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Federal Communications Commission
Office of the Secretary

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Subject: Federal-State Joint Board En Banc Hearing
Attachments: Garnett USF Joint Board Statement 022007.pdf; Garnett_En Banc Slides_022007.pdf

All:

Thank you for the opportunity to present CTIA's views on high-cost universal service reform at today's hearing. Please find attached for your reference my written testimony, along with the slides I used. I will be filing these documents in the relevant dockets tomorrow. Please do not hesitate to call if you have any questions about our positions.

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WRITTEN TESTIMONY
of
Paul W. Garnett
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CTIA-The Wireless Association®
Before the
Federal-State Joint Board on Universal Service
February 20, 2007

On behalf of CTIA-The Wireless Association® and over 230 million mobile wireless subscribers, I want to thank the Federal-State Joint Board on Universal Service for inviting me to discuss the important and timely issue of high-cost universal service reform. CTIA has a diverse membership that collectively is a \$2.5 billion annual contributor into the universal service system, but which increasingly is using universal service dollars to extend mobile wireless services into rural areas. CTIA, therefore, is uniquely positioned to comment on proposals to reform the universal service system.

I am pleased to appear before you to detail CTIA's support for competitively- and technologically-neutral reverse auctions as a mechanism for calculating high-cost universal service support. CTIA's reverse auctions proposal reflects significant compromise among our diverse membership. We believe that reverse auctions that do not favor particular carriers or carrier constituencies hold the potential to reduce the size of the universal service fund while furthering the widely shared goal of nationwide wireless and broadband coverage. Before I describe our proposal in greater detail, let me first describe what leads CTIA to its support for reverse auctions.

Section 254 of the Act clearly states that consumers are the only intended beneficiaries of universal service. Therefore, any discussion on high-cost universal

service reform must begin with an analysis of consumer demand. So, what do consumers want? Any current analysis of the telecommunications marketplace leads to the conclusion that consumers increasingly use mobile wireless services. Over the past five years, the number of mobile wireless subscribers has increased 86% from 118 million in June 2001 to 219 million in June 2006. Mobile wireless subscribership now stands at approximately 230 million subscribers. There are now considerably more mobile wireless subscribers than wireline switched access lines – something that was hard to imagine when the Telecommunications Act passed in 1996.

Mobile wireless consumers are in both rural and non-rural areas. U.S. Mobile wireless penetration now stands at over 75% of the population. Mobile wireless penetration in areas with fewer than 100 people per square mile stands at about 68%. The FCC has found that 98% of wireless consumers live in counties with a choice of three or more wireless carriers and 94% of wireless consumers live in counties with a choice of four or more wireless carriers. We all know from experience that mobile wireless services are not always available in harder to reach areas. The cause is simple economics. Deployment of wireless services in rural markets is more costly on a per-customer basis than serving a more densely populated area. Universal service can and does play a critical role in improving access to wireless services – especially away from population centers.

Another growing trend is wireless substitution. The migration from wireline to wireless is taking hold – in terms of minutes of use, as well as consumers who “cut the cord” or those who never sign up for wireline service. For many consumers, nationwide bucket of minute plans have made wireless the service of choice for making local and

long-distance calls. Over the past five years, the average number of minutes that subscribers use their mobile devices each month rose by 57% -- from 314 to 723 minutes, or over 12 hours per month. In 2006, there were approximately 1.6 trillion minutes of use on wireless networks.

For a growing segment of the population, mobile wireless has become their only telecommunications service. According to a survey conducted in the first half of 2006 by the U.S. Department of Health and Human Services, Centers for Disease Control and Prevention's National Center for Health Statistics, approximately 10.5% or about 13 million out of 124 million U.S. households have cut the cord, now relying exclusively on mobile wireless services. Just a few years ago, that percentage was in the low single digits. The "cut the cord" trend is not just limited to the under 25 year old market. Across all age groups, adults living in poverty (15.8%) are more likely than higher income adults to be living in households with only wireless telephones. Consumers most often cite cost and the convenience of mobility as the top two reasons for cutting the cord.

Wireless broadband subscription also is growing. An alphabet soup of wireless broadband technologies is being deployed: EV-DO, WCDMA, UMTS, HSDPA, Wi-Fi, and Wi-Max, to name just a few. Verizon Wireless has launched a broadband network based on evolution data only ("EV-DO") technology available in more than 240 metropolitan markets covering more than 200 million people, and is upgrading that network to EV-DO Revision A. Sprint Nextel began to roll out its EV-DO technology in mid-2005 and now covers more than 200 million people with its broadband network. Sprint's EV-DO Revision A network now covers more than 95 million people. AT&T

Mobility's BroadbandConnect (HSDPA-based) service is available in 165 cities, including 73 of the top 100 markets. Alltel's own EV-DO based AxxessSM Broadband service is now available in markets covering 44 million people. In addition to its extensive network of more than 8,000 wireless hotspots, T-Mobile offers mobile Internet access through its GPRS/EDGE network service. T-Mobile is also deploying its own HSDPA network. Deployment is not limited to the nationwide wireless providers. U.S. Cellular, Alaska Communications Systems, Cellular South, Centennial, SouthernLINC, Dobson Cellular, the Rural Cellular Corporation, and many others are rolling out mobile wireless broadband services. According to the FCC, in the first half of 2006, 59% of new broadband customers opted for mobile wireless broadband services. This is a startling statistic when one considers that wireless carriers just started deploying broadband services in the last couple years.

All of this is occurring, in part, because wireless carriers have operated for years in an environment of regulatory constraint that rewards efficiency and innovation. The result has been lower monthly bills, cheaper minutes, and new and innovative service offerings. The average cost of wireless service has declined over time – even as wireless service offerings have expanded. The per-minute price of mobile wireless service, as measured by average revenue per minute, has dropped dramatically from \$0.15 per minute in June 2001 to \$0.07 per minute in June 2006. Between 2000 and 2005, the inflation adjusted decrease in revenue per minute was approximately 59%.

Unfortunately, this explosion of consumer demand for mobile wireless services – in both rural and urban areas – is not reflected in how universal service funding is directed. The vast majority of universal service subsidies are directed to wireline

carriers. Although there are now more wireless subscribers than wireline switched access lines, wireless carriers receive only about 15% of universal service support overall and less than 20% of high-cost universal service support. Since 1997, of the \$25 billion spent on high-cost universal service subsidies, about \$23 billion has gone to incumbent wireline carriers and only about \$2 billion has gone to wireless carriers and other competitors. This inequity exists even as American consumers – the only intended beneficiaries of universal service – are demanding more and higher quality wireless services in high-cost areas.

Policy-makers also increasingly are looking to wireless carriers to improve service quality and expand coverage to high-cost areas, where network deployment is otherwise uneconomic. Providing all U.S. consumers with ubiquitous access to high-quality and affordable mobile and broadband services may very well be the chief universal service challenge over the next five to ten years. Indeed, several of you have expressed support – within and beyond universal service – for regulations that facilitate wireless broadband deployment in rural and underserved areas. That deployment simply will not happen in the hardest to reach areas without changes to universal service and other regulations that continue to favor local exchange carriers to the tune of several billion dollars annually. Rural consumers will be harmed by regulations that continue to favor incumbent wireline carriers.

Although CTIA is realistic that certain compromises may be necessary to achieve reform, we believe that two key themes should guide the Joint Board's universal service policies: (1) Competitive neutrality; and (2) Efficiency. A focus on both competitive neutrality and efficiency will be critical to ensuring that consumers have access to the

advanced services they increasingly desire, at the least cost. Unlike the current universal service mechanisms that have largely targeted support to one industry segment, we believe that, to be effective, any universal service mechanism must be designed to accommodate consumer demands as they evolve over time. That means making support truly portable to a consumer's carrier and technology of choice. In order to ensure that the cost of universal service is not excessive for those consumers who ultimately pay into the fund, any universal service mechanisms must – unlike the current system – demand efficiency and accountability from all fund recipients, not just wireless carriers and the largest wireline carriers. As I mentioned before, efficiency and innovation have been hallmarks of the wireless industry's success. Universal service distribution policies should replicate those values as much as possible.

Policy-makers should not repeat the mistakes of the past by supporting universal service policies that distort the competitive market or create incentives for both incumbents and competitors to develop business models premised on receipt of greater and greater subsidies. If the experience of the wireless industry can be any guide, simplified regulations that encourage and reward efficiency will best benefit consumers by ensuring that universal service is targeted only to where it is most needed and is no more than is necessary. Instead of guaranteeing a “three-legged stool” of universal service, access charges, and end-user revenues in perpetuity, universal service regulations should be designed to enable carriers serving high-cost areas to eventually stand on their own two feet and compete in the marketplace.

That brings me to the issue of reverse auctions. At the FCC, CTIA has put forth market-oriented proposals to reduce demand for universal service, while ensuring that

support is available to both incumbent and competitive ETCs on a non-discriminatory basis. As the success of the wireless industry demonstrates, auctions are a proven method for allocating a limited resource. Reverse auctions have worked well in other countries and they 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.

Without going into every detail of our reverse auctions proposal, let me highlight three key aspects. First, reverse auctions can only succeed if there is competition for the subsidy. That has been a key lesson learned from the successes and failures of reverse auctions in other countries and in other contexts. In order to ensure that the pool of eligible bidders is as broad as possible, eligibility criteria must be clear and the ETC designation process should be streamlined. For example, any winning bidder must be willing to take on carrier of last resort obligations. CTIA also supports immediate implementation of a six month deadline for consideration of ETC applications. Consumers should not have to wait several years to reap the promise of mobile wireless technologies.

Second, wireline and wireless ETCs should compete in the same auction. CTIA adamantly opposes different high-cost funds for different technologies or groups of carriers. For example, some have proposed that reverse auctions should apply only to wireless carriers or that separate auctions should be conducted for different technologies. Locking in the status quo means providing wireline carriers at least three times the amount of overall support provided to wireless carriers regardless of what consumers demand. These proposals are premised on outmoded thinking about distinct wireline and

wireless markets and boil down to regulation, not consumer choice, picking winners and losers in the competitive market. These discriminatory proposals clearly violate the Act and should be rejected.

Third, CTIA opposes either “winner takes all” or “everybody wins” auctions. Under “winner takes all,” the auction winner obtains exclusive monopoly access to the subsidy. Under “everybody wins,” all auction participants receive the same per-line support. CTIA instead supports a “winner gets more” style of auction, which would reward the lowest bidder with the bid upon level of support and would provide some lesser level of support for auction participants that fail to submit the lowest bid. We believe a “winner gets more” auction appropriately balances the goal of driving down the cost of universal service and allowing consumer choice to direct funding. Importantly, we believe that a “winner gets more” auction mitigates the disruptive affect of migrating existing wireless and wireline ETCs to an auction based system. In other words, existing ETCs will retain some opportunities to cover the costs of investment made under the current high-cost system – the so-called “stranded cost” problem.

CTIA is realistic that the transition to a reverse auction system cannot happen overnight. For that reason, we advocate a multi-step transition process. Each step in that transition must be a step forward, not a step back, in developing efficiency rewarding high-cost universal service mechanisms. CTIA, for example, supports transitioning larger incumbent LECs with over 50,000 access lines in a state (and their competitors) to the forward-looking economic cost-based mechanism. CTIA also supports mandatory disaggregation of high-cost support to at least two cost zones upon competitive ETC entry. In addition, CTIA supports development of a cost model that can be used both to

identify the relevant geography of auction areas and to place a cap on support amounts. Under such a system, bids above modeled amounts would be rejected. During that transition, the FCC could conduct reverse auction pilots, particularly in highly-competitive markets currently receiving high-cost support. Important lessons could be learned from reverse auction pilots. Pilots also may be important for those among you who, frankly, are skeptical of the benefits of reverse auctions.

As I mentioned, any transition must be a step forward in market-based reforms. Some, for example, have argued that during a transition – or even permanently – competitive ETCs should receive high-cost support based on their actual or embedded costs, capped at the incumbent wireline carrier’s embedded costs. An actual cost system for competitors would require complex new reporting requirements and would simply repeat the mistakes of the past. We believe that neither the incumbent nor any competitor should receive support based on their inefficiencies. Under an actual cost system, competitive carriers would have the same incentives for inefficiency that incumbent carriers now have. The better solution is to move forward with developing mechanisms proposed by CTIA, such as competitively- and technologically-neutral reverse auctions that will encourage and reward both incumbent and competitive carrier efficiency and further important universal service goals.

Again, thank you for the opportunity to share the wireless industry’s views on high-cost universal service reform. I welcome your questions and respectfully request that this testimony be placed in the docket.

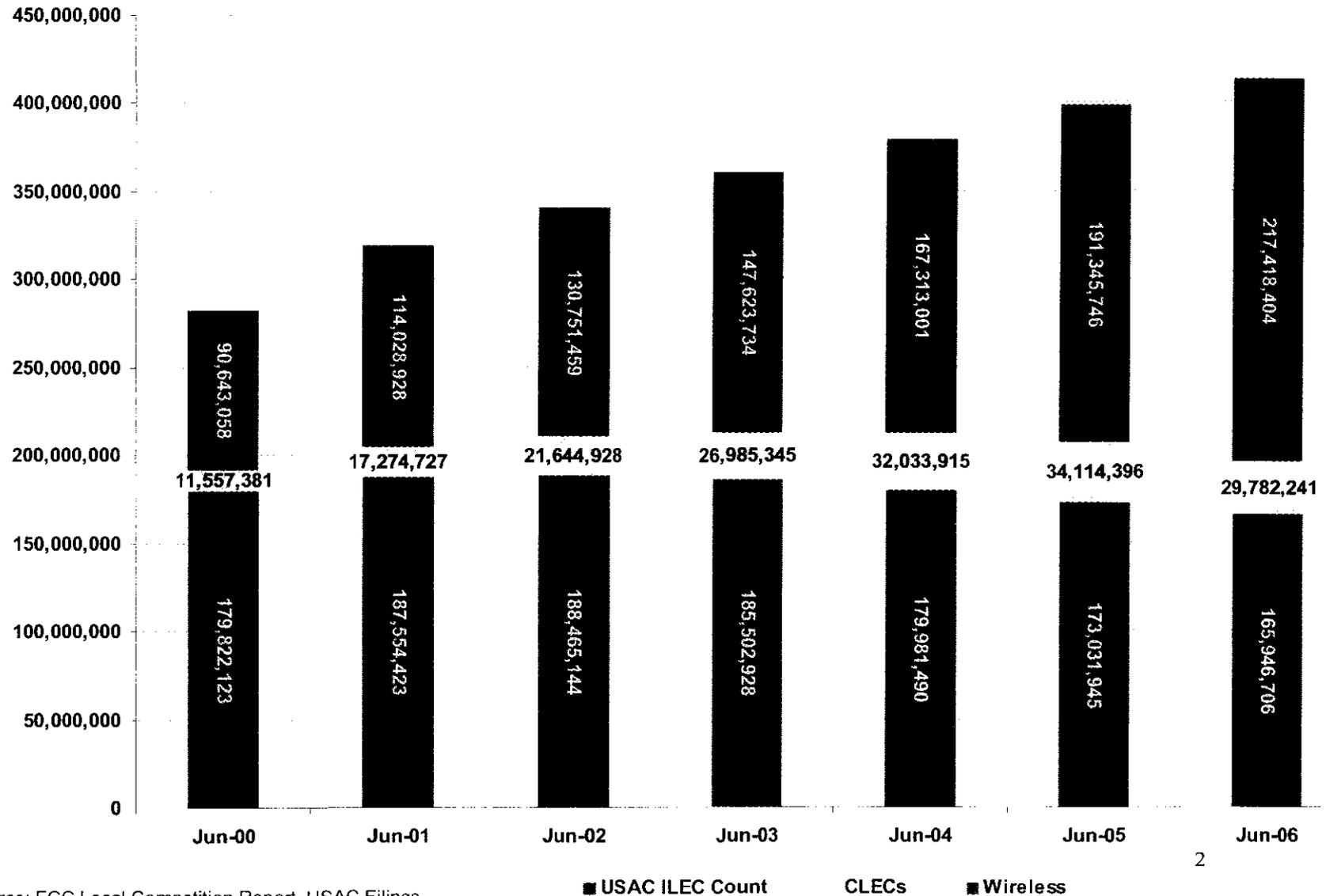
High-Cost Universal Service Reform Presentation to Federal-State Joint Board on Universal Service

Paul W. Garnett

CTIA-The Wireless Association®

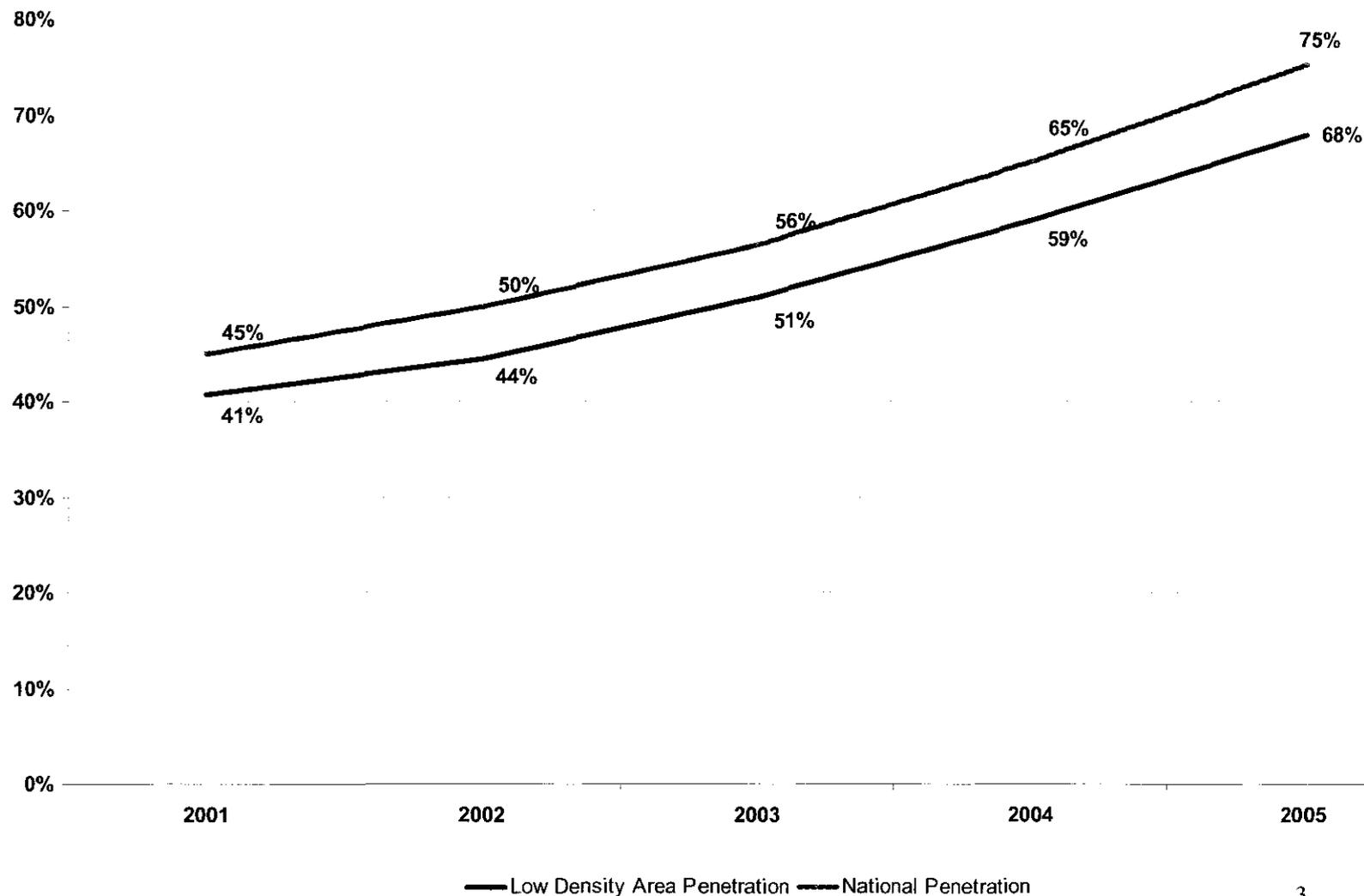
February 20, 2007

National Wireless, ILEC and CLEC Subscriber Trends – Through June 2006

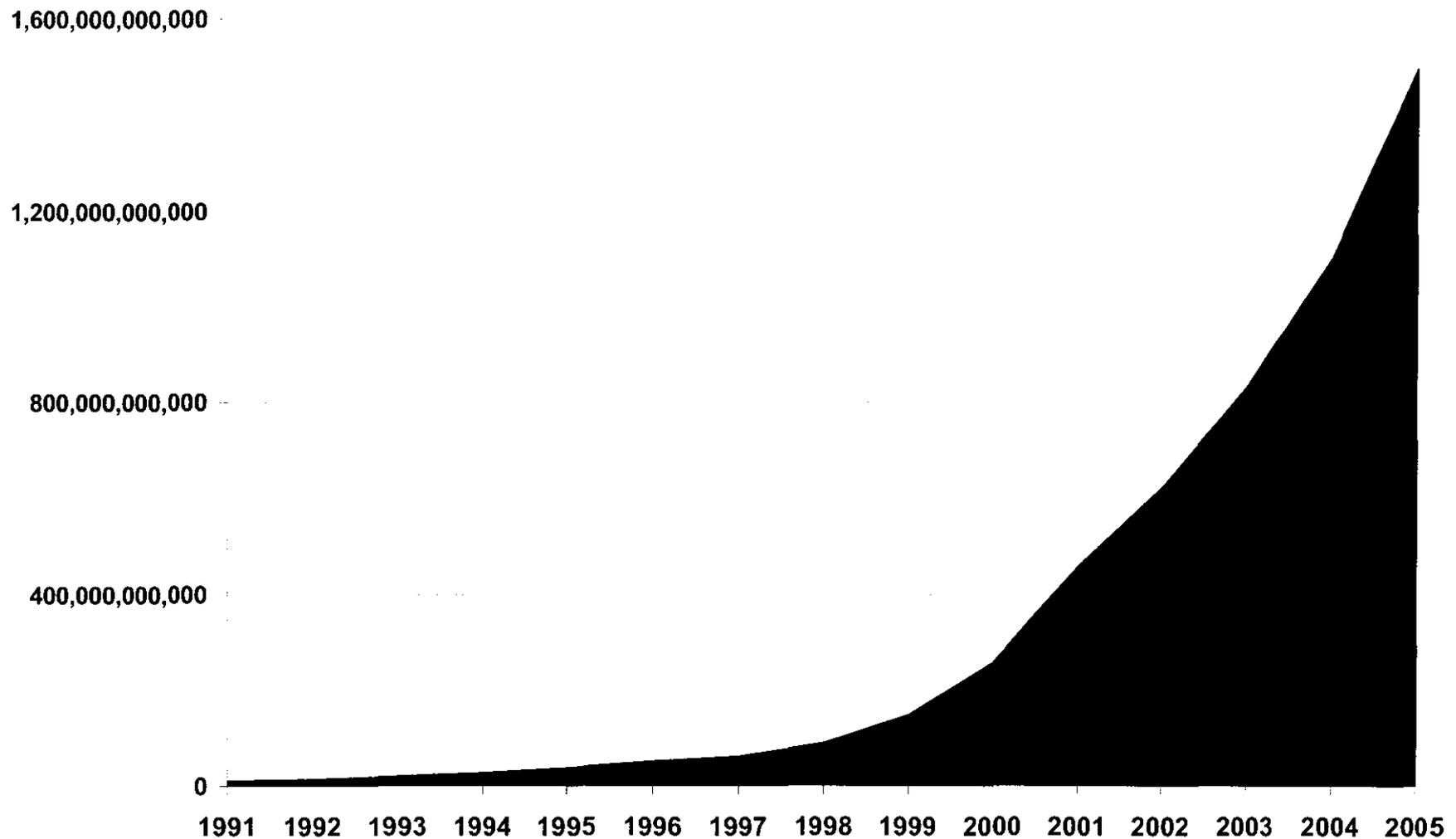


Source: FCC Local Competition Report, USAC Filings

Rural and National Wireless Penetration: Rural Equated with Fewer than 100 Pops per Square Mile



Wireless Minutes of Use Have Consistently Climbed in Double-Digits Year-over-Year



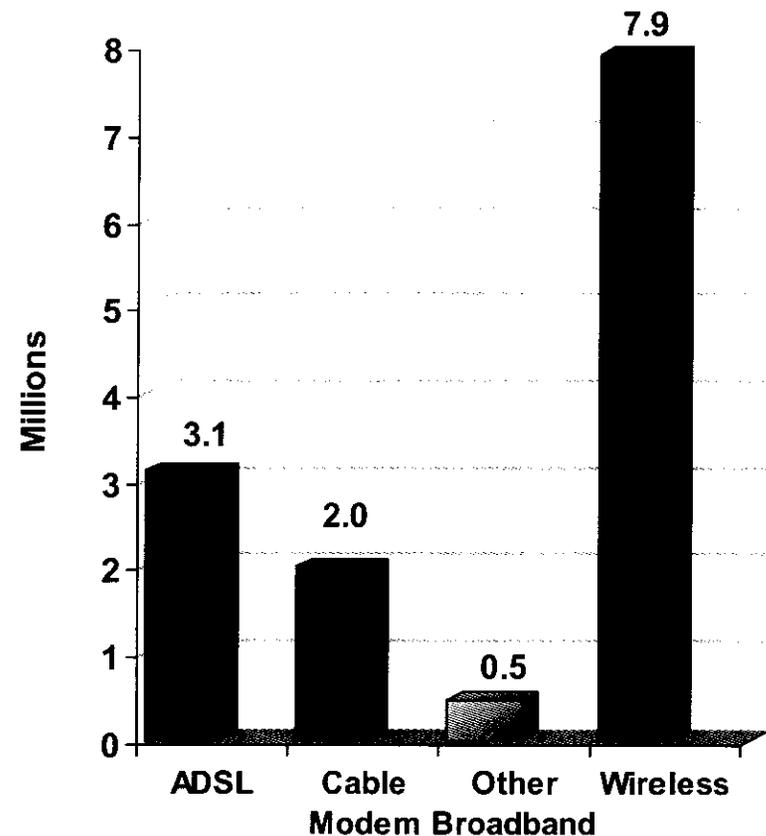
The Growth of Wireless-only Households

- National Center for Health Statistics has been tracking the growth of wireless-only households over the past three years – including year-to-year trends, and the different distribution of such households across the country. As of Jan.-June 2006:
 - About 10.5% of households do not have a traditional landline telephone, but do have at least one wireless telephone. About 9.6% of all adults (21 million) and 8.6% of all children (>6 million) live in households with only wireless telephones.
 - Adults living in the South (11.4%) are more likely than adults living in the Northeast (7.2%), Midwest (10.2%), or West (7.8%) to be living in households with only wireless telephones.
 - Adults living in Metropolitan Statistical Areas (as defined by the Census Bureau) were more likely to live in wireless-only households than were adults living outside of Metropolitan Statistical Areas (10.3% vs. 7.0%).

High-Speed Line Growth

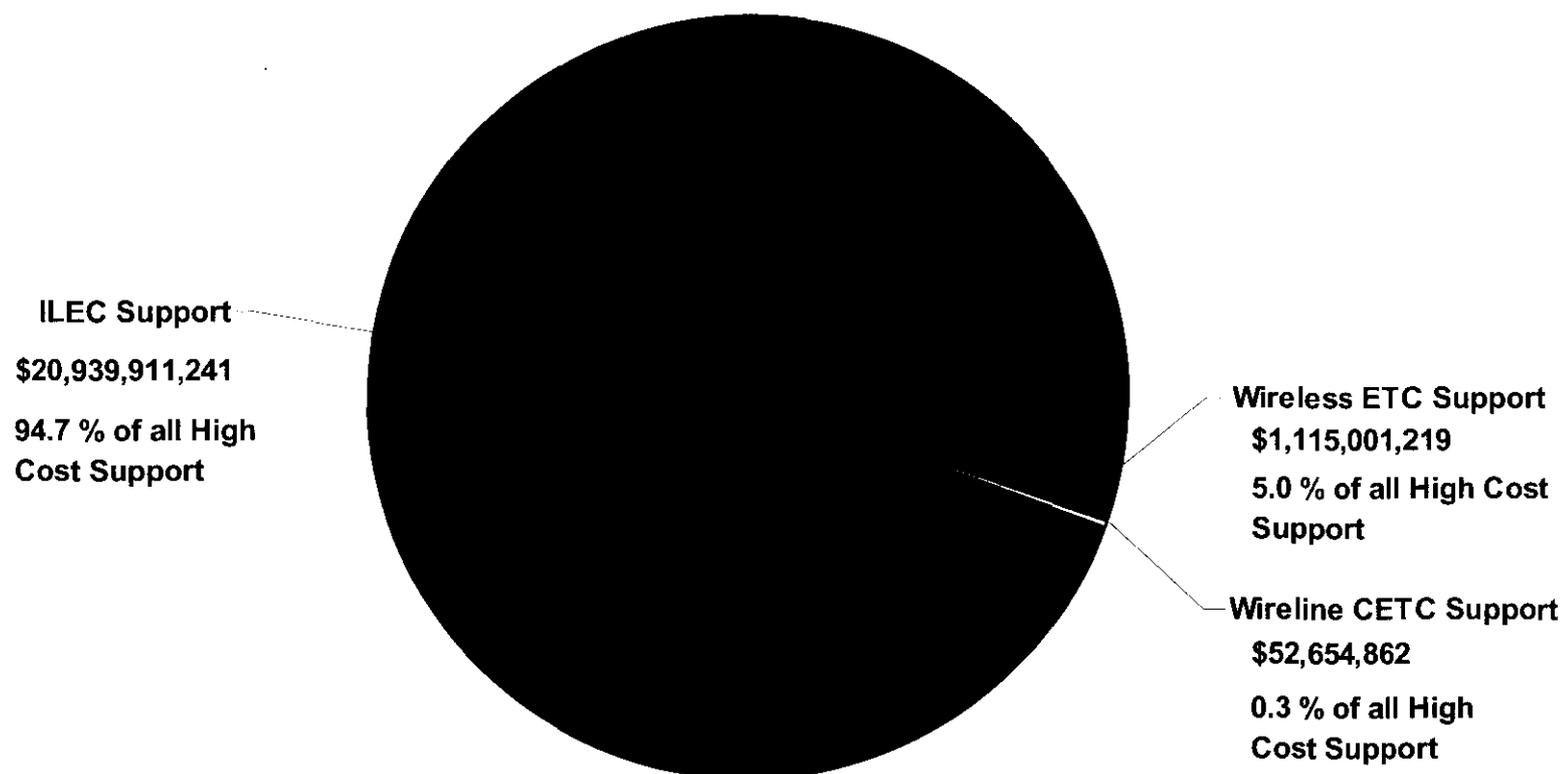
- In 1H06, total high-speed lines grew 26%, from 51.2 million to 64.6 million lines, and 59% of all adds were mobile wireless subscriptions.
- From June 2005 to June 2006:
 - ADSL's share of total broadband lines fell from 38% to 35%,
 - Cable modem's share fell from 56% to 44%.
 - Mobile wireless' share of total broadband lines rose from 1% to 17% of total broadband lines.
 - The share of "other" forms of broadband (including fixed wireless, satellite, fiber, and broadband over power line) remained at 4% of total broadband lines – although their total line count grew 39%.

High Speed Net Adds by Type, Dec. 2005 – June 2006

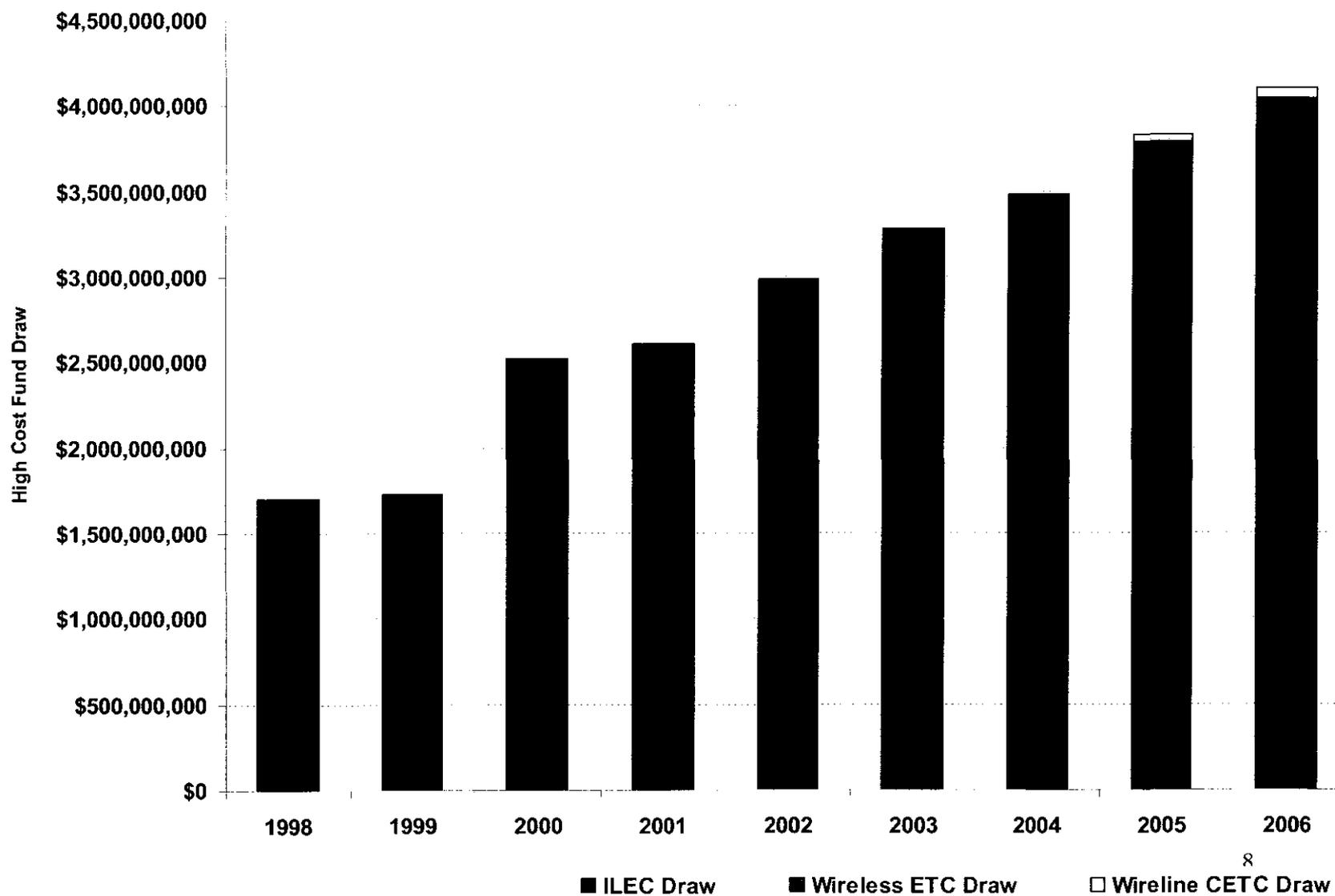


Sources: FCC Report on "High-Speed Services for Internet Access," Jan. 2007.

Wireless and Wireline Shares of Cumulative High Cost Support Drawn from the Federal Universal Service Fund: 1998 - 2005



Distribution of High Cost Support



Source: USAC Data

Key Elements of Any High-Cost Universal Service Mechanism

- Competitive- and Technological-Neutrality
- Efficiency

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 '11):
 - 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).