



EMBARQTM

701 Pennsylvania Ave, NW
Suite 802
Washington, DC 20004
www.EMBARQ.com

February 15, 2007

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Portals II, Room TW-A325
Washington, DC 20554

EX PARTE PRESENTATION

Re: Federal-State Joint Board on Universal Service, CC Docket No. 96-45.

Dear Ms. Dortch:

When representatives of Embarq met with Tom Navin, Chief of the Wireline Competition Bureau, on January 12, 2007¹ a question arose about what impact granting all of the petitions for designation as eligible telecommunications carriers (ETCs) pending before the Federal Communications Commission would have on total federal universal service fund (USF) support. While this question is not answered easily, Embarq offers the analysis in this letter. The methodology is admittedly simplistic, but we believe that the results offer reasonable guidance about the general impact should the pending petitions be granted (but not specific impacts of any petition).

Specifically, Embarq's analysis suggests that overall federal USF support could increase by close to \$150 million dollars annually if the Commission were to grant all of the petitions to be designated as an eligible telecommunications carrier (ETC) pending before it. More significantly, the two new petitions by AT&T Mobility (filed when the company was named Cingular) could signal the start of a substantial new increase in total USF support. Although the company does have ETC status in parts of a few states, AT&T Mobility has not sought support throughout the United States of America. If the company's recent filings for ETC status in Virginia and Georgia are the start of a new plan to seek support throughout the country, the impact on USF support could be as much as \$250 million dollars annually. In sum, therefore, it is reasonable to expect that USF support could increase by approximately \$400 million if the pending ETC petitions were to be granted and AT&T Mobility were to be granted ETC status throughout the United States

¹ Letter dated January 15, 2007 from Jeffrey S Lanning, of Embarq, to Marlene H. Dortch, of the Federal Communications Commission, CC Docket No. 96-45.

Adding competitive eligible telecommunications carriers (CETCs) to the pool of carriers that receive universal service funding has several predictable impacts on the overall amount of universal service support. First, the total amount of support is likely to increase to the extent that the CETCs offer services that are purchased in addition to rather than instead of currently-supported services—the total amount of supported service increases. Second, to the extent that CETCs use universal service support to win customers away from existing carriers of last resort, those affected carriers may actually require additional support to replace revenue contributions needed to maintain their networks.²

The ETC petitions pending before the Commission will produce significant increases in USF support. These predictable impacts from adding CETCs are reflected in the projected need for universal service funding calculated by the Universal Service Administrative Company (USAC). In fact, USAC has estimated the growth in universal service funding needs that would result from granting many of the pending petitions. These figures are shown in the table below.

Using the average of the USAC projections for pending petitions, we can also estimate the impact of the other pending CETC petitions for high-cost support eligibility (all of the remaining petitions but for those filed by TracFone). There are several large pending CETC petitions, such as those filed by Alltel, for which USAC has estimated the likely funding impact. There are also several relatively small funding requests that have been estimated. On the other side of the equation, there are several large pending CETC petitions, such as those filed by Cingular, that have yet to be estimated. Similarly, there are several pending petitions for which USAC has yet to report an estimate. Therefore, the two sets of petitions may be similar and it may be reasonable to use the average estimated funding for pending CETC petitions as a proxy for the estimated average USF impact of the CETC petitions for which USAC projections are unavailable. Using this methodology, it appears that the pending CETC petitions could add approximately \$90 million annually to USF total support.

TracFone would substantially increase total USF support were it to be granted ETC status. We have also attempted to estimate the impact of granting the TracFone petitions. Although the TracFone petitions present a challenge for estimation because they propose a new distribution model for Lifeline support, it is possible to estimate their potential impact, at least in very general terms, based on the Commission's own expectations. For example, using North Carolina as an illustrative example, we know that currently only 16.1% of eligible households participate in the Lifeline program, a percentage that is well-below the national average of 33.7%. As the Commission has noted, TracFone's new distribution model represents a channel that will bring Lifeline to the attention of more eligible customers and therefore should "expand participation of qualifying customers."³ Therefore, TracFone should increase Lifeline penetration above the current 33.7% of eligible users. The magnitude of the impact on the fund is a direct function of how successful TracFone will be in expanding that participation, and it is reasonable

² Telecommunications networks (wireline and wireless) do not realize substantial cost savings when they lose customers, so existing networks require the same amount of support to fulfill their carrier of last resort obligations even when customers migrate to competitive service offerings.

³ *Federal-State Joint Board on Universal Service—Petition of TracFone Wireless for Forbearance from 47 U.S.C. § 214(e)(1)(A) and 47 C.F.R. § 54.201(i)*, CC Docket No. 96-45, Order, 20 FCC Rcd 15,095 ¶ 24 (2005).

to conclude that the Commission expects a fairly material expansion because this expectation formed the basis of the Commission's granting of forbearance from the facilities requirement.

Projected Increase in Universal Service Support		
Petitioner	State	Monthly Draw
1 Alltel	Georgia	\$ 622,828
2 Alltel	Virginia	\$ 333,277
3 Alltel	North Carolina	\$ 402,165
4 Alltel	Florida	\$ 267,798
5 AT&T Wireless	Florida	\$ 916,713
6 Centennial	USVI	\$ -
7 Choice Communications	USVI	\$ -
8 Cingular	Georgia	\$ -
9 Cingular	Virginia	\$ -
10 Dobson	New York	\$ -
11 Farmers Cellular	Alabama	\$ 538
12 GTA Wireless	Guam	\$ -
13 North Carolina RSA (US Cellular)	North Carolina	\$ 311,419
14 Pine Belt	Alabama	\$ 8,239
15 RCC	Alabama	\$ 230,566
16 RSA 2 Cellular	New York	\$ -
17 SouthernLINC	Alabama	\$ 181,844
18 SouthernLINC	Georgia	\$ 3,189
19 SouthernLINC	Florida	\$ 82,130
20 St. Lawrence Seaway	New York	\$ -
21 SunCom Wireless (Triton)	Georgia	\$ 463,082
22 SunCom Wireless (Triton)	North Carolina	\$ 574,797
23 SunCom Wireless (Triton)	Tennessee	\$ 23,902
24 SunCom Wireless (Triton)	Virginia	\$ 5,866
25 Tennessee RSA	Tennessee	\$ -
26 USCOC Virginia (US Cellular)	Virginia	\$ 467,268
Monthly Sum Using USAC Data		\$ 4,895,621
Estimated Sum for Additional Petitioners (using average)		\$ 287,978 \$ 2,591,799
Annualized Fund Impact		\$ 89,849,044
TracFone	North Carolina	\$ 579,301
TracFone	Alabama	\$ 335,521
TracFone	Tennessee	\$ 903,843
TracFone	Connecticut	\$ 108,350
TracFone	Massachusetts	\$ 211,853
TracFone	Florida	\$ 1,057,218
TracFone	Virginia	\$ 367,805
TracFone	New York	\$ 867,776
Monthly Sum		\$ 4,431,667
Combined Annualized Fund Impact		\$ 143,029,048

To estimate the impact of granting TracFone's petitions we can take two different yet equally (and very) conservative approaches to estimation. The first approach operates under the assumption that there are state-specific factors that drive differences in participation rates, and that TracFone's distribution model will not entirely overcome these differences. This assumption means that the increase in participation varies from state to state. Under such an assumption, we will conservatively assume that TracFone's distribution model is successful in narrowing—but not eliminating—the gaps between the rates in states with take-rates below the nationwide average of 33.7% and the average itself. In this scenario, states that are below the national average remain below the national average. Referring to the North Carolina example

above, under such a scenario we would estimate that, as a result of TracFone's efforts, participation among eligible households would increase from 16.1% to 24.9%. This increase represents half the "distance" between North Carolina's current take rate and the national average. Using this approach for each state in which TracFone has requested designation, we estimate the total annual impact of granting TracFone's petitions to be approximately \$43.5 million dollars, based on the areas requested and the total number of households in each state that are eligible.

Alternately, we could assume that TracFone has equal levels of success in all states and estimate an equal, across-the-board increase in participation rates resulting from TracFone's efforts. If we estimate that TracFone is successful in increasing participation by 10 percentage points (1000 basis points), the 16.1% participation rate in North Carolina becomes 26.1% (a larger increase than the first scenario), but the current 6.4% take rate in Tennessee increases only to 16.4% (a smaller increase than the first scenario), with both still remaining well below the nationwide average of 33.7%. Were this to happen, the total annual impact of granting TracFone's petitions would be approximately \$62.8 million annually.

Both of these approaches are quite conservative because neither assumes the type of material increase the Commission may have had in mind when granting forbearance (participation in the states for which TracFone seeks ETC status remains significantly below the nationwide average for participation). Yet the impact of these estimates, when averaged, is to increase fund distributions by \$53 million annually. The total impact represents a range of approximately \$130-\$155 million, with the midpoint of the range \$143 million, as depicted on the table above.

AT&T Mobility would dramatically increase USF support needs would it seek and receive ETC support throughout the United States. Finally, we note that the recent petitions filed by Cingular in Virginia and Georgia (the Cingular Petitions) pose a different level of potential impact because AT&T Mobility (as the company is now named) is a substantially larger potential CETC, with far more customers than the other pending petitioners. These two petitions indicate that AT&T Mobility may seek ETC status throughout the nation. Were AT&T Mobility to receive such status, it would have a dramatic impact on the total amount of universal service funding because AT&T Mobility is the largest commercial mobile radio service (CMRS) provider.

AT&T Mobility has over 60 million subscribers. One of the next two largest CMRS providers—Verizon Wireless—does not currently have ETC status in any state. The other—Sprint Nextel—has ETC status in 18 states, and it has nearly 52 million subscribers. The fourth largest CMRS provider—T-Mobile—does not have ETC status, but the fifth largest CMRS provider—Alltel—has ETC status, and it has about 11 million subscribers. Accordingly, it appears that AT&T Mobility has a similar number of subscribers as Sprint Nextel and Alltel combined. Those two companies currently receive approximately \$246 million on an annualized basis in USF receipts. Therefore, it is not unreasonable to project that AT&T Mobility would have a similar impact on federal USF were it to be granted ETC status throughout the nation.

In sum, the potential impact on federal annual USF is approximately \$400 million if the ETC petitions pending before the Commission were to be granted and AT&T Mobility were also to be granted ETC status throughout the United States.

*Embarq Letter of February 15, 2007 to Thomas Navin
CC Docket No. 96-45*

Pursuant to Section 1.1206(b) of the Commission's rules, one copy of this presentation is being filed in the above-referenced docket. Please call me if you have any questions.

Sincerely,



Jeffrey S Lanning
Director – Federal Regulatory

cc: Thomas Navin
Vickie Robinson
Kirk Burgee
Amy Bender