the Commission must promote competitively neutral distribution of universal service. Failure to retain competitively neutral access to high-cost support would relegate consumers in high-cost areas to second-class status – negatively affecting affordability, reasonable comparability and

²⁸ See *Alenco Communications, Inc. v. FCC*, 201 F.3d 608, 620 (5th Cir., 2000) (emphasis in the original).

²⁹ *Id.*

³⁰ See NPRM at ¶ 17.

access to advanced services. Thus, with specific regard to the court's remand, the Commission should find that the support mechanism will not be sufficient if it is not available to competitive ETCs on a competitively neutral basis, because it will not ensure that these other important universal service principles are met.

II. THE COMMISSION SHOULD ADOPT CTIA'S LONG- AND SHORT-TERM PROPOSALS FOR REFORMING THE HIGH-COST UNIVERSAL SERVICE PROGRAM

Although CTIA wholeheartedly supports retention of high-cost support for non-rural carriers based on efficient or forward-looking support, CTIA believes that fundamental modifications to the existing mechanisms are needed to achieve the universal service goals set forth in the Communications Act. Specifically, to respond to the Tenth Circuit's remand and fashion a support mechanism that appropriately addresses the principles of Section 254(b), the Commission should reform the support mechanism consistent with CTIA's proposal discussed below.

In previous comments to the Commission and to the Federal-State Joint Board on Universal Service, CTIA proposed a set of short-term and long-term goals for high-cost reform.³² CTIA's proposed reforms will: (1) Improve the operation of the high-cost support system; (2) Ensure that eligible competitors continue to have competitively neutral access to high-cost support; and (3) Decrease the need for universal service subsidies over time by

³¹ *Alenco*, 201 F.3d at 616.

³² Comments of CTIA - The Wireless AssociationTM on Joint Board High Cost Proposals, CC Docket No. 96-45 (filed Sept. 30, 2005) ("CTIA High Cost Proposals comments"); Comments of CTIA - The Wireless AssociationTM, CC Docket No. 96-45 (filed Oct. 15, 2004) ("CTIA Rural Referral comments").

encouraging and rewarding efficiency and better targeting the right amount of support to high-cost areas. CTIA summarizes its proposal here for the Commission's convenience.

Specifically, CTIA recommends rationalizing the five current high-cost support mechanisms into a unified support mechanism. A single mechanism will reduce unnecessary costs and burdens associated with managing multiple mechanisms. Another way to simplify the current high-cost system is to transition all carriers to a forward-looking mechanism. The use of an objective measure of efficient costs will eliminate the need for detailed cost reporting. Ultimately, CTIA envisions a reformed mechanism that provides support for all eligible carriers based purely on the efficient, forward-looking economic costs of serving a geographic area.

Some of these suggested reforms would take place in the near term and others are long-term goals. In terms of short-term reforms, CTIA first recommends that, larger incumbent LECs which, along with their affiliates, have 50,000 or more access lines in a state, should begin receiving support, if any, based on a forward-looking mechanism. Moving larger carriers to the model would affect a small percentage of rural incumbent LEC study areas, but would cover approximately 14 million, or 65%, of the total lines served by rural carriers.³³ Prior to moving these larger incumbent LECs to the "non-rural" mechanism, the Commission should address persistent deficiencies with the non-rural mechanism including outdated switch and customer locations, the failure of the current mechanism to build plant along roads, and other "input" problems.³⁴ Other short-term reforms proposed by CTIA are: (1) Removing non-loop costs,

³³ See Universal Service Administrative Company, Federal Universal Service Support Mechanisms Fund Size Projections for the Third Quarter of 2004, at Appendix HC05 (filed Apr. 30, 2004). This estimate does not account for affiliated study areas, which would be combined for purposes of this transition.

³⁴ CTIA High Cost Proposals comments at 20; CTIA Rural Referral comments at 23.

such as risk-related profits and Corporate Operations Expenses, from the high-cost loop support mechanism;³⁵ (2) Requiring incumbent LECs with less than 50,000 access lines in a study area to provide that they in fact have high average switching costs prior to receiving local switching support;³⁶ and (3) Freezing further growth in the embedded cost mechanisms during the transition.³⁷

CTIA also has proposed longer-term reform goals, including transitioning the remaining incumbent LECs to the forward-looking high-cost support mechanism. CTIA acknowledges that prior to transitioning smaller rural incumbent LECs to the forward-looking mechanism, significant changes would need to be made, including elimination of state-wide averaging and adjustments to benchmarks. The Commission then should eliminate arbitrary interstate and intrastate cost separations and fold interstate common line support and interstate access support into the unified forward-looking high-cost support mechanism.³⁸ Ultimately, the Commission should develop a single high-cost support mechanism that calculates support for both incumbent and competitive ETCs based on the costs of the most efficient technology (wireless or wireline) for a given geographic area. Finally, the Commission should establish a system to ensure regular updates to the forward-looking mechanism to reflect the introduction of more efficient technologies.³⁹

³⁵ CTIA Rural Referral comments at 23-24.

³⁶ *Id.* at 24.

³⁷ *Id.* at 24-25.

³⁸ CTIA High Cost Proposals comments at 31.

³⁹ CTIA Rural Referral comments at 26

In addition to the reforms that CTIA has proposed, it is open to other market-based proposals that would achieve the goals of universal service while improving upon the current inefficient high-cost universal service mechanism that often does not target support to the areas where it is needed. Particularly, CTIA supports market-driven mechanisms that reward efficiency, such as reverse auctions or competitive bidding to determine high-cost support levels for both incumbents and competitors.

III. ANY SUPPORT MECHANISM FOR NON-RURAL INSULAR AREAS MUST BE BASED ON EFFICIENT COSTS

In the NPRM, the Commission tentatively concludes that it should adopt an interim support mechanism for non-rural insular areas that would be based on embedded costs.⁴⁰ While CTIA takes no position at this time on providing support to non-rural insular areas, where such support is needed, the Commission must base any such support on the efficient costs of providing the supported services, rather than embedded costs, and must ensure that such support is available to competitive ETCs on a non-discriminatory basis. CTIA therefore believes that it would be more appropriate to determine whether Puerto Rico should receive more support in the context of broader reform that would better target support to high-cost areas based on efficient costs.

⁴⁰ NPRM at ¶ 33.

CONCLUSION

CTIA urges the Commission to target universal service funding and maintain a policy of competitive neutrality in demonstrating that support is sufficient under section 254(b). Additionally, the Commission must adopt immediate and more long-term reform for the high-cost universal service program to both appropriately address the Tenth Circuit's concerns regarding the principles of "affordability" and "reasonable comparability," and more generally achieves universal service goals. Ultimately, the Commission should provide support under a reformed mechanism that is based purely on the efficient, forward-looking economic costs of serving a geographic area.

Respectfully submitted,

CTIA - THE WIRELESS ASSOCIATION®

By: /s/ Paul Garnett

Paul W. Garnett
Assistant Vice President,
Regulatory Affairs

Michael F. Altschul
Senior Vice President and
General Counsel

Christopher Guttman-McCabe
Vice President, Regulatory Affairs

Its Attorneys

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