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October 20, 2006

**VIA ELECTRONIC FILING**

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWA325
Washington, D.C. 20554

Re: Notice of Ex Parte Presentation in CC Docket No. 96-45

Dear Ms. Dortch:

On October 19, 2006, Alltel Communications, Inc. ("Alltel") representatives Stephanie Johanns, Gene DeJordy, and Mark Rubin, and I, counsel to Alltel, met with Commissioner Robert McDowell and his advisors John Hunter and Angela Giancarlo to discuss universal service issues in the above-referenced proceeding.

During the meeting, Alltel representatives discussed the attached universal service presentation, which addresses wireless carriers' many contributions to the universal service program. Specifically, Alltel highlighted that:

- *Wireless carriers now contribute more than any other group to the USF. Indeed, wireless carriers contribute* ***four times more*** *in USF support than they receive.*

- *USF growth is not primarily due to Competitive Eligible Telecommunications Carriers (CETCs) – CETCs are responsible for* ***only one-third*** *of the growth of the USF since 1999.*

- *CETCs receive a very small portion of the USF – 9.8% of 2005 USF disbursements for the high cost fund and 1.1% of 2005 USF disbursements for the low income program.*

- *USF disbursements are critical to rural wireless build-out, because rural areas cover much greater geography, with much lower population density and much higher costs of providing service (including significantly higher interconnection rates than urban areas).*

- *Wireless carriers are using USF support to benefit rural consumers and communities, consistent with the goals of universal service as envisioned by Congress, the FCC, and the state commissions. Moreover, CETC annual certification requirements and build-out plans force wireless carriers to demonstrate how they are using USF support to serve rural areas.*

- *All ETCs – both ILECs and CETCs – should receive the same amount of per-line USF support, and USF portability is mandated by statutory and legal precedent.*

- *Efficiencies in the universal service system can be realized through forward-looking costs based on the most efficient technology and/or other reforms to current funding, possibly including a pro-competitive USF auction scheme.*

Please contact me if there are any questions regarding this filing.

Sincerely,

*/s/ Michele C. Farquhar*

Michele C. Farquhar
Counsel for Alltel Communications, Inc.

cc: Commissioner Robert McDowell
John Hunter
Angela Giancarlo

# Wireless Universal Service

October 2006

alltel

# Discussion Points

1. Background
   - Alltel
   - USF and ETC

2. Support for CETCs Furthers The Goals of Universal Service

3. USF: Wireless Carriers Are the Largest Contributors

4. CETCs Preserve and Advance Universal Service

5. Distributing USFs To CETCs

6. Conclusion

# Background: Alltel

- Today, Alltel is a wireless-only carrier that provides service in 35 states.
  - In July 2006, Alltel spun-off its wireline local exchange business in 15 states, which was combined with Valor to form Windstream.
- Prior to the spin:
  - Alltel Wireline had 2.7M customers in 15 states and was an ETC throughout its service area and was eligible to receive approximately $95M in federal USF support and approximately $42M in state USF support.
- Alltel Wireless currently serves some of the most rural, sparsely-populated areas of the U.S.
  - Alltel has the largest wireless network in the U.S. in terms of geography served, but is the fifth largest wireless carrier in terms of total number of customers due to the population density of Alltel's service area.
  - Alltel Wireless has more than 11M customers in 35 states and is an ETC in 26 states, but not throughout its service area.
  - The challenge for Alltel and any rural carrier – wireline or wireless – is constructing and operating a network in high-cost areas.
    - USF support provides the necessary funds that enables communication service to be available in rural, high-cost areas.

# Background: USF and ETC

- Prior to 1996, only ILECs were eligible for USF support, resulting in minimum wireless build-out in rural areas.
- 1996 Act requires:
  - Designation of carriers – competitive or incumbent – as ETCs for purposes of federal universal service support [Section 214(e)].
  - Establishment of an explicit and sufficient funding mechanism for all ETCs [Section 254(b)].
- FCC rules require:
  - Competitive and technological neutrality
  - Portability of USF support
- Court decisions require:
  - Portability of support levels (Alenco)
  - Non-discrimination between eligible carriers (Alenco)
- State and FCC ETC designations:
  - The FCC and 44 states have determined the public interest is served by designating wireless carriers as eligible for USF support.

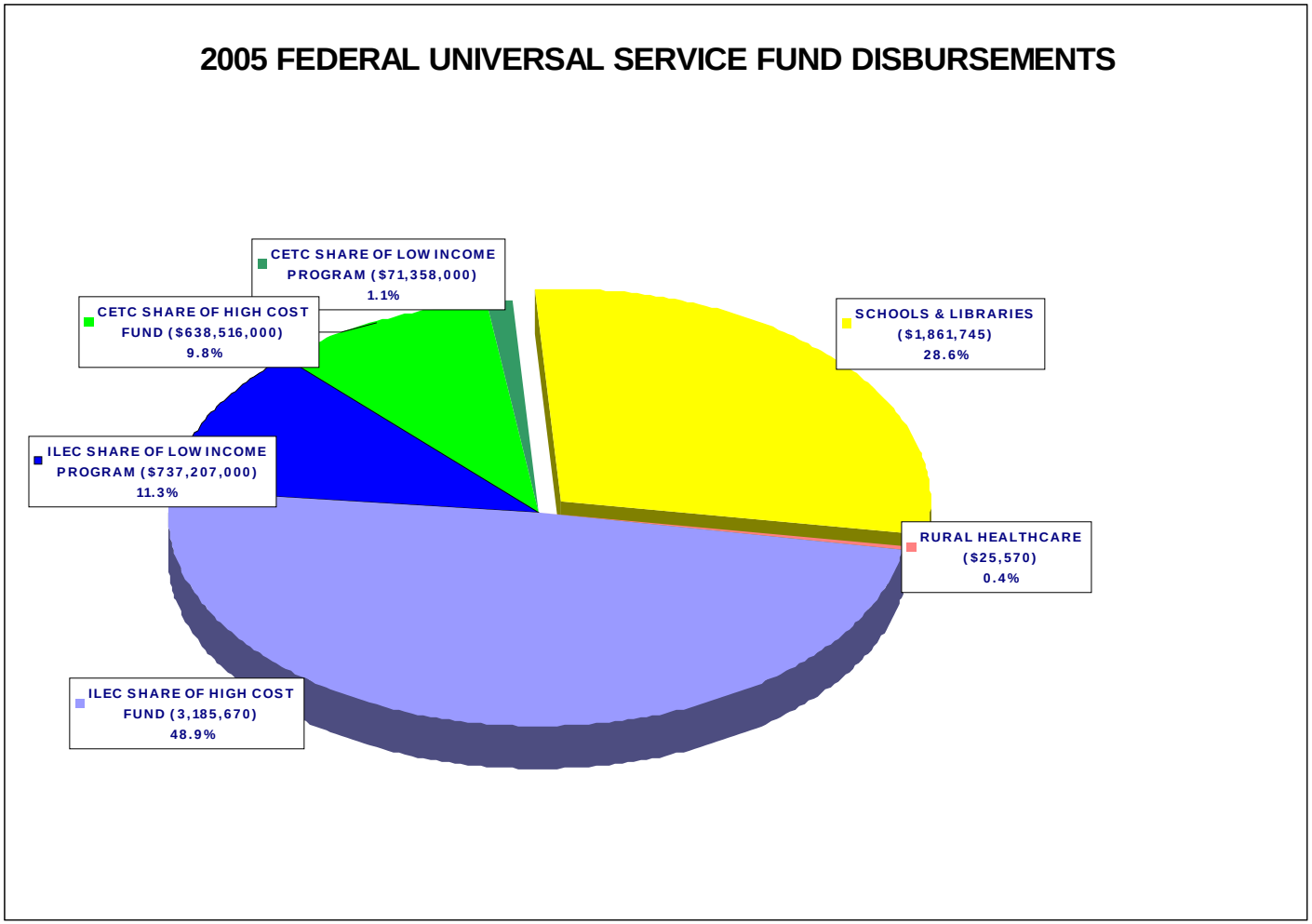
# Background: USF Support Mechanisms

USF support mechanisms consist of the following:

| 1. Explicit federal funds | Fund Size 2005 |
|---|---|
| ▪ High-cost loop (HCL) | $1,238,425,000 |
| ▪ Safety net additive | |
| ▪ Safety Value | |
| ▪ High-cost model (HCM) | $291.840,000 |
| ▪ Local switching (LSS) | $424,795,000 |
| ▪ Interstate common line (ICLS) | $1,178,126,000 |
| ▪ Interstate Access Service (IAS) | $691,000,000 |
| ▪ Total high-cost USFs | **$3,824,186,000** |
| ▪ Low-income fund | **$808,565,000** |
| ▪ Schools & Library fund | **$1,861,745,000** |
| ▪ Rural health care fund | **$25,570,000** |

2. Explicit state funds
   - Typically limited to ILECs
3. Implicit USF support
   - Access charges available only to ILECs
     - Some states, like SD, with 14 cent intrastate access charges

# Background: USF Support Mechanisms

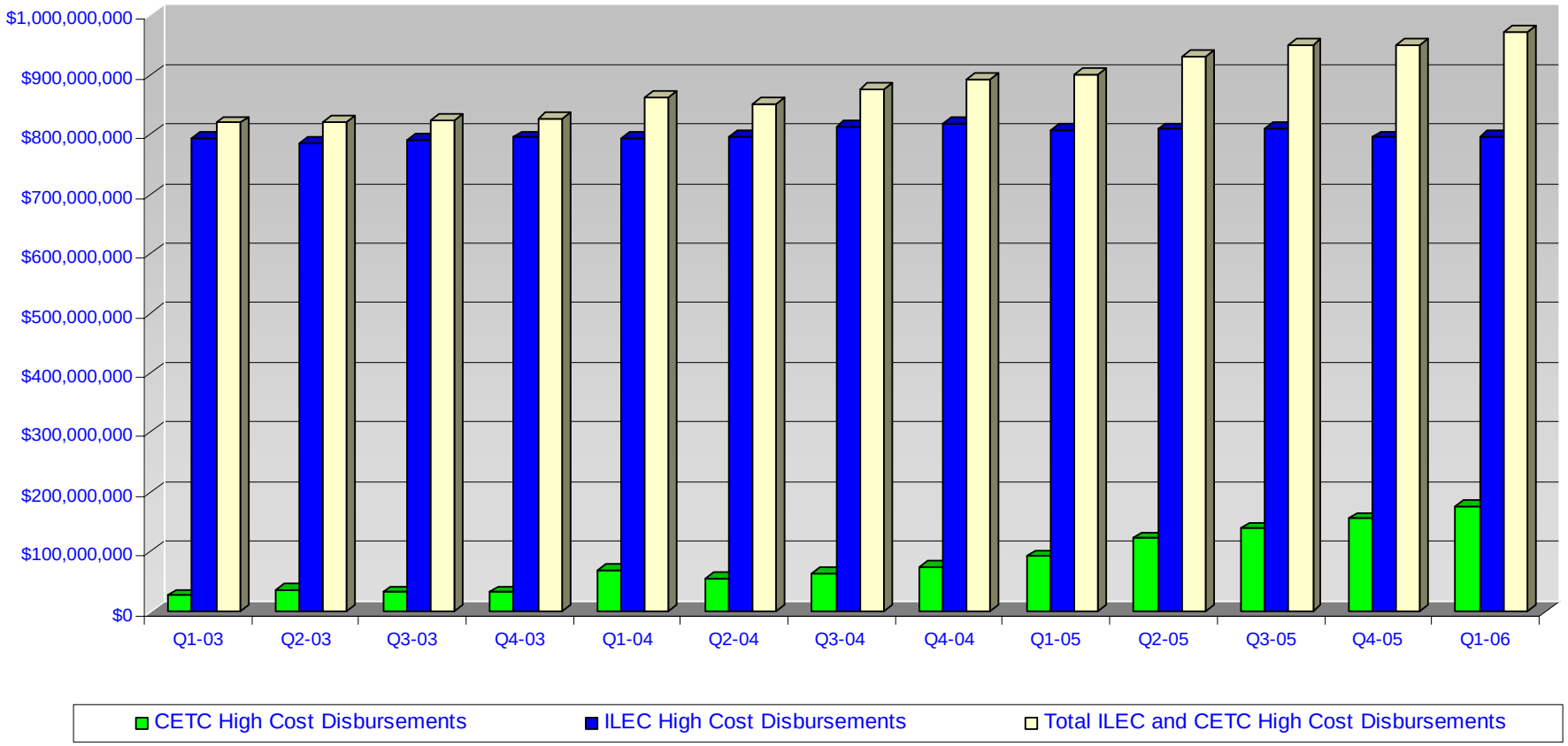


# Support for CETCs Furthers The Goals of Universal Service

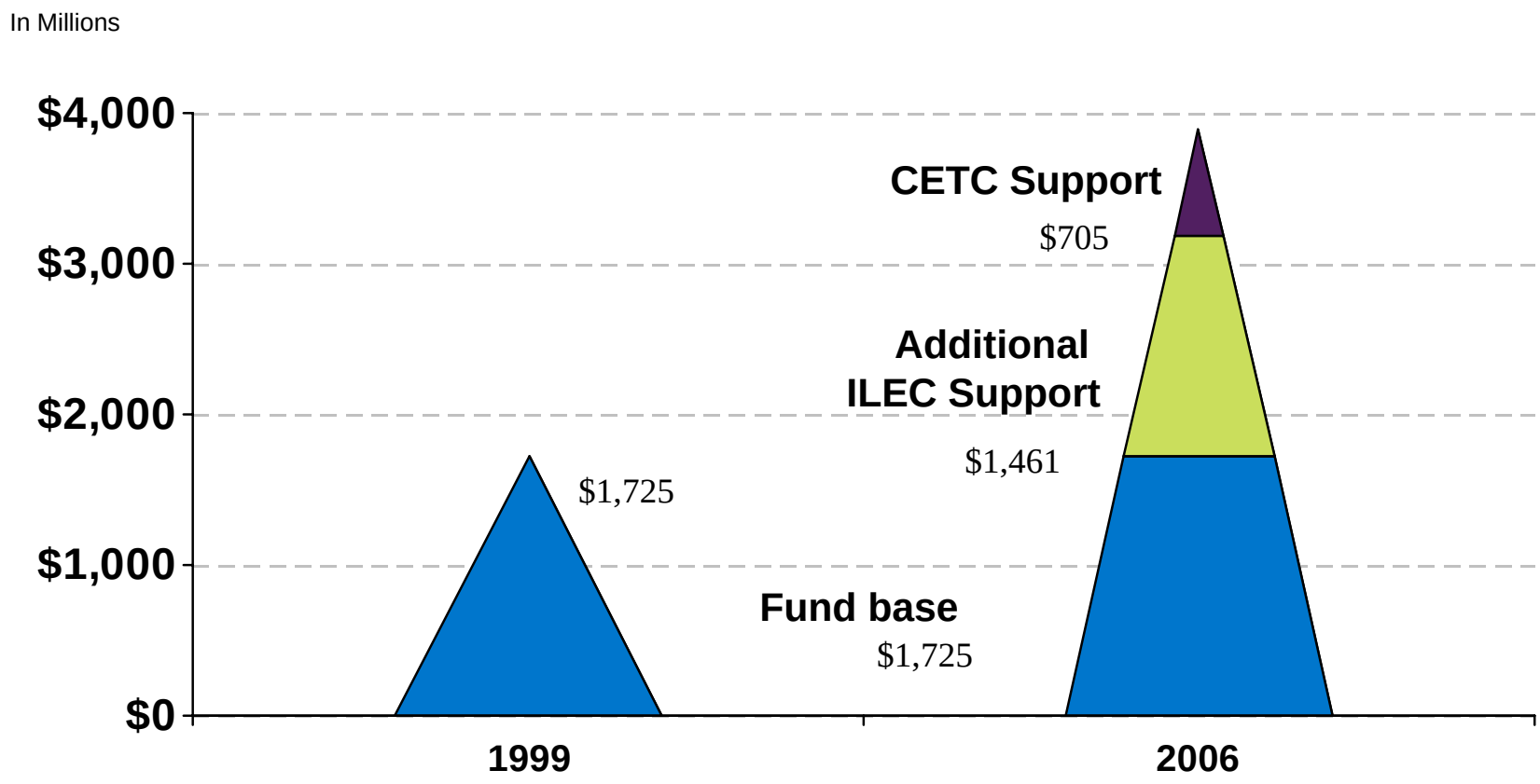
- How: by making support portable to carriers serving rural areas, consumers are realizing the benefits envisioned by Congress, the FCC, and state commissions in establishing a competitive universal service system that is consumer-focused.
  - 44 states have concluded that the public interest is served by designating wireless carriers as ETCs
  - An increasing number of consumers (approximately 10%) have cut-the-cord and rely on wireless service for their basic, advanced, and emergency communications needs
  - Previously unserved rural areas now have access to wireless service
  - Consumers in rural areas have access to communications service that meets their evolving needs
  - A reliable wireless service network is necessary for national security and public safety needs
  - Following Katrina, wireless carriers were asked by the FCC to participate in the universal service program (if not already participating) to address the communications needs of individuals and rescue personnel
    - Alltel provided free service to many consumers displaced by Katrina and has spent millions on network improvements

# Support for CETCs Furthers The Goals of Universal Service

## Comparison of ILEC and CETC High-Cost USF Distributions



# Support for CETCs Furthers The Goals of Universal Service




* CETCs are responsible for only 1/3 of the growth of the USF since 1999.

# USF: Wireless Carriers Are the Largest Contributors

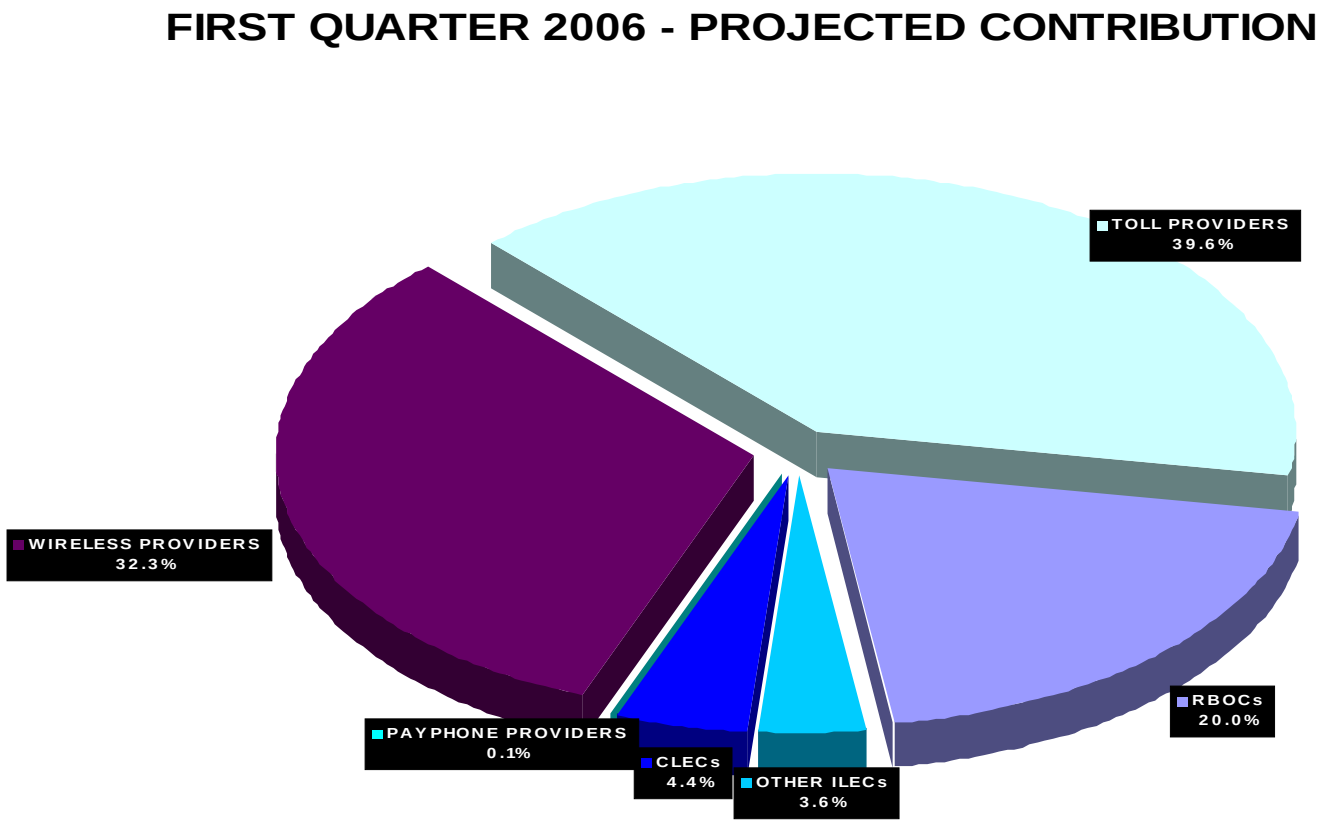
USF Support for CETCs Preserves and Advances Universal Service by:

- Allowing the largest contributor to the USF to use USF support to meet consumer needs
- Introducing the benefits of competition in rural areas by making support portable to carriers serving consumers' needs
- Point: Wireless contributions are increasing at a high rate than wireless distributions
  - *USF Distributions differential 2003 to 2005: $512,000,000**
  - *USF Contributions differential 2003 to 2005: $900,000,000***

** $126,000,000 in 2003 to $638,616,000 in 2005*

** $1,400,000,000 in 2003 to $2,300,000,000 in 2005

# USF: Wireless Carriers Are the Largest Contributors*




*USF Support for CETCs Preserves and Advances Universal Service by allowing the largest contributor (it is anticipated that the increase in the wireless safe harbor together with declining toll revenue will result in wireless being the largest USF contributor in 4Q06) to the USF to use USFs to meet consumer needs.

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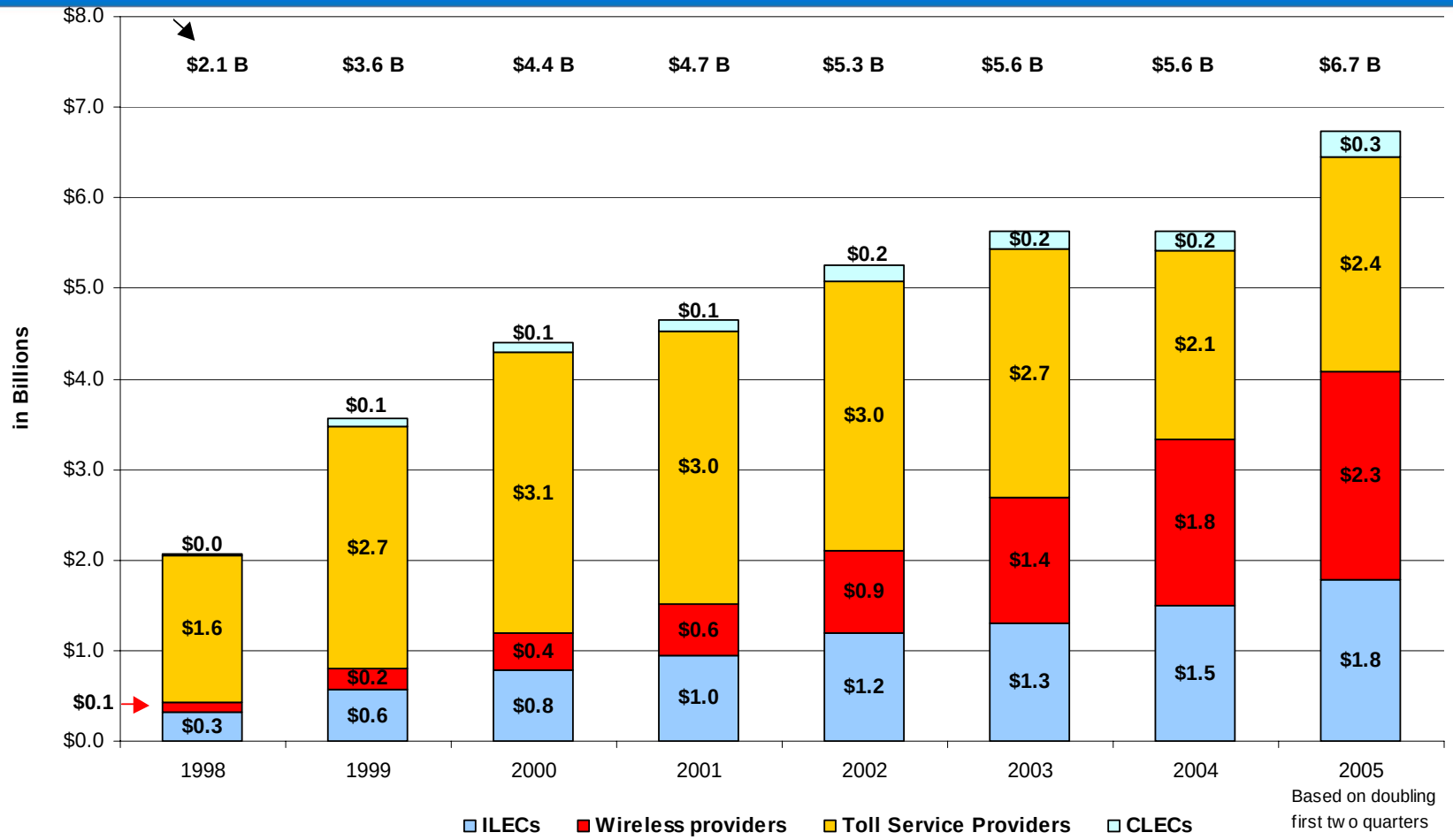


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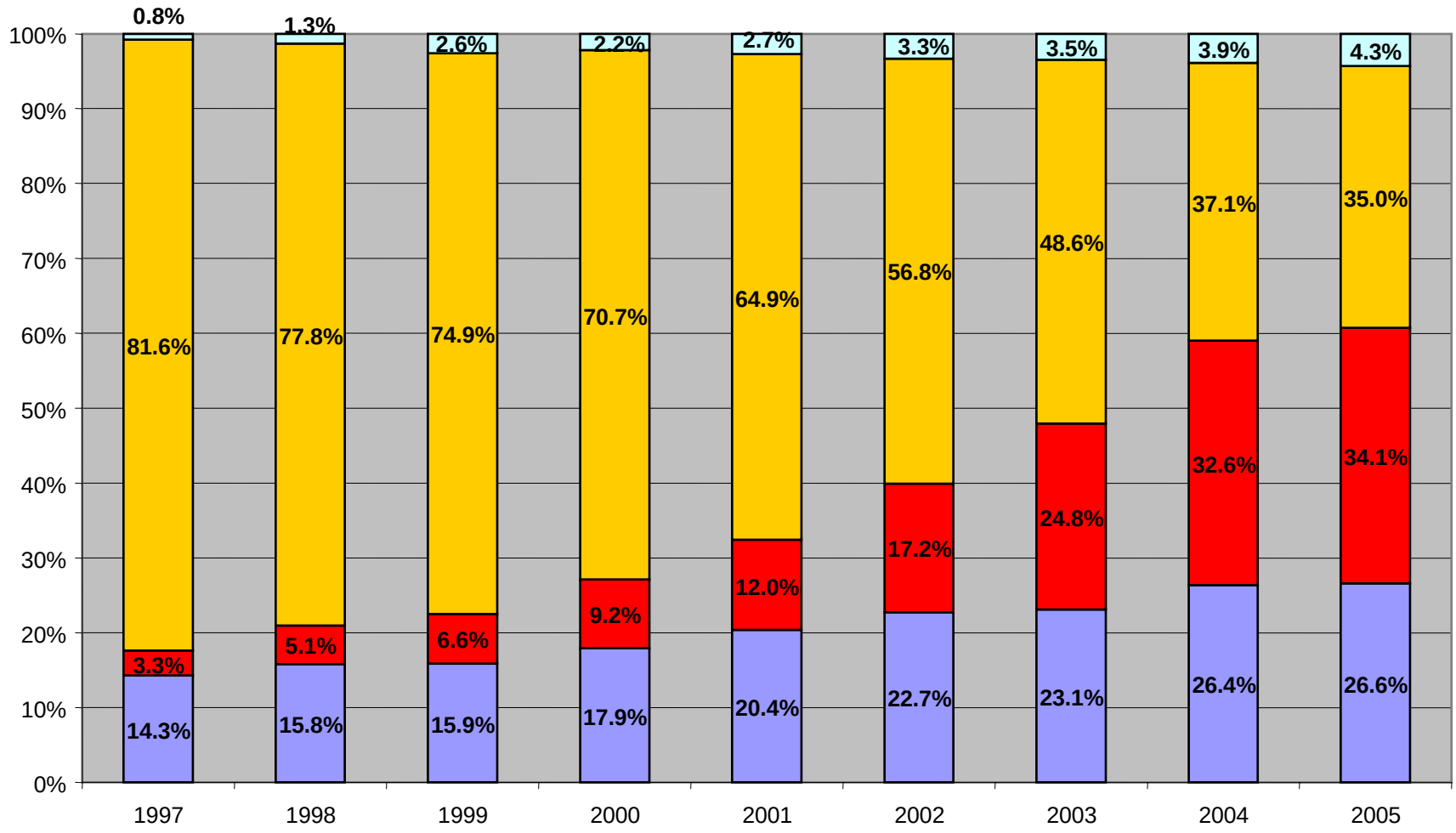



* See note on previous page

Source: FCC Revenues Report

# CETCs Preserve and Advance Universal Service

## USF Support for CETCs:

- Preserves Universal Service by allowing the universal service program to keep pace with the needs of consumers for access to wireless service
  - *See* Attachment A for letters from rural stakeholders
- Advances Universal Service by making service available to unserved and underserved areas
  - *See* Attachment B for announcements on new cell sites
- Advances Universal Service by providing rural communities with the benefits of universal service funding
  - *See* Attachment C for annual certification that demonstrates how USFs are being used to advance universal service
  - *See* Attachment D for Texas economic study
- State commission ETC decisions confirm that the goals of universal service are being met by CETCs

# CETCs Preserve and Advance Universal Service

## Testimonials

- Virginia Cellular's universal service offering will provide benefits to customers in situations where they do not have access to a wireline telephone. For instance, Virginia Cellular has committed to serve residences to the extent that they do not have access to the public switched network through the incumbent telephone company. Also, the mobility of Virginia Cellular's wireless service will provide other benefits to consumers. For example, the mobility of telecommunications assists consumers in rural areas who often must drive significant distances to places of employment, stores, schools, and other critical community locations. In addition, the availability of a wireless universal service offering provides access to emergency services that can mitigate the unique risks of geographic isolation associated with living in rural communities… *FCC Virginia Cellular ETC Order*.

# CETCs Preserve and Advance Universal Service

Testimonials

- "The Commission finds that designating Western as an additional ETC in the study area of each rural telephone company will services to North Dakota consumers, by bringing competitive advance universal service by bringing new telecommunications choice for universal services to residential customers, by offering a highly reliable and top quality universal service offering, and by providing cost effective means for customers in remote areas to acquire universal services." *North Dakota ETC Order*.

- "At least three of the goals underlying federal and state policies favoring competition – customer choice, innovative services, new technologies – would be served by facilitating [Western Wireless'] entry with universal service subsidies." *Minnesota ETC Order.*

- "The Hearing Examiner finds that designating Western Wireless is in the public interest because consumers will benefit from competitive service and new technologies in high cost rural areas." *New Mexico Recommended ETC Decision*.

# CETCs Preserve and Advance Universal Service

Testimonials

- "We find that the provision of competitive service will facilitate universal service to the benefit of consumers in Wyoming by creating incentives to ensure that quality services are available at just, reasonable, and affordable rates. We believe that competition may provide incentives to the incumbent to implement new operating efficiencies, lower prices, and offer better service. We reject the general argument that rural areas are not capable of sustaining competition for universal service support. We do not believe it is self-evident that rural telephone companies cannot survive competition from wireless providers. Specifically, we find no merit to the contention that designation of an additional ETC in areas served by rural telephone companies will necessarily create incentives to reduce investment in infrastructure, raise rates, or reduce service quality to consumers in rural areas." *FCC Wyoming ETC Order*.

# CETCs Preserve and Advance Universal Service

Testimonials

- "If ALLTEL is granted ETC status, customers, particularly Lifeline and Linkup customers, will have the benefits of a substantially increased local calling area. This could serve to reduce their toll bills and could make the service offered by an alternative ETC much more economically desirable." *Arkansas ETC Order.*
- "In this case, designating ALLTEL as an ETC is in the public interest because it is likely to promote competition and provide benefits to customers in rural and high-cost areas by increasing customer choice, while promoting innovative services and new technologies, and encouraging affordable telecommunications services. Further, ALLTEL provides service where there are few, if any competitive local exchange carriers." *Michigan ETC Order.*

# CETCs Preserve and Advance Universal Service

Testimonials

- "The Commission finds that designating ALLTEL as an ETC in areas served by rural companies will increase competition in those areas and, so, will increase consumer choice. While it is true that ALLTEL is currently serving in at least some of these areas, the availability of high cost support for infrastructure deployment will allow ALLTEL to expand its availability in these areas. Further, designation of another ETC may spur ILEC infrastructure deployment and encourage further efficiencies and productivity gains. Additional infrastructure deployment, additional consumer choices, the effects of competition, the provision of new technologies, a mobility option and increased local calling areas will benefit consumers and improve the quality of life for affected citizens of Wisconsin." *Wisconsin ETC Order*.

# Distributing USFs to CETCs

Point: Wireless carriers are not receiving a windfall from the USF, but are spending USFs in a manner envisioned by Congress, the FCC and state commissions.

Proof:

- Legal requirement to spend USF consistent with 254(b)
- Certification requirements to demonstrate use of funds
- Portability of federal USF support is just a faction of the total USF support received by the ILECs
  - *See* Exhibit A: USF Support Comparison
- Today, Alltel receives approximately $12M per year in USF support in SD, but based upon a cost study performed by an outside consultant, Alltel would receive approximately $15M in support if based upon its actual efficient costs.

# Distributing USFs to CETCs

Annual Certifications: Reconfirms Public Interest Benefits of CETC Designations

- Majority of states have adopted in whole or in part the FCC rules governing annual certifications
  - Many states have adopted 2-year plans instead of 5-year build out plans
- Build-out plans demonstrate how USFs are be used to “preserve and advance” universal service
  - *See* attached certification for Alltel in Minnesota
    - Compare to the attached ILEC certifications in MN and NE (*See* Attachment E)
    - CETC certifications demonstrate how USFs are being properly used to serve rural areas

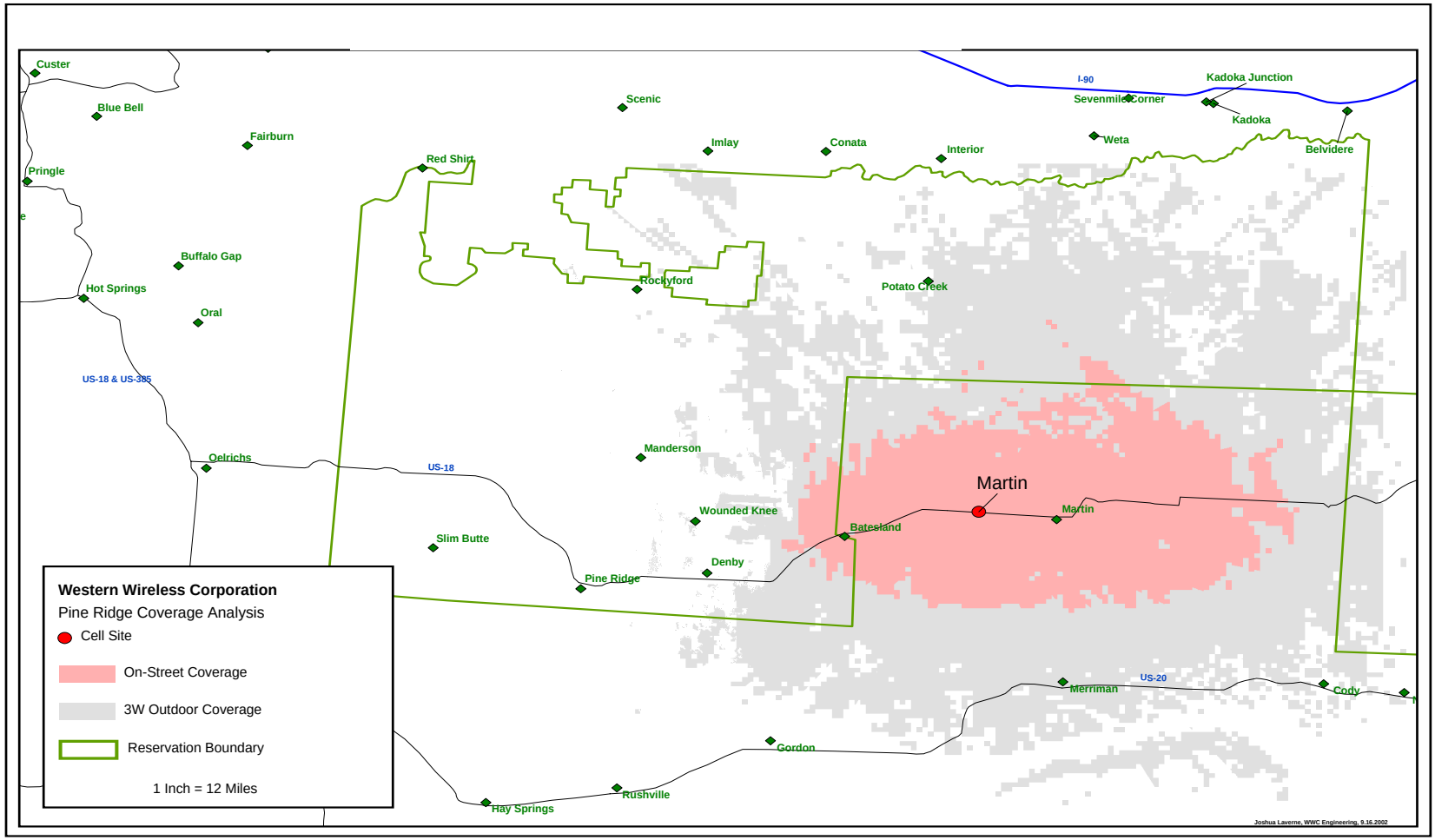
# Distributing USFs to CETCs

USFs are critical for the build-out of wireless networks in rural areas (*some examples*):

- In South Dakota, Alltel constructed more than 3 times the number of cell sites in 2004 (in addition to enhancements/upgrades of existing sites) compared to previous years due to universal service support and is continuing with an aggressive build-out.
- In Montana, Alltel is constructing more than 2 times the number of cell sites in 2006 (in addition to enhancements/upgrades of existing sites) compared to previous years due to universal service support and will accelerate the build-out upon receiving ETC designation in rural areas.
- In Kansas, Alltel is building an unprecedented number of cell sites in rural areas due to universal service support.
- In Nebraska, Alltel committed to constructing more than 30 cell sites in rural areas as part of its ETC designation in 2006.

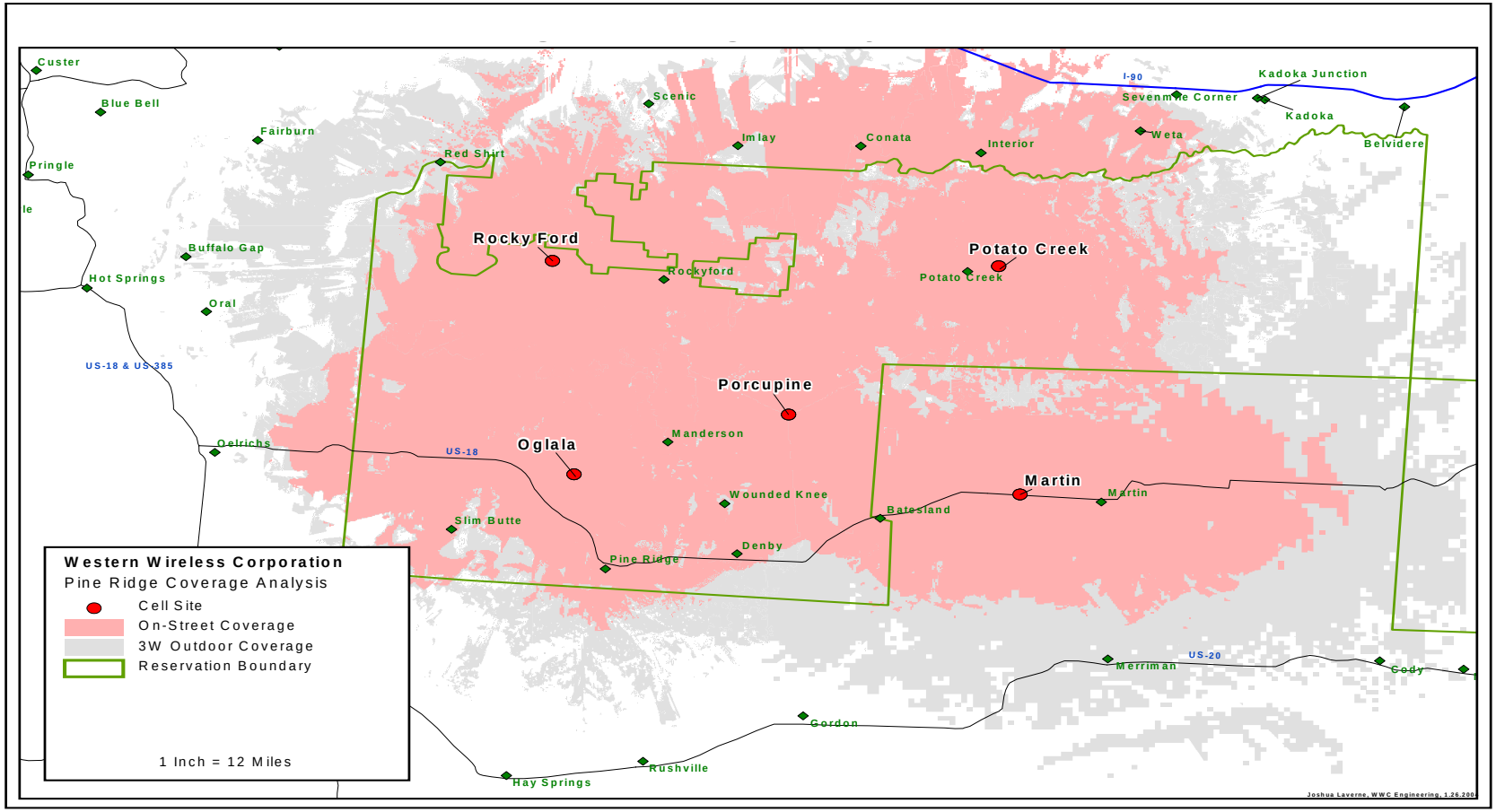
# Distributing USFs to CETCs

## Pine Ridge Indian Reservation Coverage Pre-ETC Designation



# Distributing USFs to CETCs

## Pine Ridge Indian Reservation Coverage Post-ETC Designation



# Distributing USFs to CETCs

**Why is USFs so critical to rural wireless buildout?**

- Rural areas cover a lot of geography with low population density and high-cost of service.
- For example, interconnection rates in urban areas are significantly less than in rural areas:
  - In SD, the recip comp rate in Qwest area is .07 cents per MOU and the intrastate access rate is approximately 1.6 cents per MOU compared to a recip comp rate of 2 cents per MOU and an intrastate access rate of 14 cents per MOU in some rural areas.
    - The impact on cost of service is significant: if a wireless carrier terminates 400 MOUs to customers served by rural telcos in SD, then the interconnection cost of service alone would be $12 per month (e.g., 400 MOUs times an average 3 cent termination rate per MOU), compared to an interconnection cost of service of $1 per month (e.g., 400 MOUs times an approximate .25 cent termination rate per MOU) to terminate 400 MOUs to customers in urban areas served by Qwest.
      - ***A cost differential of 12 times in rural areas.***

# Conclusion

- USF growth since 1999 is <u>not</u> primarily due to CETCs.

- Wireless carriers now contribute more than any other group to the USF.

- Wireless carriers contribute 4 times more in USF support than they receive.

- Wireless carriers are using USF support to benefit rural consumers and communities, consistent with the goals of universal service as envisioned by Congress, the FCC and the state commissions.

- The USF support received by wireless carriers based upon the per line support received by the ILECs should be maintained as part of universal service reform.

- Efficiencies in the universal service system can be realized through forward-looking costs utilizing the most efficient technology and/or other reform to the current funding mechanisms.

# Exhibit A: USF Support Comparison

Nebraska and South Dakota Case Studies

| USF Support Mechanisms | SD ILECs | NE ILECs | CETCs |
|---|---|---|---|
| **Federal USF Support** | $56,154,616 per year | $54,518,784 per year | SD: $28,939,628 per year<br><br>NE: $28,939,628 per year |
| **State USF Support** | None | $75M | None |
| **Access Charges** | 14.47 cents per MOU | 1.5 cents to 4.5 cents per MOU | None |