

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

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| In the Matters of   | ) |                      |
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| Federal-State Joint Board on Universal Service                            | ) | CC Docket No. 96-45  |
|   | ) |                      |
| Merits of Using Auctions to Determine High-Cost Universal Service Support | ) | WC Docket No. 05-337 |
|   | ) |                      |

**To: The Federal-State Joint Board on Universal Service**

**REPLY COMMENTS OF CENTURYTEL, INC.**

CenturyTel, Inc., on behalf of its incumbent local exchange carrier (“ILEC”) subsidiaries (collectively, “CenturyTel”), hereby submits Reply Comments in the above-captioned proceeding. The opening comments reveal considerable skepticism regarding the use of reverse auctions to determine the amounts or the recipients of high-cost universal service support. Some parties endorse the concept, but express concerns about how such a mechanism could be implemented consistent with the goals underlying universal service. Below, CenturyTel rebuts some of the fundamental fallacies in the comments supporting reverse auctions.

1. *Is It All About Shrinking the Fund?* A central theme in the comments filed by parties advocating the use of reverse auctions is “efficiency.”<sup>1</sup> The theory appears to be that competitive bidding would encourage carriers to act “efficiently,” by compelling them to identify ways to provide service using the lowest amount of support, which in turn would produce savings that are passed on to customers. One can only assume that CTIA and GCI base their

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<sup>1</sup> See, e.g., CTIA Comments at iii-iv (stating that the wireless industry supports “reforms to the high-cost universal service mechanisms that will encourage and reward efficiency”); GCI Comments at 3 (“[A]n auction should be used to determine the amount of subsidy necessary for an efficient and capable provider to serve the defined market.”).

efficiency concept on the assumption that they would have minimal regulations and related costs in providing such services.

While affordability certainly is a goal of universal service,<sup>2</sup> equally important is the *quality* and *reliability* of the service made available to end-users, as the Commission has repeatedly emphasized in this proceeding.<sup>3</sup> And in lauding the “efficiency” of a reverse auction system, parties such as CTIA and GCI fail to explain how awarding support to the lowest bidder—or spreading out such support among all bidders, as described below—would ensure that consumers continue to receive services of comparable quality or reliability in all regions of the country. Indeed, cheap service, which CTIA predicts to be a chief result of reverse auctions,<sup>4</sup> cannot necessarily be equated with good or reliable service that meets the goals of universal services as outlined in the Act. The wireless industry’s own experience vividly illustrates this point. While wireless prices have declined in recent years,<sup>5</sup> subscribers report being generally

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<sup>2</sup> See 47 U.S.C. § 254(b) (noting the goal of providing access to service “at affordable rates”).

<sup>3</sup> See *Federal-State Joint Board on Universal Service Seeks Comment on the Merits of Using Auctions to Determine High-Cost Universal Service Support*, Public Notice, FCC 06J-1, WC Docket No. 05-337, CC Docket No. 96-45 ¶ 3 (rel. Aug. 11, 2006) (“*August 2006 Public Notice*”) (“Generally, proposals to use auctions in the universal service context contemplate competitive bidding for the obligation to serve a specified area *at an acceptable quality of service* for a specified term, with the benefit of receiving universal service support to do so.”) (emphasis added); *Federal-State Joint Board on Universal Service Seeks Comments on Certain of the Commission’s Rules Relating to High-Cost Universal Service Support*, Public Notice, 19 FCC Rcd 16083 ¶ 16 (2004) (seeking comment “on whether the Commission’s universal service rules encourage carriers to provide quality, affordable services more efficiently”).

<sup>4</sup> See CTIA Comments at 6 (stating that the benefits of reverse auctions “would inure to the benefit of all consumers, who both pay for and are the intended beneficiaries of support”).

<sup>5</sup> See Verizon/Verizon Wireless Comments at 7 (noting that wireless prices have declined by more than 50% since 2001).

dissatisfied with all aspects of their service.<sup>6</sup> A recent *Wall Street Journal* report shows that wireless customers continue to encounter a range of problems, including coverage gaps, complicated and confusing bills, and poor customer service.<sup>7</sup> When overlaying the wireless industry's all-consuming need to be deregulated at the state level with its desire to receive increased universal service funding, it is difficult to reconcile an inevitably declining service model with receipt of scarce high-cost funding that is intended to bring advanced services to all Americans.

To truly improve efficiency in the high-cost support system, carriers would have to do things at the same level of quality or *better*, not worse, for less. Reverse auctions would fall quite short of that standard. As CenturyTel has explained, a reverse auction system would inevitably cause a decline in service quality, as it would facilitate a "race to the bottom" in which declining amounts of support force carriers to refrain from undertaking network upgrades and other investments.<sup>8</sup> It is well-documented that such network investment is a prerequisite to the enhancement of existing services as well as the deployment of new, more advanced services.

2. *ILECs Are Not "Inefficient" Providers of Universal Service.* The assumption underlying the argument that reverse auctions encourage "efficiency" is that the

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<sup>6</sup> Compare, e.g., *Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, Eleventh Report, WT Docket No. 06-17 ¶ 150 (rel. Sept. 29, 2006) (noting evidence of a decline in wireless prices), *with id.* ¶¶ 180-88 (describing surveys of customer dissatisfaction with wireless services since 2004).

<sup>7</sup> See Sarmad Ali, *The 10 Biggest Problems With Wireless and How to Fix Them*, WALL ST. J., Oct. 23, 2006, at R1.

<sup>8</sup> See CenturyTel Comments at 13-16; see also *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776 ¶ 320 n.819 (1997) (noting that the adoption of a competitive bidding system would first require an examination of issues including "whether additional quality of service standards are needed for areas for which the support levels set by competitive bidding").

current system does not.<sup>9</sup> As proof of this notion, CTIA complains that, while the size of the high-cost fund has increased, “the vast majority of universal service support continues to be directed to incumbent LECs” even though “there are now considerably more mobile wireless subscribers than wireline switched access lines.”<sup>10</sup> None of this shows that ILECs are “inefficient” relative to wireless carriers. Indeed, one could conclude that if the majority of support is going to ILECs, it is because they are making the majority of meaningful investment in rural areas. Wireless CETCs, on the other hand, have little incentive to invest and remain content to let the ILECs do so while receiving high-cost and other support based on ILEC costs.

The increase in the size of the high-cost fund is not attributable to any inefficiencies by ILECs but primarily to the seemingly unrestrained designation of wireless ETCs in many markets, as CenturyTel has explained,<sup>11</sup> and as reinforced by the research and opinions of Wall Street.<sup>12</sup> Since they were permitted to become ETCs six years ago, high-cost

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<sup>9</sup> See, e.g., CTIA Comments at 2-3 (stating that the existing system “encourages and rewards inefficiency”).

<sup>10</sup> *Id.* at iii.

<sup>11</sup> See CenturyTel Comments at 11-13. Much of the fund growth can also be attributed to prior reductions to interstate access rates that have been shifted over into universal service mechanisms.

<sup>12</sup> See Legg Mason Wood Walker, Inc., *Universal Service Financial Analysis*, June 25, 2004, at 5 (“More pointedly, the size of the universal service fund, in our view, would not be a major concern if it were not for the dramatic growth in CETC payments over the last two years and the potential expansion in the next few years.”); *id.* at 7 (“Our opinion is that the CETC payments may affect the size of the fund dramatically, create businesses that are founded on ‘regulatory revenues’ rather than on regulatory formulas tied to investment levels (allowed rates of return), and possibly damage the incumbent carriers as customers are siphoned away in already-sparse service areas.”); *Bear Stearns USF Primer*, Mar. 2003, at 17 (“Wireless carriers pursue USF support for several different reasons. One simple reason is that it is allowed under current rules—and not doing so would be like leaving a \$100 bill on the ground. In addition, the additional revenue helps offset declining roaming fees (as carriers increasingly have broader networks) and high marketing costs.”).

support to wireless carriers has grown to more than \$1 billion,<sup>13</sup> as growing numbers of wireless ETCs have lined up to collect funding without any proof that they actually need it, and often for reporting more “lines” than there are households in a given market.<sup>14</sup> If anything, during this same period, ILECs have become *more* efficient, providing at least the same level of service, if not more, with *less* support. For example, CenturyTel and other similarly situated companies have gained increased efficiencies due to prudent investment decisions, cost control, and consolidation of accounting, billing, and other back-office support systems. This is consistent with the fact that most ILECs, despite suggestions to the contrary, have every incentive to be efficient in today’s environment.

Furthermore, any disparity in the “bids” for high-cost support by wireless CETCs as compared to ILECs would not demonstrate that ILECs are less efficient, unless the services provided by the two categories of carrier were comparable as to quality and price. They are not. As CenturyTel has explained, ILECs experience unique costs due to the ubiquitous and reliable nature of their networks, regulated obligations at the state level, and their obligation to serve as carriers-of-last-resort—costs that are subject to rigorous oversight through detailed cost-accounting procedures.<sup>15</sup> Wireless carriers do not bear the same obligations or provide the same level of service, and accordingly, they should not categorically be entitled to the same amount of support.<sup>16</sup>

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<sup>13</sup> CTIA Comments at iii.

<sup>14</sup> See CenturyTel Comments at 12-13; see also Verizon/Verizon Wireless Comments at 10 (stating that “[h]igh cost support to ETCs is on the rise”).

<sup>15</sup> See CenturyTel Comments at 10.

<sup>16</sup> For this reason, GCI is wrong in suggesting that the entry of an unsupported competitor would reveal that any support granted to other carriers is “excessive and unnecessary.” GCI Comments at 9 n.11. That is only true if the supported and unsupported carriers face

3. *The Receipt of High-Cost Support Should Not Be Divorced From the Actual Costs of Providing Service.* A central inequity in the existing system is that, while ILECs only receive support after making demonstrable investments, wireless ETCs are not subject to any such requirement and can obtain support regardless of their own costs.<sup>17</sup> CTIA's support for reverse auctions appears to be premised in part on its belief that the use of such a mechanism would "free all funding recipients—incumbents and competitors alike—from burdensome cost reporting obligations."<sup>18</sup> Coupled with its insistence that "the auction system not be used in a way to deny wireless ETCs universal service support available to incumbents,"<sup>19</sup> CTIA's statement is telling in that it suggests a continued desire to secure funding with no strings attached.

That carriers should be entitled to high-cost support without any showing that they need it is legally unsound and absurd as public policy, and is possibly one of the biggest drivers of the growth of the fund. As is the case with ILECs today, carriers should only be funded upon a demonstration that they have undertaken investment and improvement of services in the areas for which that support is intended.<sup>20</sup> Indeed, the receipt of support never was—and should not be—a categorical precondition to competitive entry.<sup>21</sup> Any carrier can enter a market, but it should only obtain assistance to do so if it proves that such funding is necessary in order for consumers to receive affordable service comparable to what urban customers receive;

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the same obligations and provide the same level of service, unlike wireless and wireline carriers.

<sup>17</sup> See CenturyTel Comments at 12-13.

<sup>18</sup> CTIA Comments at 6.

<sup>19</sup> *Id.* at 2.

<sup>20</sup> See CenturyTel Comments at 12-13; 47 U.S.C. § 254(e).

<sup>21</sup> See GCI Comments at 9 (arguing that "competitors should not be foreclosed from entering the markets supported by universal service").

anything else results in windfalls to companies providing no incremental enhancement to universal service.

The fact that ETCs can obtain funds ostensibly for providing service to high-cost areas, by doing nothing other than filing their existing line counts, is one of the principal flaws in the existing system. As such, this aspect of the current system must be reformed, not perpetuated.

4. *High-Cost Support Should Not Be Made Available to Multiple Bidders.*

Several parties that approve of reverse auctions contend that there should be no limit on the number of entities that can use this mechanism to obtain support.<sup>22</sup> CTIA goes so far as to advocate a “winner gets more” system by which “all active auction participants would be eligible for some amount of support.”<sup>23</sup> Ironically, these same parties enthusiastically tout the overall objective of reducing the size of the high-cost fund.<sup>24</sup> These positions are irreconcilable. Awarding support to all comers would most likely *increase* the size of the high-cost fund. This is not mere conjecture: as noted above, the high-cost fund has already grown substantially as new ETCs are designated in growing numbers, and without any requirement to show their expenditures. Thus, many commenters note that the Commission can best achieve its stated goal of reducing the costs of universal service by limiting the number of entities that may receive such

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<sup>22</sup> See, e.g., GCI Comments at 3 (stating that “the auction procedure should allow for more than one carrier to receive the winning per-line support amount to the extent that more than one providers is willing to provide the supported services at the winning bid amount”); AllTel Comments at 1 (“An equal amount of funding per line must be disbursed to all ETCs in an area.”).

<sup>23</sup> CTIA Comments at 8.

<sup>24</sup> See, e.g., GCI Comments at 18; CTIA Comments at 4.

support.<sup>25</sup> The Commission should heed these warnings and limit the number of entities that can receive high-cost support, rather than expand the base as CTIA and others argue. If only the carriers-of-last-resort were supported, the fund would be brought under control.

5. *High-Cost Support Should Not Be Made Portable, Given the Fixed Costs Associated With Ubiquitous ILEC Networks.* GCI asserts that high-cost support should be “fully portable,” such that carriers would only receive support “for the customers they actually serve.”<sup>26</sup> But as CenturyTel has explained, such a process would harm interconnection and transport for most carriers in a region, and possibly further delay broadband deployment in rural areas. Most state regulatory bodies require an ILEC to deploy a line upon request and to continue to maintain the underlying network in a manner so that all customers are properly served even if some customers discontinue service.<sup>27</sup> While GCI and several other proponents of reverse auctions, to their credit, concede that the winner of a reverse auction should be required to undertake COLR responsibilities,<sup>28</sup> this still would not relieve ILECs of their “total network” costs. The ubiquity of their networks requires ILECs to bear fixed costs regardless of whether and where they serve customers. In fact, as CenturyTel has noted, wireless providers and others could not reach many

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<sup>25</sup> See, e.g., TracFone Wireless Comments at ii (stating that “there should be only one winning bidder and therefore one recipient of high cost support for each geographic area where reverse auctions are held and support awarded”); Verizon/Verizon Wireless Comments at 25 (arguing that “no more than one ETC should be permitted” to win a reverse auction); Qwest Comments at 7 (observing that awarding support to a “single winner” would be more consistent with the Act).

<sup>26</sup> GCI Comments at 17.

<sup>27</sup> See CenturyTel Comments at 3-4, 15.

<sup>28</sup> GCI Comments at 14 (noting that COLR obligations “need not, and should not, rest on incumbents alone”); see also CTIA Comments at 6-7 (stating that ETCs must meet “certain eligibility criteria” including “the core ‘carrier of last resort’ obligation”); AllTel Comments at 3 (same); CenturyTel Comments at 12 (advocating that COLR requirements be imposed on CETCs).

customers without ILEC transport and “last mile” facilities.<sup>29</sup> Thus, the Joint Board should resist calls for full portability of high-cost support.

### **CONCLUSION**

In short, the proponents of reverse auctions fail to answer the Joint Board’s central inquiry of how this mechanism could be utilized to further the goals of the Act, the Commission’s universal service goals, and other relevant considerations.<sup>30</sup> Accordingly, CenturyTel reiterates its recommendation that a reverse auction mechanism be considered only in very limited circumstances, and not without undertaking the other reforms that CenturyTel has advocated.

Respectfully submitted,

CENTURYTEL, INC.

/s/ Karen Brinkmann

Karen Brinkmann  
Brian W. Murray  
LATHAM & WATKINS LLP  
555 Eleventh Street, NW  
Suite 1000  
Washington, DC 20004-1304  
(202) 637-2200

*Counsel for CenturyTel, Inc.*

John F. Jones  
Jeffrey S. Glover  
CENTURYTEL, INC.  
100 CenturyTel Park Drive  
Monroe, LA 71203  
(318) 388-9000

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<sup>29</sup> See CenturyTel Comments at 3-4.

<sup>30</sup> See August 2006 Public Notice ¶ 1.