

**High-Cost Universal Service Reform
Presentation to
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Federal Communications Commission**

CTIA-The Wireless Association®

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Overview

- The federal high-cost universal mechanisms are being overtaken by changes in consumer preferences.
- By any measure, consumers in both rural and urban markets demand mobile wireless services.
- The FCC should consider fundamental, consumer-based reforms to the high-cost universal service mechanisms to better fulfill the Act's universal service goals.
- If implemented in a technology- and competitively-neutral manner, reverse auctions can bring the concept of universal service in line with consumer demand.
- Other changes to the high-cost universal service mechanisms should be considered.

Reform Must Accommodate Changing Consumer Preferences

- Mobile wireless services need to be part of the universal service solution.
 - There are now more wireless subscribers in the U.S. than wireline switched access lines (approx. 219 million versus 197 million).
 - Approximately 78% of urban consumers and 68% of rural consumers have wireless services.
 - 98% of wireless customers live in counties with a choice of three or more wireless carriers and 94% of wireless customers live in counties with a choice of four or more wireless carriers. Yet, deployment beyond population centers remains more costly.
 - A growing percentage of traffic on the public switched network involves a wireless subscriber.
 - Wireless minutes of use reached 1.6 trillion minutes in 2006.
 - The average wireless customer has approximately 740 minutes of use per month.
 - In 1-2Q 2006, a higher percentage of lower-income households (15.8%) had “cut the cord” than the general population (10.5%). Consumers most often cite cost and convenience as reasons for choosing wireless over wireline.
 - In 1-2Q 2006, mobile wireless broadband customers accounted for over 59% of all new high-speed lines.

Sources: Federal Communications Commission, National Center for Health Statistics, In-Stat, Forrester.

Universal Service Reverse Auctions

- CTIA supports competitively- and technology-neutral reverse auctions to determine high-cost universal service support.
 - As the success of the wireless industry demonstrates, auctions are a proven method for allocating a limited resource.
 - Universal service auctions have worked well in other countries and can work in the United States.
 - If properly designed, reverse auctions can serve as a market-oriented means to place disciplines on the size of the universal service fund while still achieving important universal service goals.
- CTIA also continues to support other reforms to better target support and encourage and reward efficiency.
- Key elements to CTIA’s support for reverse auctions:
 - The pool of eligible bidders must be maximized.
 - Wireless and wireline ETCs should compete in the same auction.
 - “Winner Gets More” auctions.*

* Only one “winner”, but “losers” eligible for some lesser amount of per-line support.

Reverse Auctions – A Measured Transition

- The transition to reverse auctions should occur in stages:
 - Short Term (Implement between now and January '08):
 - Mandatory disaggregation (≥ 2 zones);
 - 6-month deadline for consideration of ETC petitions; and
 - Upgrade antiquated model to improve accuracy.
 - Medium Term (Implement January '09):
 - Transition ILECs with $\geq 50,000$ access lines in a state (and their competitors) to model-based support;* and
 - Perform reverse auction pilots.
 - Long Term (Implement January '12):
 - Transition remaining ILECs (and their competitors) to a single model-based support mechanism;
 - Eliminate 54.305 transfer rule; and
 - If pilots successful, rollout reverse auctions nationally.

* In the alternative, incumbent LECs should be limited to one study area per state (*i.e.*, study areas combined).

The Joint Board Must Reject Embedded Cost Support for Competitors

- Some have argued that competitive ETCs should receive support based on their own costs (capped at the incumbent carrier's "embedded costs").
- All you can eat support based either on an incumbent or competitive ETC's "embedded" costs will result in excessive support and will distort the competitive market.
- Developing an embedded cost mechanism and cost reporting for competitors will add unnecessary regulatory complexity to the universal service system.
- The identified problem – support for competitors based on an incumbent carrier's inefficiencies – is better addressed by developing mechanisms proposed by CTIA that will encourage and reward both incumbent and competitive carrier efficiency.