



John E. Rooney
President & CEO

April 9, 2007

Commissioner Deborah Taylor Tate
Federal Communications Commission
445 12th Street SW, Room 8-A204
Washington, DC 20554

Re: U.S. Cellular Corp.
CC Docket No. 9645
WC Docket No. 05-337
WT Docket 06-150

Dear Commissioner Tate:

Thank you for being so generous with your time at the CTIA conference in Orlando. I **appreciated hearing** your **point of view on** universal Service and the upcoming 700 MHz auction. As we discussed, I have enclosed a summary of our company's position on these subjects.

As we move toward universal service reform and an auction of spectrum capable of offering true broadband services to rural **America, I ask you to keep rural consumers** at the forefront of your thinking. Urban consumers have numerous choices in services and service providers today, and will continue to have such choices into the future.

That is not the **case** in our nation's rural areas. Many **small** towns have been left out of the wireless revolution because no company's business plan supports the construction of the networks needed to enable consumers to use a mobile phone everywhere they live and work. You **can** be certain that if it were profitable to **do** so, it would have happened in the nearly twenty years since the Commission first issued cellular licenses in rural America.

For companies like ours, which have significant interest in appropriately serving rural areas, universal service support is absolutely critical to delivering high-quality services to high-cost **areas** that would not otherwise support stand-alone investments. With support, we are today building new cell sites in many small rural communities that deserve to have advanced **telecommunications** services. Universal service support enables us to offer dependable service throughout the rural **communities** we serve.

In 2007, the public safety benefits of mobile wireless service scarcely bear mention. Rural consumers have a right to high-quality networks that enable them to place emergency and important telephone calls in times of need. Whether it be floods in Missouri, wind storms in Washington, or ice storms in Maine, our networks are the carrier of only resort in **an** emergency. We survive extreme conditions and we are the first to return to service. A mobile phone is now a critical public safety tool for **consumers** – but it is useless in areas where networks are underdeveloped. Neither **911** nor E-911 service have meaning unless the call **goes** through.

On a worldwide basis, wireless **is** now in the forefront of voice communications. The question is how long it will take to develop in America's rural areas. In every state where we have been designated an Eligible Telecommunications Carrier (ETC), we are aggressively investing all available support to enhance our service, and customers are experiencing a tremendous improvement in **our** coverage. At a time when competitive carriers like ours have relatively young networks, it is **puzzling** to me why **the** Commission would seriously consider impeding **our** development by capping support. We urge the Commission to reject that proposal.

Finally, we ask the Commission to grant our pending petitions for ETC status at the earliest possible date. Consumers in western North Carolina, southwestern Virginia, **and** rural New Hampshire who pay into the fund have been waiting roughly three years for us to accelerate our network construction and deliver new services. ETC status will make this a reality.

In closing, I am hopeful that we **can** continue to provide you with information as you work through these issues. If you have **any follow** up questions on these subjects, please contact me directly. Again, it was a pleasure having the opportunity to **discuss** these important **matters, and** your time was greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "John J. ...", is written over a light gray rectangular background.

Enclosure

cc: Aaron Goldberger, Esq.



Universal Service Distribution Caps and Reverse Auctions

Distribution Caps

U.S. Cellular opposes a cap that applies solely to competitive ETCs ("CETCs").

- A CETC-only cap contravenes the FCC's own core principle of competitive neutrality. The first Report and Order adopted competitive neutrality as a core principle. No class of carrier or technology may be advantaged or disadvantaged by the rules.
- Rural ILECs have lost 10% of their access lines over the past three years, and the trend is accelerating. As a result, ILEC support per-line is rising.
- A CETC-only cap will **reduce** per-line support to CETCs, who are investing in new networks and increasing customers.
- Capping support to **growing** networks will impede rural infrastructure development that provides critical public safety and economic development benefits to consumers. For example, U.S. Cellular has applications pending in Missouri and Illinois for large areas that have no CETCs designated. In each case, U.S. Cellular has committed to invest roughly \$10 million per year to construct new networks covering **thousands of square miles in rural areas**.
- If there must be a cap, then a competitively neutral version, similar to that proposed by Joint Board member Billy Jack Gregg is preferable. All carriers would be capped and support would be adjusted to carriers based on market penetration. A cap which requires **all** carriers to share in the solution is not only competitively neutral, but it is also a move toward portability which is required by the statute. See, *Alenco, et al. v. FCC*, 201 F.3d 608 (5th Cir. 2000).
- It is not competitively neutral to place caps only on CETCs, stating that the caps apply to both wireless and wireline competitors.

Short-Term Actions Needed to Control Fund Growth

- Instead of caps, the Commission should reform universal service in line with its long series of orders:
 - Disaggregation: Mandate disaggregation of Rural ILEC service areas to, at a minimum, the wire center level. ILECs must accurately target support to areas that are “high-cost” for their **networks**. All available evidence indicates that there **will** be significant program savings.
 - Portability: Support must be **made** “fully portable.” Rural ILECs **cannot** continue to receive \$3 billion per year for voice networks that **consumers** are rapidly abandoning. Support must be **used to ensure that** rural **consumers** have access to the voice services they are choosing. For CETCs, when you get a customer you get support and when you lose a customer you lose support – that’s how it should work for all carriers.
 - Efficiency: Support must not exceed the actual cost of building an **efficient** voice network. The current “modified embedded cost” mechanism is “the more you spend, the more you get” for rural ILECs. This breeds inefficiency and increases funding needs.

Long Term Reform Measures

- Any **reforms** of universal **service** must provide **for** a competitively neutral distribution of funds that allow rural customers access to **services comparable** to those available in urban areas. Reverse auctions that result in a single “winner” will perpetuate monopoly or duopoly status in rural areas and impede development of new more economically efficient technologies.
- A reverse auction cannot be **conducted** in a competitively neutral fashion until **competitive** networks are constructed. That is, even a more efficient **newcomer** cannot rationally bid against an entrenched carrier until its network is similarly mature.
- Auctions which award a “franchise” to **any** one technology by definition locks out new, more efficient technologies attempting to enter after an award is made.
- Limiting ETC status to one ILEC and one competitor per market would not result in significant program savings. There is no **wireline** competition in **all** but **90 of the** 1400 rural ILEC study **areas**, which means **over 90%** of rural ILECs would not be subject to auctions. **As** for CETCs, the current “per-line” mechanism effectively caps support because support among CETCs is fully portable.

Upper and Lower 700 MHz Auction

Balanced Consensus Plan

- The present 700 MHz band plan devotes too much spectrum to very large EAG licenses. Although this band is particularly well-suited for rural use, smaller and rural-focused providers **cannot afford** to compete with industry giants for these super-regional, EAG-sized licenses. Unless the FCC **reconfigures** the 700 MHz band plan, small and regional wireless carriers **will** be foreclosed from bidding on the remaining available licenses and from competing **for** customers in the marketplace. Alternative providers increase the number of choices available to consumers in all markets, especially during this period of industry consolidation.
- Such a change would be consistent with the FCC's recognition of the **need** to make affordable spectrum blocks available to carriers serving rural markets, including regional carriers, small wireless providers, and new entrants.
- **The 700 MHz** band plan should be reconfigured to afford bidding opportunities to regional and smaller providers on multiple spectrum blocks and with a variety of geographic license areas to allow providers with a variety of business plans to aggregate spectrum from adjacent blocks and to acquire overlapping or adjacent service areas to meet their coverage needs.
- Auctioning licenses for smaller service areas is also a valuable proposition for the **U.S.** Treasury because a mix of smaller and larger service area sizes **has** been shown to enhance competition among bidders. While several different factors go into **the** valuation process, an analysis of prior auctions demonstrates that smaller license areas earn high bids and, in the aggregate, increase total auction proceeds.

Package Bidding Issues

- **U.S.** Cellular opposes use of a package auction **format**, which would allow the **largest** bidders to distort the appropriate balance of small **and** large licenses under the Balanced Consensus Plan.
- Bidders for individual licenses will face either (a) the risk of reactivation of their dormant, but potentially winning bids, as a result of activity on other licenses in a package, or (b) a new "coordination" problem resulting from the need to simultaneously submit prospectively-losing bids on parts of a package. The stakes are simply too high to use package bidding for the 700 MHz auction.

Anonymous Bidding Issues

- U.S. Cellular supports use of transparent bidding with traditional information disclosures in the auction of Upper and Lower 700 MHz bands. Blind bidding would compound **the** risk that already attends development of a new band. "Strategic dependency" on large carriers (roaming, infrastructure, devices, making a market for 3G/4G applications) means that large carrier bids provide essential real-time valuation information for **small** bidders. Blind bidding potentially **complicates the** financing of small bidders, who already face a short **timeframe** to prepare for the auction.

Performance, Negotiation and Renewal Requirement issues. E911 and HAC Issues:

- U.S. Cellular supports extending E911 and HAC obligations to licensees in the band. However, the FCC should not alter existing Part 27 performance requirements and renewal standards. U.S. Cellular supports continued use of "substantial ~~service~~" performance requirements or, alternatively, the adoption of safe harbors **such as** those proposed by Verizon Wireless in its January 31, 2007 ex parte submission in WT Docket No. 06-150.

Guard Band Interference Issues:

- U.S. Cellular also supports possible reconfiguration of 700 MHz Guard Band spectrum to meet the twin goals of protecting Public Safety and of not adversely impairing use of the commercial bands to be **auctioned**.

Frontline Proposal:

- U.S. Cellular opposes adoption of the Frontline's proposed service rules (1) **because** its **proposed** nationwide license **would** all but eliminate competitive bidding for this spectrum and disrupt flexible bidding and aggregation opportunities under the Balanced Consensus Plan for others in the auction, (2) **because** the adoption of ~~service~~ rules which would restrict spectrum use to Frontline's unique business plan violate longstanding Commission policies supporting competitive neutrality and flexible uses in those rules, and (3) **because** the administratively sound way to achieve the benefits in other substantive **areas** of Frontline's proposals is to address them **in** rulemaking proceedings, in the case of roaming, for example, in the Commission's longstanding automatic roaming proceedings in WT Docket Nos. 05-265 and 00-193.