



**TABLE OF CONTENTS**

SUMMARY ..... ii

I. INTRODUCTION.....1

II. OVERVIEW OF UNIVERSAL SERVICE REFORM..... 2

III. A COMPREHENSIVE UNIVERSAL SERVICE REFORM PROPOSAL .....5

    A. Reform Must Promote Efficiency; the Embedded Cost Methodology Is Demonstrably Flawed and Must be Abandoned .....6

    B. Support Must be Made Fully Portable .....11

    C. The Identical Support Rule is the Only Way to Distribute Support on a Competitively Neutral Basis .....12

    D. Support to Rural ILECs Must be Disaggregated Upon Competitive Entry.....19

    E. Embarq’s Proposal Deserves Consideration, Provided Consumers Benefit.....21

IV. A REVERSE AUCTION METHODOLOGY IS INCONSISTENT WITH THE 1996 ACT AND SHOULD THEREFORE BE REJECTED .....22

    A. Auctions Cannot Yield Competitively Neutral Results Until Competitive Networks Exist .....22

    B. Auction Rules Must Incorporate Principles of Competitive and Technological Neutrality ..... 23

    C. Any Mechanism That Insulates Incumbents from Competition Must be Rejected .....23

    D. Auctions Would Not Fit Within the Statutory Scheme for Universal Service.....25

    E. Auctions Cannot Be Conducted Unless All Carriers Bid on Identical Territories .....26

F. A Ten-Year Term for an Auction Winner Will Exacerbate the Problem of Stranded Plant .....27

G. The Discussion Proposal Contained in the Attachment to the Joint Board's 2006 Public Notice Is A Non-Starter .....27

V. CONCLUSION.....28

## SUMMARY

United States Cellular Corporation ("U.S. Cellular") and Rural Cellular Corporation ("RCC") welcome this opportunity to provide comment on long-term reform of the high-cost program of the federal universal service fund. We recognize the importance of this proceeding, which will determine whether rural consumers see the benefits of accelerated wireless infrastructure development in their areas.

We believe it is important for the FCC to resume its progress in developing a mechanism that will reward efficient carriers and stimulate the health, safety, and economic development benefits that only wireless communications can bring to rural America. Since 2001, the FCC has not implemented meaningful reforms that would promote these goals. As a result, consumers in many areas have not yet experienced the increased availability of competitive telecommunications services Congress intended when it made support explicit and portable.

Toward this end, U.S. Cellular and RCC propose a comprehensive approach toward universal service reform. The cornerstones of this approach are Efficiency, Portability, and Disaggregation. Support must be efficient, that is, provided on the costs of constructing an efficient network, and must not continue to provide incentives for carriers to operate inefficiently. Support must be portable, meaning that the carrier that gets the customer gets the support. Support must also be disaggregated, that is, accurately targeted to areas that are high-cost for incumbent carriers. Any reforms must reflect the fact that the only way to distribute support on a competitively neutral basis is by providing identical support, i.e., ensuring the competitors receive support on a per-line basis equal to what incumbent carriers receive.

Finally, U.S. Cellular and RCC believe that a reverse auction methodology for distributing support would be inconsistent with the statutory scheme for universal service and should therefore be rejected. To the extent the Joint Board wishes to consider such an approach, it is crucial that any reverse auction methodology be designed to incorporate principles of competitive and technological neutrality. For this reason, any reverse auction system that insulates an incumbent from competition must be rejected. Moreover, any reverse auction system cannot work unless all carriers bid on identical territories, and a 10-year term for an auction winner must be rejected as it would exacerbate the problem of stranded plant. Lastly, U.S. Cellular

and RCC believe the discussion proposal attached to the Joint Board's 2006 *Public Notice* regarding auctions is unacceptable, as it would artificially limit the number of supported carriers in a given area instead of letting the market determine the outcome.

**Before the  
Federal Communications Commission  
Washington, DC 20554**

In the matter of \_\_\_\_\_ )  
Federal-State Joint Board on Universal Service ) WC  
Docket No. 05-337 )

To: The Federal-State Joint Board

**COMMENTS OF UNITED STATES CELLULAR CORPORATION  
AND RURAL CELLULAR CORPORATION**

United States Cellular Corporation ("U.S. Cellular") and Rural Cellular Corporation ("RCC"), by counsel and pursuant to the Joint Board's *Public Notice*, FCC 07J-2 (released May 1, 2007) ("*Public Notice*"), hereby provide the following proposal for long-term comprehensive universal service reform.

**I. INTRODUCTION**

U.S. Cellular and RCC appreciate the opportunity to provide comment in this proceeding, which will determine whether rural consumers see the benefits of accelerated wireless infrastructure development in their areas. The Joint Board must determine whether the FCC's policy direction, set in 1996, will continue to reward efficient carriers and stimulate the health, safety, and economic development benefits that only wireless communications can bring to rural America.

U.S. Cellular provides PCS and cellular services in 44 MSAs, 100 RSAs, 1 MTA and numerous BTAs throughout the country.

U.S. Cellular has received ETC status and is currently receiving high-cost support for its operations in Washington, Iowa, Wisconsin, Kansas, Oregon, Maine and Oklahoma. U.S. Cellular received ETC status in Missouri on May 1, 2007. U.S. Cellular has applications pending before state commissions in Illinois and Nebraska, and at the FCC for New Hampshire, North Carolina, Virginia, Tennessee, and New York.

RCC provides PCS and cellular services to Central, Midwest, Northeast, South and Northwest territories located in 15 states. RCC has received ETC status and is currently receiving high-cost support for its operations in Alabama, Kansas, Maine, Minnesota, Mississippi, New Hampshire, Oregon, South Dakota, Vermont, and Washington. RCC currently has a petition pending before the FCC to extend its Alabama ETC service area to cover licensed service territory it has acquired since its initial grant.

In each area where U.S. Cellular and RCC have been designated, the companies are using federal high-cost support to accelerate the development of their network infrastructure outward from major towns and highways. Through their submission of periodic reports on their investments to various state commissions, U.S. Cellular and RCC are accountable for the support they receive. In fact, in most states where U.S. Cellular and RCC have been designated, wireless carriers provide

more specific information about their use of support than do wireline carriers.

## II. OVERVIEW OF UNIVERSAL SERVICE REFORM

Congress ordered the FCC to reform universal service mechanisms to work alongside the market - to preserve **and advance** universal service as competitive market forces are introduced to rural America.<sup>1</sup> Reforms must not skew the marketplace; that is, regulators must allow consumers to choose the technology that best suits their needs.

Some have argued that universal service should not foster competition in areas that would not otherwise support it. In fact, by directing the FCC to make support explicit and available to competitors, the **entire purpose** of universal service reform in the 1996 Act was to do just that.<sup>2</sup> Universal service mechanisms are intended to identify and target support to those areas where the market alone has proved insufficient to bring telecommunications service to consumers.<sup>3</sup> The FCC put in place just such a mechanism when it determined that an amount of per-line support would be targeted to high-cost areas and the

---

<sup>1</sup> See 47 U.S.C. Section 254(b).

<sup>2</sup> See 47 U.S.C. Sections 214(e), 254(e).

<sup>3</sup> *Texas Office of Pub. Util. Counsel v. FCC*, 183 F.3d 393, 407 n.2 (5<sup>th</sup> Cir. 1999) ("TOPUC") ("In economic terms, universal service programs are justified as a way to address a 'market failure.' While the carriers have little incentive to expand the telecommunications infrastructure into areas of low population density or geographic isolation, each individual user of the network benefits from the greatest possible number of users."), citing Eli M. Noam, *Will Universal Service and Common Carriage Survive the Telecommunications Act of 1996?*, 97 COLUM. L.REV. 955, 958-59 (1997).

most efficient competitor, who wins the customer, would receive it.<sup>4</sup>

The Joint Board's *Public Notice* focuses on several proposals for reform which are addressed below. In addition, U.S. Cellular and RCC request the Joint Board to also focus on completing the work that it began shortly after the 1996 Act, through 2001. During that period, both the Joint Board and the FCC articulated a vision for universal service reform that was totally consistent with the goals and mandates of the 1996 Act.<sup>5</sup> The FCC developed a very large body of work containing consistent themes, culminating with the *MAG Order* in 2001.<sup>6</sup> Almost all of the FCC's work was affirmed by the courts, despite several challenges.<sup>7</sup>

---

<sup>4</sup> *Federal-State Joint Board on Universal Service, Report and Order*, 12 FCC Rcd 8776, 8932, 8944-45 (1997) (subsequent hist. omitted) ("*First Report and Order*").

<sup>5</sup> See, e.g., *First Report and Order*, *supra*; *Federal-State Joint Board on Universal Service, Fourth Order on Reconsideration*, 13 FCC Rcd. 5318 (1997) ("*Fourth Reconsideration Order*"); *Federal-State Joint Board on Universal Service, Ninth Report and Order and Eighteenth Order on Reconsideration*, 14 FCC Rcd 20432 (1999) ("*Ninth Report and Order*"); *Federal-State Joint Board on Universal Service, Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas, Twelfth Report and Order, Memorandum Opinion and Order, and Further Notice of Proposed Rulemaking*, 15 FCC Rcd 12208 (2000) ("*Twelfth Report and Order*"); *Federal-State Joint Board on Universal Service, Fourteenth Report and Order, Twenty-second Order on Reconsideration, and Further Notice of Proposed Rulemaking*, 16 FCC Rcd 11244, (2001) ("*RTF Order*").

<sup>6</sup> *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, *Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, Second Report and Order and Further Notice of Proposed Rulemaking* in CC Docket No. 00-256, *Fifteenth Report and Order* in CC Docket No. 96-45, and *Report and Order* in CC Docket Nos. 98-77 and 98-166, 16 FCC Rcd 19613 (2001) ("*MAG Order*").

<sup>7</sup> See, e.g., *Alenco, et al. v. FCC*, 201 F.3d 608 (5<sup>th</sup> Cir. 2000); *TOPUC*, *supra*.

Since 2001, the FCC's accomplishments with respect to comprehensive universal service reform have been insignificant. This represents a serious policy failure that has materially harmed rural consumers, who continue to fund legacy wireline voice networks to the tune of \$3 billion annually. While universal service reform has played a significant role in driving consumer value, inaction since the 2001 *MAG Order* has denied many rural consumers the benefits that Congress promised in the 1996 Act - choices in services and service providers that are reasonably comparable in quality and price to those available in urban areas.<sup>8</sup>

Most important, the failure to enact meaningful reforms has impeded the entry of wireless carriers in many states, such as Illinois, South Carolina, Idaho, Ohio, and Missouri, each of which receives little or no federal universal service support some eleven years after the 1996 Act. Incumbent wireline interests have used the political and legal processes in these and other states to discourage entry and aggressively oppose ETC petitions by well-qualified carriers such as U.S. Cellular and RCC. This does a tremendous disservice to consumers in the many rural areas that cannot experience the benefits of competitive choice in the absence of federal high-cost support.

---

<sup>8</sup> 47 U.S.C. Section 254(b)(3).

While the current Board may see growth in the fund as a problem, the truth is that growth was anticipated, predictable, and exactly what was required to drive new technologies out to rural America while not materially harming rural ILECs in the short-term. After all, the FCC adopted a five-year transition period during which rural ILECs would not lose support when CETCs entered.<sup>9</sup> The FCC extended the transition period indefinitely in 2006 without any reform having been enacted.<sup>10</sup> With rural ILECs having lost over 10% of their access lines since 2003, that represents roughly \$300,000,000 per year in increased fund support which has not been addressed by the proposed cap or any other comprehensive reform proposal.

Since the FCC's original 2002 referral,<sup>11</sup> wireless carriers including U.S. Cellular and RCC have offered meaningful long-term reform proposals that have yet to receive consideration. We are at a loss to understand what has changed that would make those proposals less viable today than they were five years ago. The Joint Board's latest *Public Notice* focuses on reforms that diverge significantly from its prior work, with no explanation why its previously recommended reforms will not succeed. Indeed, the path started by the Joint Board between 1996 and

---

<sup>9</sup> See *RTF Order, supra*, 16 FCC Rcd at 11294-95.

<sup>10</sup> *Federal-State Joint Board on Universal Service, Order*, 21 FCC Rcd 5514 (2006).

<sup>11</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Order*, 17 FCC Rcd 22642 (2002) ("*ETC/Portability Referral Order*").

2001 has every likelihood of success and represents real reform that is consistent with the express mandate of the 1996 Act.

U.S. Cellular (individually) and RCC (through Rural Cellular Association) have previously commented on reverse auctions, and shall do so again below. Should the Joint Board come to agree with our view, that the legal, policy, and political challenges of implementing reverse auctions in a manner that would fulfill the 1996 Act's mandates are too steep, then continuing on the course previously set by the Joint Board and the FCC is the logical alternative. Accordingly, U.S. Cellular and RCC offer the following proposal for reform.

### **III. A COMPREHENSIVE UNIVERSAL SERVICE REFORM PROPOSAL**

The proposal by U.S. Cellular and RCC to reform universal service requires three fundamental reforms:

- Efficiency. Support must be provided on the costs of constructing an efficient network and must not continue to provide incentives for carriers to operate inefficiently;
- Portability. Support must be portable - that is - the carrier that gets the customer gets the support; and
- Disaggregation. Support must be accurately targeted to areas that are high-cost for incumbent carriers, so that, (i) newcomers do not receive support when they enter areas that are low-cost to the incumbent, and (ii) consumers in the highest-cost areas have the best chance of seeing new entry by efficient competitors.

#### **A. Reform Must Promote Efficiency; the Embedded Cost Methodology Is Demonstrably Flawed and Must be Abandoned.**

There is near-unanimous agreement that the current universal service system promotes inefficiency for rural wireline carriers, who operate on a "the more you spend, the more you get" system known as the modified embedded cost methodology.<sup>12</sup> Over the years, numerous experts have provided overwhelming evidence of the inefficiencies inherent in this system, which continues to provide a barrier to real competition in many rural areas.<sup>13</sup>

Two simple examples illustrate why the current system for ILECs must be abandoned: First, despite the fact that rural ILECs have been receiving \$3 billion per year in support, literally hundreds applied for extensions of Local Number Portability ("LNP") deadlines because they had antiquated switches or software that could not support LNP mandates.<sup>14</sup> No trail of where the funds went is available to the public as

---

<sup>12</sup> See *RTF Order, supra*.

<sup>13</sup> See, e.g., testimony of Lee Selwyn to the Joint Board in CC Docket 96-45, En Banc Hearing on High-Cost Universal Service Support in Areas Served by Rural Carriers, Nashville, TN (Nov. 14, 2004) (summary of testimony available at [http://www.fcc.gov/wcb/tapd/universal\\_service/JointBoard/Hearing/Statements/Selwynstatement.pdf](http://www.fcc.gov/wcb/tapd/universal_service/JointBoard/Hearing/Statements/Selwynstatement.pdf)); Prof. Thomas W. Hazlett, "Universal Service Subsidies: What Does \$7 Billion Buy?" (June 2006), available at <http://www.senior.org/Documents/USF.Master.6.13.06.pdf>. Press articles have also chronicled ILEC inefficiencies. See, e.g., Paul Davidson, "Fees Paid by All Phone Customers Help Rural Firms Prosper," USA TODAY (Nov. 17, 2004) (available at [http://www.usatoday.com/money/industries/telecom/2004-11-15-rural-phone-fees\\_x.htm](http://www.usatoday.com/money/industries/telecom/2004-11-15-rural-phone-fees_x.htm)).

<sup>14</sup> See, e.g., *In the Matter of Telephone Number Portability, Order*, 19 FCC Rcd 875 (2004) (granting waiver of intermodal LNP deadline for certain ILECs serving fewer than two percent of lines in the aggregate nationwide ("two percent carriers") in top 100 MSA markets.) In Nebraska, every rural ILEC received relief from intermodal LNP requirements. In the Matter of the Application of Great Plains Communications, Inc. et al, Docket Nos. C-3096 et al. (July 20, 2004).

carriers were not required to demonstrate that federal universal service support was being used to make upgrades so that LNP mandates could be met. Nor are the audit criteria used by USAC sufficient to determine whether support is being used efficiently, or whether related-party transactions are contributing to over-subsidization and structural inefficiencies within individual companies.<sup>15</sup>

Second, a coalition of rural ILECs in Iowa has been pressing the FCC to require cable providers to permit "shared head-end" facilities to be constructed so that ILECs can deliver video services to consumers in a cost-effective manner. Their arguments sound remarkably similar to those made in the universal service context:

Today, many small rural video providers would not be able to offer video services if they could not jointly purchase/lease a shared head-end with other small video providers. Some small video providers serve less than 300 residents within their service areas. If many small rural video providers were required to invest approximately \$1 to \$3 million in a head-end, manage and maintain the network, and absorb the programming costs, they could never expect to recover their investment nor provide affordable/competitive video services throughout their service areas. These same small video companies, however, have created an opportunity to provide video services by pooling their resources and jointly purchasing a head-end or leasing a head-end from another head-end owner. Sharing a head-end with several small companies substantially reduces initial

---

<sup>15</sup> See [http://www.usac.org/hc/about/understanding-audits.aspx?WT.mc\\_id=er\\_newsletter\\_20061016](http://www.usac.org/hc/about/understanding-audits.aspx?WT.mc_id=er_newsletter_20061016). These audit criteria can confirm that a carrier spent funds on a management contract, however they do not determine whether the contract was with a related party, or whether the cost was appropriate.

investment and provides small video providers the opportunity to provide consumers with an affordable video service offering. Without the shared head-end option, many rural consumers would not have video service or would be limited to direct broadcast satellite service (DBS) without any other competitive offering.<sup>16</sup>

In the video business, where there is no universal service support, this makes perfect business sense - small carriers banding together to achieve much-needed economies of scale. But in the telephone business, rural ILECs have no incentive to engage in this kind of rational business conduct, simply because the embedded-cost methodology enables inefficiencies.

None of the ordinary business incentive to be efficient is present and, as a result, consumers who contribute to the fund overpay for redundant facilities. Using a back-of-the-envelope estimate, if each of the 1300 rural ILECs has just one switch, serving roughly 12 million customers, that's one switch for every 10,000 people. Most modern switches are capable of serving several hundred thousand customers, at a minimum,<sup>17</sup> and it takes little more than a personal computer to serve a few hundred or a few thousand access lines.<sup>18</sup> Yet, even though USAC

---

<sup>16</sup> See *Initial Comments of National Telecommunications Cooperative Association in Annual Assessment of the Status of MB Docket No. 06-189 Competition in the Market for the Delivery of Video Programming*, filed Nov. 29, 2006 at p. 9.

<sup>17</sup> EWSD, a widely used digital switching system manufactured by Siemens, can connect up to 600,000 subscribers, according to product literature. See [http://www.siemens.com/index.jsp?sdc\\_p=pEPfsnd1019075cmu0o1](http://www.siemens.com/index.jsp?sdc_p=pEPfsnd1019075cmu0o1).

<sup>18</sup> "The New York Times Taps Nortel to Build Secure VoIP Net: New Headquarters, Opening in 2007, Will Support More Than 3,000 IP Phones, Unified Messaging and Built-in LAN Security," NETWORKWORLD (Oct. 31, 2006), available at

has doled out over \$22 billion to rural wireline carriers since the 1996 Act, it does not even have reliable data concerning what equipment is deployed, how recently it has been upgraded, or how those funds have been invested to benefit rural consumers.

The lack of efficiency is borne out in another way - pricing. Competitive markets wring out efficiencies that regulators can never reach. Carriers in competitive markets can price their services no higher than the market will allow, and must offer more service, lower prices, and better service in order to stay in business.<sup>19</sup> By every metric, the wireless industry has delivered for consumers. On a per-minute basis, the price of wireless service dropped from \$0.44 to \$0.07 between 1993 and 2005.<sup>20</sup> Rate plans now include local calling areas as wide as the contiguous U.S. Unlimited local calling is

---

[http://www.nortel.com/solutions/securenet/collateral/network\\_world\\_nytimes\\_taps\\_nortel\\_10\\_07.pdf](http://www.nortel.com/solutions/securenet/collateral/network_world_nytimes_taps_nortel_10_07.pdf).

<sup>19</sup> See *Policy and Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorizations Therefor, First Report and Order*, 85 FCC 2d 1, 31 (1980) (“[F]irms lacking market power simply cannot rationally price their services [or impose terms] in ways which [are unjust, unreasonable or discriminatory.] [A] non-dominant competitive firm . . . will be incapable of violating the just and reasonable standard....If it charges unreasonably high rates or imposes unreasonable terms or conditions in conjunction with the offering, it would lose its market share as its customers sought out competitors whose prices and terms are more reasonable.”)

<sup>20</sup> *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*, 21 FCC Rcd 10946 (2006) at Appendix A, Table 10. See Exhibit 1, attached hereto.

now being offered by several carriers.<sup>21</sup> In short, in every area where high-quality wireless service is available, consumers today receive a far greater quantity of service, and much wider service offerings and choices than they did before the 1996 Act.

When it comes to pricing, wireline consumers in urban areas don't fare quite as well. Prices for local exchange service nationwide have actually increased over the years.<sup>22</sup> The landline operations of large ILECs now offer unlimited local and long distance packages for a fixed price in urban areas, largely because wireless competition in urban areas has required a competitive response, lower prices, and attendant efficiencies.

Many rural consumers fare worse, and when broadband is considered—much worse. Many, if not most, rural ILECs do not offer unlimited local and long distance packages, primarily because the cost of terminating calls to neighboring carriers is prohibitively expensive.<sup>23</sup> These expensive transport and termination charges result in consumers receiving “unlimited” service to dial only a few thousand, or sometimes a few hundred other access lines. Every other call incurs toll charges.

In areas where wireless service is not of sufficient quality to provide a service that enables a consumer to choose

---

<sup>21</sup> On information and belief, Leap's Cricket service, MetroPCS and Sprint are among those offering unlimited local calling.

<sup>22</sup> See Exhibit 2, attached hereto.

<sup>23</sup> In our unscientific research of rural ILEC web sites, we were not able to find any unlimited local and long distance packages that would be considered comparable in calling area and price to those available in urban areas.

it as a substitute, wireline carriers have no incentive to improve efficiencies or lower prices. That lack of incentive bleeds over into wireline broadband offerings. Internet access through a wireline carrier in such areas is typically slower and much more expensive than that available in urban areas.<sup>24</sup>

We believe the lack of **voice** competition in rural areas is a significant factor in the nation's drop in broadband penetration over the past five years.<sup>25</sup> Competition for voice services leads market participants to innovate and to improve **all** service offerings for consumers. It is only logical that as the nation moves to wireless for voice communications, wireline carriers are going to improve Internet, video, and high-speed backbone offerings to maintain their business. In areas where universal service reform has not taken hold, many of America's rural consumers who do not have high-quality wireless services pay the highest prices for wireline service, receive the least *quantity* of service, and have the fewest choices of service providers.

---

<sup>24</sup> To cite just a few examples of prices and Internet access speeds available from some rural ILECs as compared to urban ILECs and wireless broadband offerings, see Exhibit 3.

<sup>25</sup> See, e.g., Organization for Economic Cooperation and Development, Broadband Statistics to December 2006 (showing that the U.S. has dropped to fifteenth worldwide in broadband subscribers per 100 inhabitants), available at [www.oecd.org/sti/ict/broadband](http://www.oecd.org/sti/ict/broadband). While some may cite the low population density of large areas of the U.S. as a reason for its low ranking, the U.S. is ranked below other countries with substantial rural areas, such as Canada, Norway, and Sweden.

The FCC has consistently supported competition as the primary driver of consumer benefit and lower prices. For example, with respect to competition for video services, the Chairman recently stated:

I am also committed to seeing that consumers are able to realize the benefits of competition in the forms of better services and lower prices. In recent years however, consumers have had limited choice among video services providers and ever increasing prices for those services. But as was just demonstrated in our annual price survey, cable competition can impact cable bills. Again, it found that only in areas where there was competition from a second cable operator did average price for cable service decrease. I am pleased that the steps taken by the Commission today will expressly further this type of competition and help ensure that lower prices are available to as many Americans as possible as quickly as possible.<sup>26</sup>

U.S. Cellular and RCC are strongly in favor of providing support to all carriers based on the costs of constructing and operating an efficient network. As evidenced at the recent *en banc* hearing, the sophistication of computer models has advanced significantly over the past ten years and the Joint Board should make a significant effort to explore their utility.<sup>27</sup> If the Joint Board is serious about "right-sizing" the federal high-cost fund, then examining how to provide support based on the cost of an efficient network must be undertaken.

---

<sup>26</sup> Statement of Chairman Kevin J. Martin, *Implementation of Section 621(a)(1) of the Cable Communications Policy Act of 1984 as amended by the Cable Television Consumer Protection and Competition Act of 1992, Report and Order and Further Notice of Proposed Rulemaking (MB Docket No. 05-311)* \_\_\_ FCC Rcd (2007).

<sup>27</sup> Presentation of CostQuest on Panel 2 of the *en banc* hearing held in Washington DC on February 20, 2007.



**B. Support Must be Made Fully Portable.**

The *Alenco* court articulated succinctly the rationale for making high-cost support portable and not forever wedded to one carrier: "The purpose of universal service is to benefit the customer, not the carrier. 'Sufficient' funding of the customer's right to adequate telephone service can be achieved regardless of which carrier ultimately receives the subsidy."<sup>28</sup> The FCC has affirmed numerous times that portability is a critical component of competitively neutral universal service support mechanisms:

We adopt the Joint Board's recommendation to make rural carriers' support payments portable. As we discussed above regarding non-rural carriers, a CLEC that qualifies as an eligible telecommunications carrier shall receive universal service support to the extent that it captures subscribers formerly served by carriers receiving support based on the modified existing support mechanisms or adds new customers in the ILEC's study area. We conclude that paying the support to a competitive eligible telecommunications carrier that wins the customer or adds a new subscriber would aid the entry of competition in rural study areas.<sup>29</sup>

We reiterate that federal universal service high-cost support should be available and portable to all eligible telecommunications carriers, and conclude that the same amount of support (i.e., either the forward-looking high-cost support amount or any interim hold-harmless amount) received by an incumbent LEC should be fully portable to competitive providers.<sup>30</sup>

---

<sup>28</sup> *Alenco, supra*, 201 F.3d at 621.

<sup>29</sup> *First Report and Order, supra*, 12 FCC Rcd at p. 8944, *aff'd, Fourth Reconsideration Order, supra, aff'd, Alenco, supra*.

<sup>30</sup> *See Ninth Report and Order, supra*, 14 FCC Rcd at 20480.

In short, there can be no meaningful universal service reform without portability. We find it surprising to be having this discussion nearly a decade after the FCC decided the matter and some seven years after the *Alenco* court put this issue to rest.

Today, support *among* CETCs is fully portable. That is, when CETCs gain customers they gain support and when carriers lose customers they lose support. Support to rural ILECs is not portable. That is, when ILECs lose customers, they do not lose support. We note that the FCC originally determined that support to ILECs would be reduced when a CETC captures a customer.<sup>31</sup> However, that decision was reversed to permit rural ILECs to transition to a fully portable mechanism.<sup>32</sup>

This lack of portability has been tolerated as the five-year transition period allowed fund growth;<sup>33</sup> however, any long term reform that does not include portability reduces incentives for incumbents to be efficient or to improve service to consumers and is sure to increase fund size.

Exhibit 4 attached hereto shows that access line counts for rural wireline networks peaked in 2003 and has fallen by over 10% since. Exhibit 5 attached hereto demonstrates that support

---

<sup>31</sup> See *Fourth Reconsideration Order*, *supra*, 13 FCC Rcd at 5367-68 (“Accordingly, we amend section 54.307(a)(4) to clarify that, when a competitive eligible telecommunications carrier receives support for a customer pursuant to section 54.307(a)(4), the incumbent LEC will lose the support it previously received that was attributable to that customer.”)

<sup>32</sup> See *RTF Order*, *supra*, 16 FCC Rcd at 11294-95.

<sup>33</sup> See *RTF Order*, *supra*, which implemented the five-year transition period during which rural ILECs were to prepare for competition and portability.

to wireline carriers has remained essentially flat, despite the decrease in access lines. If the current system is retained, the rapid acceleration of cord-cutting is going to result in significant over-funding of rural ILEC networks.

Consumers who are choosing wireless voice services should be seeing the benefits of increased support to the networks they are choosing. Under the current mechanism, that does not happen and any long-term reform which does not include portability of support would fail to conform with the consumer-centric purposes of universal service as articulated in *Alenco*.

**C. The Identical Support Rule is the Only Way to Distribute Support on a Competitively Neutral Basis.**

Long ago, the FCC properly ruled that providing identical "per-line" support to all competitors is competitively neutral. Again, this is a matter that was closed nearly ten years ago:

We are not persuaded by commenters that assert that providing support to CLECs based on the incumbents' embedded costs gives preferential treatment to competitors and is thus contrary to the Act and the principle of competitive neutrality. **While the CLEC may have costs different from the ILEC, the CLEC must also comply with Section 254(e), which provides that "[a] carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."** Furthermore, because a competing eligible telecommunications carrier must provide service and advertise its service throughout the entire service area, consistent with section 254(e), the CLEC cannot profit by limiting service to low cost areas. If the CLEC can serve the customer's line at a much lower cost than the incumbent, this may indicate a less than efficient ILEC. The presence of

a more efficient competitor will require that ILEC to increase its efficiency or lose customers. State members of the Joint Board concur with our determinations regarding the portability of support.<sup>34</sup>

**To ensure competitive neutrality, we believe that a competitor that wins a high-cost customer from an incumbent LEC should be entitled to the same amount of support that the incumbent would have received for the line, including any interim hold-harmless amount.** While hold-harmless amounts do not necessarily reflect the forward- looking cost of serving customers in a particular area, we believe this concern is outweighed by the competitive harm that could be caused by providing unequal support amounts to incumbents and competitors. **Unequal federal funding could discourage competitive entry in high-cost areas and stifle a competitor's ability to provide service at rates competitive to those of the incumbent.**<sup>35</sup>

It is important to understand why the identical support rule is competitively neutral. The best illustration is to compare urban areas to rural areas. In urban areas, no universal service support is provided. Market participants compete for customers on a playing field not skewed by universal service support.

In rural areas, wireline carriers constructed their networks first, with the help of implicit and explicit support, and as a result they became monopoly carriers, having all the customers and all the support. In order to provide the appropriate incentive to bring newcomers into the market, an identical amount of support must be provided to level the playing field.

---

<sup>34</sup> *First Report and Order, supra*, 12 FCC Rcd at 8933 (emphasis added).

<sup>35</sup> *Ninth Report & Order, supra*, 14 FCC Rcd at 20480 (emphasis added).

For example, if an ILEC receives \$10 per month per line of support, a newcomer must be more efficient than the ILEC by at least \$10 per line in order to compete. **That** is the barrier to entry that prevented competitors of all technologies from entering most rural areas until the 1996 Act was implemented. The FCC has long recognized this problem:

[A] carrier cannot reasonably be expected to enter a high-cost market prior to its designation as an ETC and provide service in competition with an incumbent carrier that is receiving support. We believe that such an interpretation of section 214(e) directly conflicts with the meaning of section 214(e)(1) and Congress' intent to promote competition and access to telecommunications service in high-cost areas.<sup>36</sup>

By providing \$10 of support to all CETCs, the playing field is leveled. Whichever carrier can best serve the customer will win, just as it is in urban areas.

In its recent *Recommended Decision*, the Joint Board named the identical support rule as a primary cause of fund growth.<sup>37</sup> Looking at the history of universal service policymaking, that

---

<sup>36</sup> *Western Wireless Corporation Petition for Preemption of an Order of the South Dakota Public Utilities Commission, Declaratory Ruling*, 15 FCC Rcd 15168, 15180 (2000); *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order*, 11 FCC Rcd 15499, 15506-07 (1996) ("*Local Competition Order*") ("The present universal service system is incompatible with the statutory mandate to introduce efficient competition into local markets, because the current system distorts competition in those markets. For example, without universal service reform, facilities-based entrants would be forced to compete against monopoly providers that enjoy not only the technical, economic, and marketing advantages of incumbency, but also subsidies that are provided only to the incumbents."). See also *Verizon Communications, Inc. v. FCC*, 122 S.Ct. 1646, 1662 (2002) ("It is easy to see why [an ILEC] would have an almost insurmountable competitive advantage not only in routing calls within the exchange, but, through its control of this local market, in the markets for terminal equipment and long-distance calling as well.").

<sup>37</sup> *Recommended Decision* at para. 4.

statement is simply incorrect. Identical support is the only competitively neutral way to implement universal service in a competitive environment.

The problem is not identical support. As discussed above, it is the **lack of portability** that is allowing fund growth. The FCC's decision not to make support fully portable has permitted fund growth, which the Joint Board and the FCC saw as necessary to introduce competition into rural America without harming rural ILECs during the five-year transition period.<sup>38</sup> It is now six years after the beginning of that transition, and no more extensions are warranted. The Joint Board must now implement portability.

In so doing, the Joint Board should explore ways to determine when support to an area is sufficient, not to meet a particular carrier's needs, but to provide **consumers** with choices in telecommunications services and advanced services that are reasonably comparable to those available in urban areas.<sup>39</sup> Following that determination, adding lines in an area would no longer increase support to the area. Support each quarter would be recalculated on a "per-line" basis and apportioned according to the number of lines each carrier captured. This would replicate the competitive environment

---

<sup>38</sup> *First Report and Order, supra*, 12 FCC Rcd. at 8933; *Fourth Reconsideration Order, supra*, 13 FCC Rcd at 5367-68; *Ninth Report & Order, supra*, 14 FCC Rcd at 20480; *RTF Order, supra*, 16 FCC Rcd at 11294-95.

<sup>39</sup> See 47 U.S.C. Section 254(b)(3).

present in urban areas and stop fund growth at whatever level the FCC deemed appropriate to deliver the benefits Congress intended. Properly implemented, portability **is** a funding cap, and provided support is sufficient to provide consumers with choices, it will also be a competitively neutral cap.

We offer the following responses to some common criticisms of the identical support rule, most of which the FCC long ago rejected:

**1. "The identical support rule confers an unfair advantage to more efficient competitors."**

This argument was rejected in 1997.<sup>40</sup> In fact, more efficient competitors in a level marketplace **should** have an advantage. What is wrong in rural areas is that the current system which lacks full portability for wireline carriers confers an advantage to **less efficient** competitors. By leveling the playing field with identical support, more efficient competitors have the exact same advantage they would have if no carrier in the market received support, such as in urban areas. This is a fair and appropriate marketplace result.

It is also important to note that wireline networks were for the most part constructed decades ago. Today, most ILECs receive a level of support that is (theoretically) required to operate networks in maintenance and upgrade mode. Support to

---

<sup>40</sup> See *First Report and Order*, *supra*, 12 FCC Rcd at 8933.

CETCs is needed to build new networks, in many areas from scratch. Wireless carriers are required to build out their networks, only receive support when they get a customer, and must compete with other wireless carriers as well as the incumbent carrier. Thus, it is hardly fair for incumbents to complain that identical support over-subsidizes wireless carriers that have immature networks. In fact, providing support on a newcomer's costs would, in the short term, likely yield much higher support levels as new networks are being constructed.

**2. "The identical support rule may over-subsidize the more efficient carrier."**

This argument was also rejected in 1997.<sup>41</sup> In the short term, that will not happen because all of the support gained by the competitor must be plowed back into improving its infrastructure and facilities. In U.S. Cellular's and RCC's case, it requires significant capital expenditures to be able to offer facilities-based services throughout their designated ETC service areas. Thus, any so-called over-subsidy on a per-line basis provides tangible consumer benefits in rural areas by accelerating the growth of competitive networks.

---

<sup>41</sup> *Id.*

In the long term, as competitive networks mature, making support fully portable will stop fund growth, as described above.

**3. "Paying each carrier on its own costs is competitively neutral."**

As shown in the citations provided above, the FCC has already rejected this view and there has been nothing introduced into economic theory that would change the underlying rationale for identical support. If one carrier receives more support than another, then it has an unfair competitive advantage in the marketplace. Moreover, the administrative burden of calculating support based on each carriers' costs, and overseeing such calculations, for multiple technologies such as cellular, PCS, Wi-Max, satellite, 700 MHz, and others, will be enormous.<sup>42</sup>

**4. "The identical support rule funds multiple networks in areas that would not otherwise support competition."**

This statement reflects a fundamental misunderstanding of how high-cost support is paid to competitors, and is frequently advanced by those who oppose the identical support rule. If support is made fully portable, as suggested above, the identical support rule does not provide enough support for multiple carriers to each construct complete networks throughout

---

<sup>42</sup> See *id.* at 8945.

a service area. That is because the amount of support in an area is limited by the number of customers there.<sup>43</sup>

Indeed, the identical support rule is doing exactly what the FCC intended for it to do. For example, recent ILEC advocacy has pointed to Iowa as an example of how there are “too many” CETCs designated in the same areas. The number of CETCs is truly irrelevant under the identical support rule, **because support is portable among CETCs**. That is, CETCs only get support when they get customers, and CETCs lose support when customers are competed away.

Exhibit 6 illustrates that there are today 44 CETCs serving areas of the four ILECs in Iowa that receive Interstate Access Support (“IAS”).

- Exhibit 6-A shows that the four ILECs receive a total of \$450,000 per month in IAS while the 44 CETCs collectively receive \$250,000.
- Exhibit 6-B compares the number of access lines served by ILECs that receive IAS (nearly 800,000) to the number of lines served by U.S. Cellular (roughly 550,000).
- Exhibit 6-C illustrates that the ILECs receiving IAS the same area served by U.S. Cellular receive over \$450,000 per month in IAS, while U.S. Cellular receives roughly \$100,000. This, notwithstanding U.S. Cellular having more over 70% as many access lines as the ILECs.
- Exhibit 6-D illustrates that all high-cost universal service programs provide nearly \$6 million per month to ILECs, compared to \$4 million per month to CETCs.

---

<sup>43</sup> In response to critics who would say that consumers may have more wireless lines than wireline, the FCC is well within its authority to fix an amount of support to an area, and allow line growth only to accommodate new households.

Together, these four exhibits demonstrate that although 44 CETCs are providing service throughout various areas within Iowa, they are not collectively receiving more support than ILECs. All of the CETCs are fighting for customers and as people change cell phone providers their support is portable to the winning carrier. From this point, it should not be difficult for the FCC to make a determination as to what amount of support to Iowa is sufficient to provide consumers with the ability to choose the service that best suits their needs, making support fully portable among wireline and wireless carriers.

It is sometimes argued that wireless carriers wish to receive support based on the ILEC's costs. In fact, wireless carriers do not advocate tying support to ILEC costs indefinitely. Whatever methodology the FCC chooses, it is important that the same amount of per-line support be provided to all entrants so that the playing field is leveled. Our advocacy here is nothing new to the debate - it is precisely what the FCC has already decided and what the *Alenco* court has affirmed.

In his recent testimony before the Senate, Joint Board Member Billy Jack Gregg mentioned that high-cost support to wireless carriers operating in Mississippi has now exceeded that

being provided to wireline carriers.<sup>44</sup> This is a situation that is going to begin to arise in many states over time, as wireless becomes the dominant provider of voice services. We suspect that Hurricane Katrina has accelerated wireless subscription rates, as well as cord-cutting.

Whatever the cause, the Joint Board can use the tools set forth above to ensure that Mississippi consumers have sufficient support to have choices in services promised by Section 254 of the Act. Rather than arbitrarily capping the fund to wireless carriers, the FCC could cap funds to any state where support to CETCs equals that of wireline carriers, **and then make support fully portable among all carriers.** In Mississippi, the pot of support would be capped except for cost of living or other inflation-related increases, but support to each carrier would be adjusted each quarter by the number of lines each carrier has. As lines are added, per-line support would be adjusted to keep support within the cap.

This short-term reform would stop growth in the high-cost fund, cause all carriers to compete for support, and would give the Joint Board and the FCC time to determine the best means of determining the basis of support for all carriers. Whatever model is used, it is important that it provide support based on

---

<sup>44</sup> Testimony of Billy Jack Gregg, Director, Consumer Advocate Division, Pub. Serv. Comm'n of W. Virginia, Before the Communications Subcommittee, Senate Commerce, Science and Transportation Committee, U.S. Senate (March 1, 2007) at p. 10.

the cost of delivering voice communications services on an efficient basis.

Moreover, there are simpler solutions to cutting fund growth without creating a new cost model for each technology that may one day be used in provisioning universal service. This is important because new technologies are going to continue to develop, each with its own cost characteristics. We expect strongly believe that any universal service system provide support in an amount not to exceed an efficient provider's costs of serving a particular area - irrespective of what technology a provider actually uses.

At the recent *en banc* hearing, the Joint Board heard testimony from Cost Quest Associates explaining how modeling tools have improved greatly since 1998.<sup>45</sup> Rather than pursuing auctions, which have enormous legal and political hurdles, the Joint Board should look carefully at how such models can determine a more efficient means of providing support.

**D. Support to Rural ILECs Must be Disaggregated Upon Competitive Entry.**

Today, non-rural ILECs serve some of the most remote and difficult to serve areas in the country, including very mountainous terrain in Maine, Vermont, West Virginia, Kentucky,

---

<sup>45</sup> "Universal Service and Network Modeling ...then and now", Cost Quest Associates, Feb. 2007, available at [http://www.fcc.gov/wcb/tapd/universal\\_service/JointBoard/020220\\_jointboard\\_en\\_banc/Stegeman\\_Slides.pdf](http://www.fcc.gov/wcb/tapd/universal_service/JointBoard/020220_jointboard_en_banc/Stegeman_Slides.pdf).

and remote parts of Montana, Nebraska, Mississippi and Alabama. The current non-rural mechanism targets support to the highest-cost wire centers. That is, when a CETC enters a non-rural area, there are many low-cost wire centers within which it receives little or no support. Likewise, the ability to gain customers and support provides competitors with an incentive to build facilities in high-cost wire centers - precisely where investment should be made.

The FCC has adopted rules for targeting support to areas served by rural ILECs,<sup>46</sup> however the failure to make them mandatory upon competitive entry has artificially increased overall support. This is because competitors typically have already constructed networks in low-cost wire centers before applying for ETC status. Accurately targeting support is critical to driving benefits to consumers living in the most remote areas, who need the benefits of new investment the most.

Again, disaggregation is nothing new. The proposal goes all the way back to 1996, when ILECs advocated disaggregation as a means of preventing cream skimming<sup>47</sup> and the FCC stated that accurately targeting support is needed to direct investment to the areas that need it most.<sup>48</sup> Attached as Exhibits 7-A through 7-C, we have provided examples of how targeting support reduces

---

<sup>46</sup> 47 C.F.R. § 54.315.

<sup>47</sup> See *First Report and Order, supra*, 12 FCC Rcd at 9438.

<sup>48</sup> See *RTF Order, supra*, 16 FCC Rcd at 11302.

support to a competitive carrier. The exhibits use numbers based on USAC data and historical line counts reported by a CETC and contains two tables. Table 1 assumes uniform per-line support in each wire center throughout the ILEC's study area. Table 2 shows disaggregated support. In each of the three examples we have found, support to CETCs drops as a result of disaggregation.

It is important to understand that under the current rules, disaggregation will not change the support levels provided to ILECs. All of the evidence we have examined leads to the conclusion that disaggregation will reduce the overall support being provided to CETCs in the short term, although it is by no means certain that support would be reduced in every ILEC study area.

The FCC's rule for targeting support should be made mandatory, requiring incumbent carriers to more accurately identify those wire centers (or portions of wire centers) that are high-cost to serve. We are advised by experts who perform the analysis needed to target support that it is not difficult to do. In Oregon, where the OPUC is proposing to disaggregate the support of all rural ILECs, an expert witness recently described how disaggregating an ILEC's high-cost support

requires just two hours of work involving the creation of an Excel spreadsheet using any of several proxy models.<sup>49</sup>

**E. Embarq's Proposal Deserves Consideration, Provided Consumers Benefit.**

Embarq has proposed changing how support is provided to large rural ILECs. At the outset, it is important to understand that Embarq's proposal is **not** disaggregation of support, as described above. And the proposal will **not** result in the federal high-cost fund decreasing. In fact, Embarq's proposal will increase the size of the fund because many wire centers in rural areas will receive support without corresponding decreases in other areas.

Embarq wants the FCC to stop averaging the costs of large rural ILECs over the entire state, and examine individual wire centers to determine whether high-cost support should be provided. On its face, the idea has merit because there are many very rural areas where ILECs receive no support as a result of how the formula for providing support works. Consumers in those rural areas deserve the benefits of high-cost support.

It will be important for the Joint Board to examine whether carriers such as Embarq are still cross-subsidizing high-cost

---

<sup>49</sup> In the Matter of Eligible Telecommunications Carriers, Annual certification for continued eligibility to receive federal universal service fund high cost support pursuant to 47 CFR §54.314; and annual certification of non-rural ILEC basic service rates pursuant to 47 CFR §54.316, UM 1217, Testimony of Don J. Wood (filed Feb. 8, 2006) at pp. 46-49.

areas with above-market prices in either the retail (business users) in urban areas or with above-market wholesale prices (e.g., access charges). If the FCC is going to reform how large carriers are provided support, then any above-market rates in monopoly-controlled areas must be addressed. Large carriers cannot be permitted to continue charging above-market prices while simultaneously increasing federal universal service support.

It does not appear that Embarq has addressed this issue or offered to lower prices in urban areas if new support revenue streams of support are provided.

#### **IV. A REVERSE AUCTION METHODOLOGY IS INCONSISTENT WITH THE 1996 ACT AND SHOULD THEREFORE BE REJECTED**

##### **A. Auctions Cannot Yield Competitively Neutral Results Until Competitive Networks Exist.**

We agree with the FCC's previous assessment that "it is unlikely that there will be competition in a significant number of rural, insular, or high cost areas in the near future. Consequently, it is unlikely that competitive bidding mechanisms would be useful in many areas in the near future."<sup>50</sup> Use of auctions for USF support would not yield the right result if one carrier (e.g., the ILEC) is fully built out in the area, and the other(s) (e.g., the competitive ETCs such as wireless carriers)

---

<sup>50</sup> *First Report and Order, supra*, 12 FCC Rcd at 8950-51.

have immature networks. Until there are mature wireless networks and regulators can determine that an area is competitive, the use of auctions will not be competitively or technologically neutral. A carrier with an immature network, that needs substantial capital to construct network facilities throughout an area, cannot reasonably be expected to bid competitively against a carrier that has already completed a network build-out and does not require such capital.

This is true even if the newcomer is substantially more efficient, because it is impossible to know what to bid until a network has been fully constructed. Once a competitive network has been constructed, a competitor will have sufficient information regarding construction and operating costs to bid on a level playing field with an incumbent.

In sum, any auction that goes forward with networks of varying maturity will naturally favor the more mature network and thus fails the test of competitive neutrality.

## **B. Auction Rules Must Incorporate Principles of Competitive and Technological Neutrality.**

Competitive neutrality is a core universal service principle.<sup>51</sup> As discussed above, the FCC has consistently

---

<sup>51</sup> *Id.* at 8801 (“Universal service support mechanisms and rules should be competitively neutral. In this context, competitive neutrality means that universal service support mechanisms and rules neither unfairly advantage nor disadvantage one provider over another, and neither unfairly favor nor disfavor one technology over another.”)

ruled that competitive neutrality requires all ETCs to receive the same amount of per-line support.

U.S. Cellular and RCC are unaware of any viable proposal having been put forth to date for using auctions to provide an efficient level of support to all competitors. Whatever the FCC does, it must follow its own core principle of competitive neutrality and promote the twin goals of advancing universal service and promoting competition throughout America. Critical to this mission is establishing a "per-line" amount, targeting support to the highest-cost wire centers, and inviting all technologies to compete for the support and the customer.

**C. Any Mechanism That Insulates Incumbents from Competition Must Be Rejected.**

Any proposal pursuant to which competitive carriers would bid, and a "winner" would receive support to undertake universal service obligations in a rural area, to the exclusion of other competitors, is a non-starter under the 1996 Act. Any auction scheme which insulates one class of carrier from competition violates the Act and may run afoul of the U.S. Constitution.

As a practical matter, the FCC has already given rural ILECs a decade of protection from competition, culminating in the *RTF Order* of 2001. There, the FCC increased the fund for rural carriers by \$1.26 billion and decided to not freeze support in rural ILEC study areas upon competitive entry. To now require

competitors to bid against each other for the right to build a network, while rural ILECs are insulated (even though their access line counts continue to fall), will doom rural areas to second-class status well into the latter part of the next decade. Moreover, such a system would impede competition in rural areas by artificially picking market winners. As such, it is inconsistent with the FCC's mandate "to transform universal service mechanisms so that they are both sustainable as competition in local markets develops, and explicit in a manner that promotes the development of efficient competition across the nation."<sup>52</sup>

Limiting universal service support to only one competitive provider, and presumably compensating that provider for the cost of constructing an entire network, would not result in less support being paid out than a system of providing per-line support based on the costs of constructing an efficient network, to any number of carriers, using any technology that can deliver the supported services and is willing to compete.

As discussed above, one of the most serious misconceptions in today's universal service debate is by those who argue that "multiple networks" should not be subsidized. Today, it is impossible to subsidize the cost of constructing multiple

---

<sup>52</sup> *Federal-State Joint Board on Universal Service, Seventh Report & Order, and Thirteenth Order on Reconsideration in CC Docket No. 96-45 Fourth Report & Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking*, 14 FCC Rcd 8078, 8086 (1999) ("Seventh Order").

networks in their entirety because the amount of support in any given area is effectively capped by the number of customers within that area. An auction system is demonstrably inferior to the current "per-line" support mechanism because it would chill competition, would not reduce fund outlays significantly, if at all, and would provide rural consumers with one choice of service provider.

**D. Auctions Would Not Fit Within the Statutory Scheme for Universal Service.**

In its *2006 Public Notice*, the Joint Board sought comment on "whether and how a competitive bidding proposal would serve to preserve and advance universal service and remain consistent with these important statutory goals, including rate comparability and affordability."<sup>53</sup> Below, we examine auctions in the context of the universal service principles set forth in Section 254.

Using auctions might result in support being specific and predictable; however, it would fail to deliver the corresponding consumer benefits that arise as a result of competition.

Using auctions would only provide the supported services at affordable rates if the FCC or the states actively regulated rates - since competition would be stifled. Regulating the

---

<sup>53</sup> *Federal-State Joint Board on Universal Service Seeks Comment on the Merits of Using Auctions to Determine High-Cost Universal Service Support, Public Notice*, WC Docket No. 05-337, CC Docket No. 96-45, FCC 06J-1 (rel. Aug. 11, 2006) ("*2006 Public Notice*") at p. 3.

rates of any wireless carrier, or worse **only a wireless carrier that is an ETC**, is simply not an option and is contrary to the deregulatory statutory scheme for CMRS.

Auctions would perpetuate a monopoly, or at best, a duopoly environment. It would forestall all of the innovation currently seen in urban areas - such as flat-rated nationwide local service offerings from large ILECs. This is inferior to encouraging competitive entry and the natural price competition that comes with it.

In addition to rate regulation, presumably the FCC would have to impose on ETCs obligations similar to those contained in Section 251 of the Act in order to open up these monopoly networks to other carriers who wish to enter without support through resale or UNE platforms - as this would be the only viable way to provide some minimal level of competition. That is assuming, of course, that the FCC effectively set UNE rates at a level needed to provide an incentive for competitors to enter. The use of auctions would likely frustrate the FCC's policy move away from UNE platforms.

Auctions would not promote the availability of reasonably comparable services at reasonably comparable rates in rural areas. This is the most critical of universal service goals. Auctions would limit the ability of carriers to compete in many areas and the benefits of innovation, service choices, and new

technologies will be delayed or denied to consumers in many rural areas. The much better course is to reaffirm the existing principle of competitive neutrality by providing fully portable per-line support to all carriers willing to offer the supported services throughout a designated service area and by capping such support at a level needed to provide consumers with similar choices in telecommunications services as are available in urban areas.

In sum, the use of auctions would not advance the universal service principles embodied in Section 254 of the Act as well as the current system, which provides equal per-line support to all competitive carriers in a competitively neutral fashion.

**E. Auctions Cannot Be Conducted Unless All Carriers Bid on Identical Territories.**

The FCC has previously found that irregular and oftentimes non-contiguous ILEC boundaries presents a significant barrier to entry for competitive carriers, none of which are licensed along ILEC boundaries. In order for any auction scheme to be competitively neutral, service areas must be defined for all carriers. U.S. Cellular and RCC can think of no rationale for the proposal to allow rural ILECs to bid throughout their service areas, while also requiring other technologies to bid throughout counties. An auction is not even feasible if competitors are not operating on the same plane - that is -

bidding for the same thing. Ten years after the 1996 Act, U.S. Cellular and RCC are at a loss to identify a defensible rationale for insulating rural ILECs from competitive entry any longer. Service areas would need to be small, defined for example along county boundaries, so that all carriers bid on identical territory.

**F. A Ten-Year Term for an Auction Winner Will Exacerbate the Problem of Stranded Plant.**

The proposal to provide an auction winner with a ten-year term is problematic because installed telephone plant is comprised of long-term assets, generally fixed into the ground (concrete, tower, T-1, microwave) and that have lengthy depreciation schedules. Dismantling network at the end of a term is not practicable. This "stranded investment" issue would be far worse than the existing wireline problem, as much wireline plant in service today is decades old and fully depreciated.<sup>54</sup>

**G. The Discussion Proposal Contained in the Attachment to the Joint Board's 2006 Public Notice Is A Non-Starter.**

If the proposal for discussion contained in the Joint Board's *2006 Public Notice* remains under consideration, we are compelled to note that it contains a number of objectionable

---

<sup>54</sup> In addition, it is intuitively unwise to anoint one entity the winner and sole recipient of support for a 10-year period, essentially placing all of the USF's eggs in one basket and giving the winner little or no incentive to perform well to earn its exclusive status.

suggestions.<sup>55</sup> The idea that the number of supported networks in a particular area should be artificially limited by a regulatory agency violates the universal service principles contained in Section 214(e) of the Act. The current mechanism is market-based and, as discussed above, it very effectively caps support by forcing competitors to compete for a fixed number of customers within a designated ETC service area.

Given the sad state of broadband penetration in rural America, there is absolutely no justification for just "giving" ILECs an option to be the broadband selectee for ten years. That is an invitation to be substantially where we are today many years, if not a decade, down the road. What statutory justification is there for having an auction - but protecting one class of carrier? If a more efficient technology could deliver 100 Mbps within five years, consumers are substantially harmed by setting broadband aside for ILECs for ten years. Moreover, such a proposal would exacerbate the problem of disparity in network infrastructure development between rural and urban areas.

Finally, auctions raise equal protection concerns in that setting aside such an extraordinary benefit for one class of carrier appears to bear no relationship to the purpose or objectives of Section 254 of the Act. Universal service funds

---

<sup>55</sup> See 2006 Public Notice, *supra*, at pp. 8-9.

are for **consumers** and capping funding to wireless does not “preserve” universal service for the citizens who cannot receive the benefits of new wireless infrastructure that is impeded by the cap. The FCC’s denial of equal protection in such a way may also violate the Due Process Clause of the Fifth Amendment.

## **V. CONCLUSION**

U.S. Cellular and RCC urge the Joint Board and the FCC to resume the important task of ensuring consumers in rural areas experience the benefits of competitive telecommunications services. First, support must be provided on the costs of constructing an efficient network and must not continue to provide incentives for carriers to operate inefficiently. Second, support must be portable - that is, the carrier that gets the customer gets the support. Third, support must be accurately targeted to areas that are high-cost for incumbent carriers, so that, (i) newcomers do not receive support when they enter areas that are low-cost to the incumbent, and (ii) consumers in the highest-cost areas have the best chance of seeing new entry by efficient competitors. Finally, the use of auctions to determine high-cost support would not be competitively neutral and would have numerous legal and practical infirmities, and should therefore be discarded in favor of the more workable long-term solutions proposed above.

Respectfully submitted,

UNITED STATES CELLULAR CORPORATION  
AND RURAL CELLULAR CORPORATION



By:

---

David A. LaFuria  
Steven M. Chernoff  
Its Attorneys

Chartered

Lukas, Nace, Gutierrez & Sachs,  
1650 Tysons Blvd.  
Suite 1500  
McLean, VA 22102  
(703) 584-8678

Grant Spellmeyer, Vice President  
Kohler  
Director - External Affairs  
President, Legal Services  
United States Cellular Corporation  
Corporation  
8410 West Bryn Mawr  
Chicago, IL 60631  
(773) 399-4280

Elizabeth L.  
Vice  
Rural Cellular  
302 Mountain View Drive  
Suite 200  
Colchester, VT 05446  
(802) 654-5093

May 31, 2007

**Exhibit 1-A**

**Per-Minute Cost of Wireless Service  
(Including USF Contributions)**

**(1995-2006)**

Sources: Source: FCC, *Trends in Telephone Service*, Table 19.17 (Feb. 2007); *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*, WT Docket No. 06-17, *Eleventh Report*, 21 FCC Rcd 10947 (2006), App. A, Table 10

YEAR	(A) AVERAGE REVENUE PER MINUTE (\$) <u>1/</u>	(B) CONTRIBUTION FACTOR (%) <u>2/</u>	(C) PER MINUTE COST OF CONTRIBUTION FACTOR (\$) <u>3/</u>	TOTAL COST PER MINUTE (\$) (A) + (C)
1995	0.4300			
1996	0.3800			
1997	0.3700			
1998	0.2900	3.1625	0.0092	0.2992
1999	0.2200	3.0143	0.0066	0.2266
2000	0.1800	5.6980	0.0103	0.1903
2001	0.1200	6.8445	0.0082	0.1282
2002	0.1100	7.1625	0.0079	0.1179
2003	0.1000	8.7701	0.0088	0.1088
2004	0.0900	8.8000	0.0079	0.0979
2005	0.0700	10.5500	0.0074	0.0774
2006		10.1750		
2007 (1Q)		9.7000		
2007 (2Q)		11.7000		

1/ Data covers the last six months of each year.

2/ The listed number for years 1998-2006 is an average of the four quarterly contribution factors.

3/ Calculated by multiplying the average revenue per minute (A) by the contribution factor (B)

Exhibit 1-B

**Per-Minute Cost (\$) of Wireless Service  
(Including USF Contributions)**

**(1998-2005)**

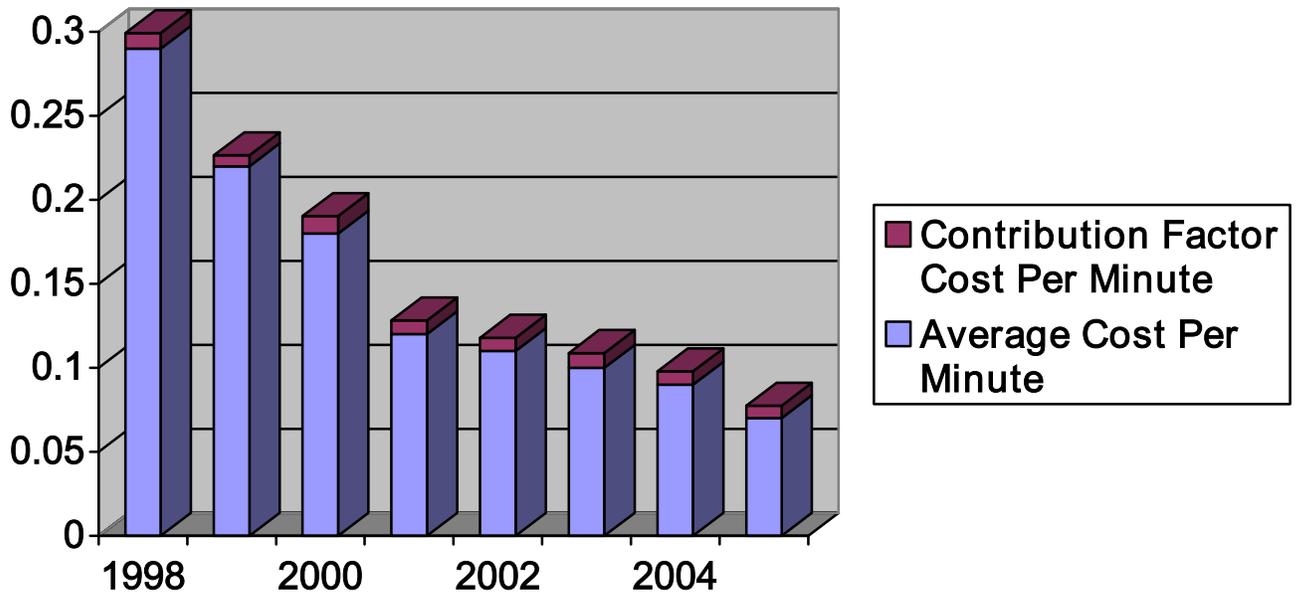


Exhibit 2

**Average Wireline Residential Local and Long  
Distance Telephone Bills Plus USF  
Contribution Surcharge**

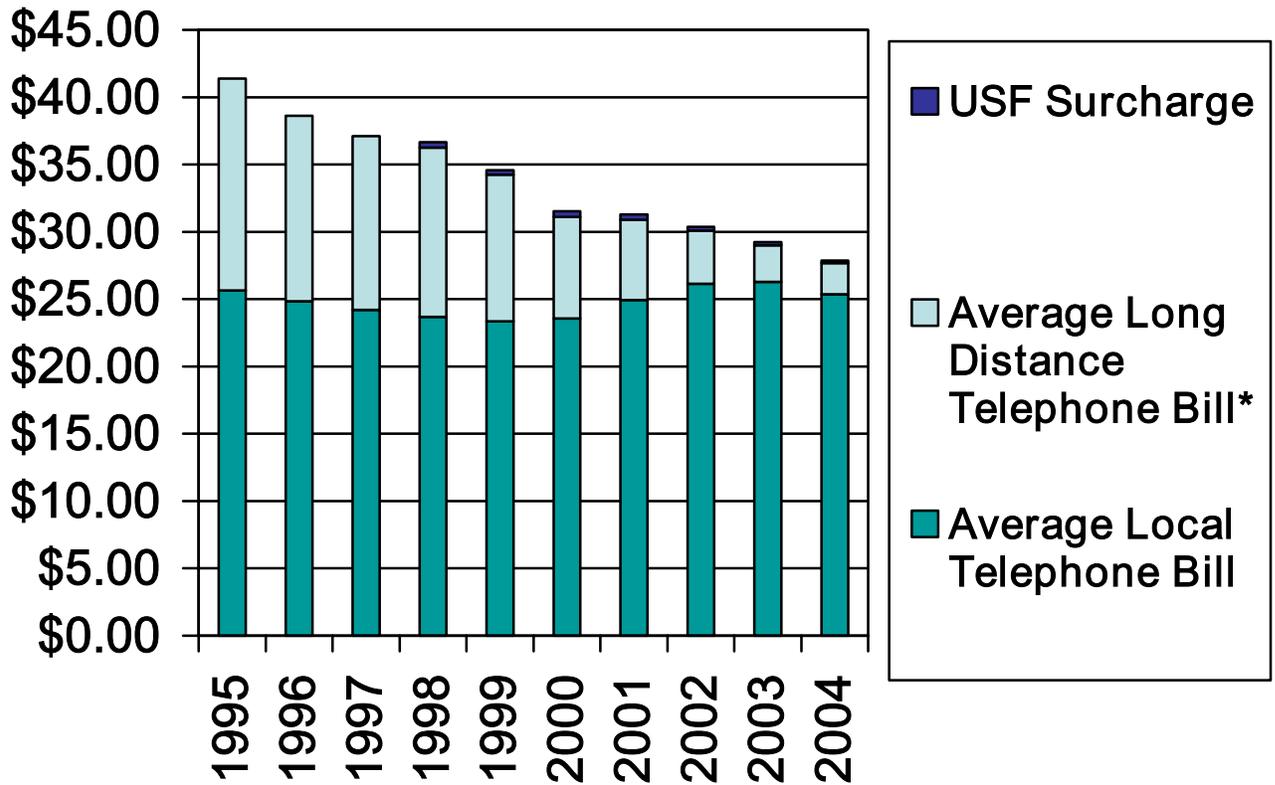
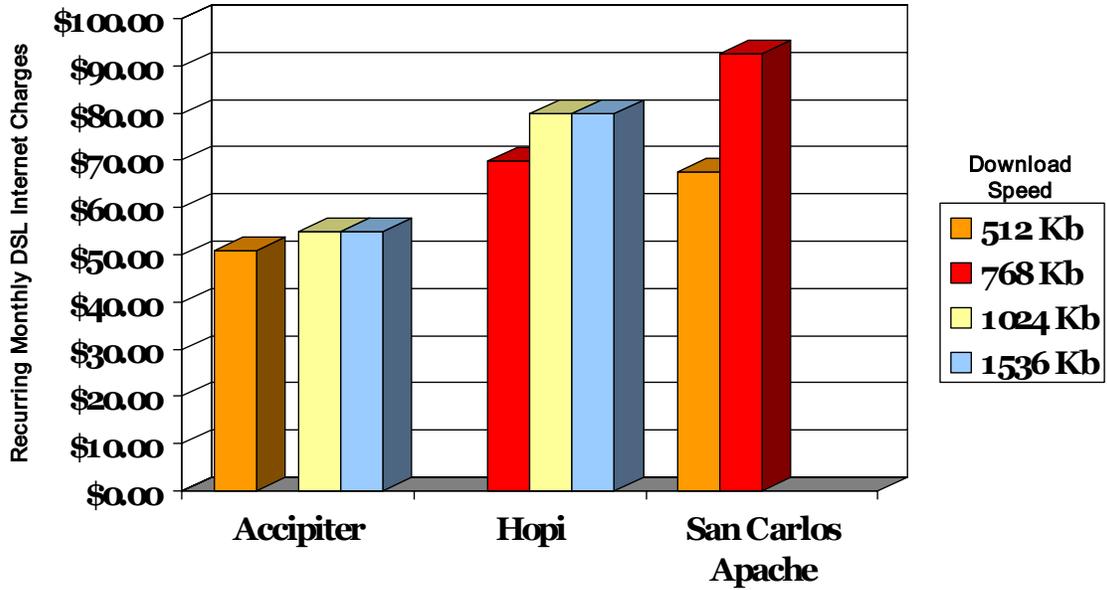


Exhibit 3

DSL Offerings by Selected Rural  
Telecommunications Providers

Exhibit 3-A

# Arizona



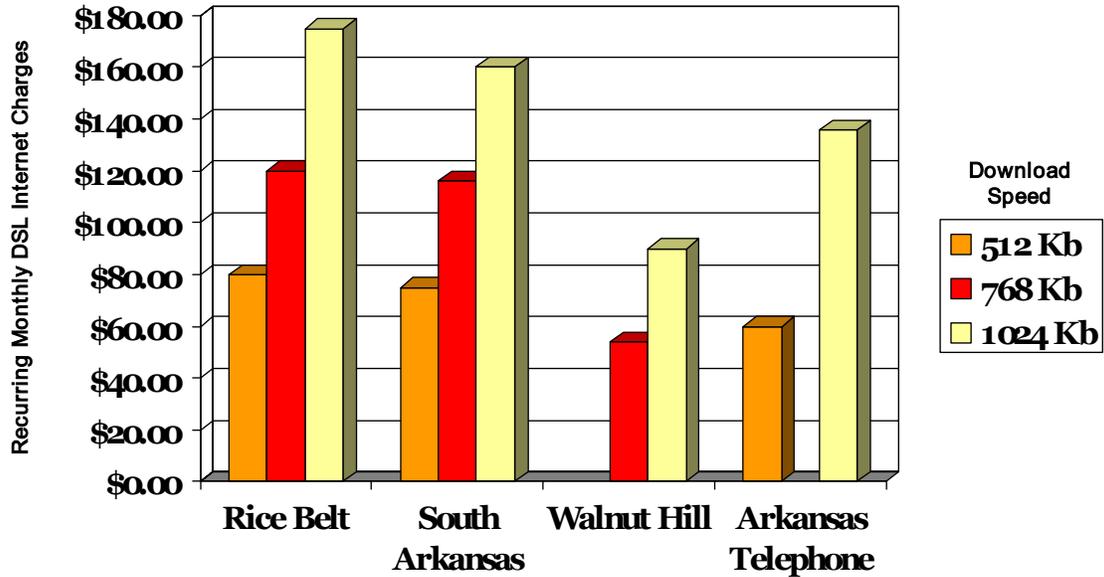
Accipiter Communications, Inc. – Yavapai County

Hopi Telecommunications, Inc. – Navajo County

San Carlos Apache Telecommunications Utility, Inc. – Gila, Graham and Pinal Counties

Exhibit 3-B

# Arkansas

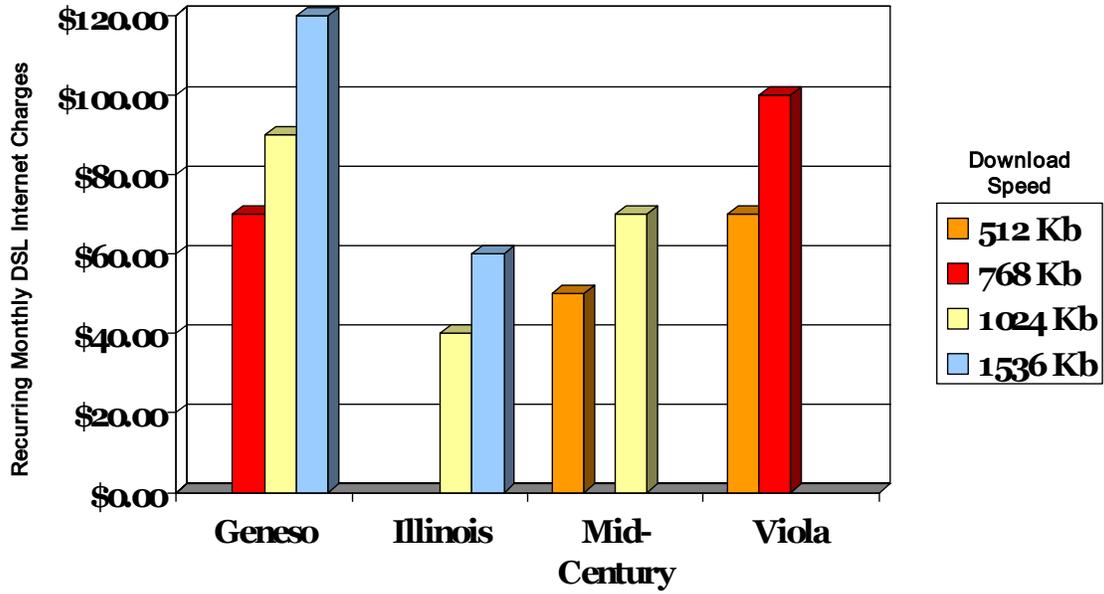


Rice Belt Telephone Company – Poinsett County  
South Arkansas Telephone Company – Calhoun County

Walnut Hill Telephone – Lafayette County  
Arkansas Telephone Company – Van Buren County

Exhibit 3-C

# Illinois

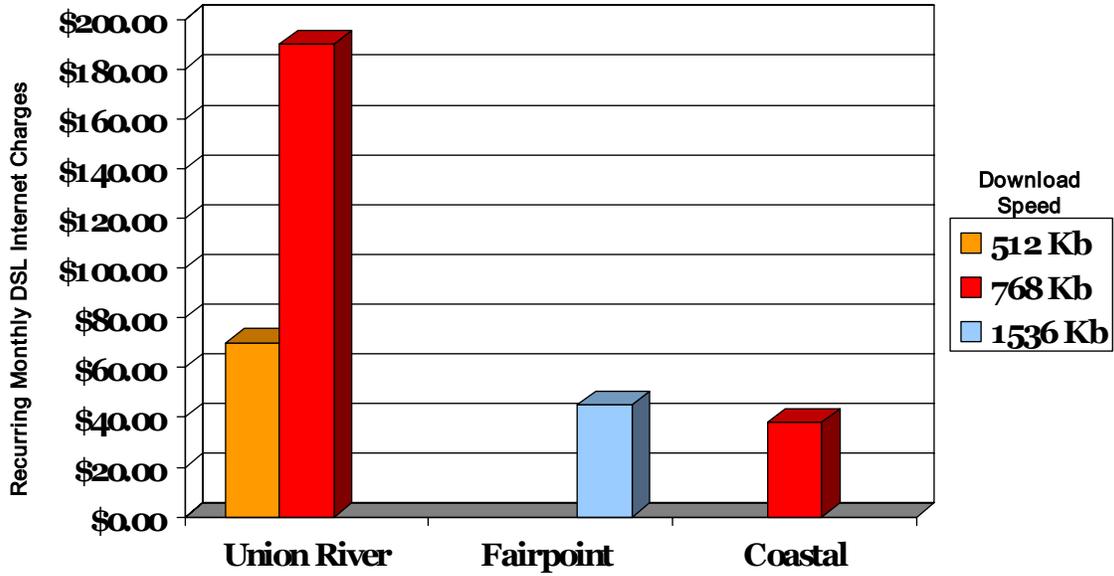


**Geneso Telephone Company** – Henry County  
**Illinois Consolidated Communications** – Douglas, Coles, Montgomery, Christian, Effingham, Whiteside, and Shelby Counties

**Mid-Century Telephone Cooperative** – Fulton, Knox, Stark, Henry, and Peoria Counties  
**Viola Home Telephone** – Mercer County

Exhibit 3-D

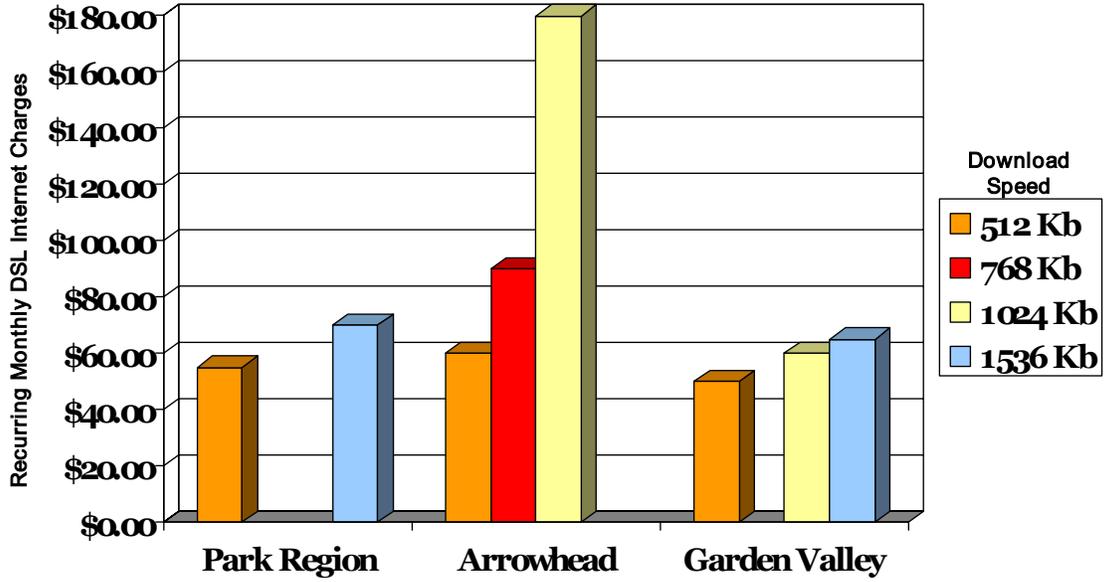
# Maine



Union River Telephone Company – Hancock and Washington Counties  
Fairpoint Communications – Aroostook, Penobscot, Kennebec and Cumberland Counties  
Coastal Telephone Group – Lincoln, Waldo and Knox Counties

Exhibit 3-E

# Minnesota



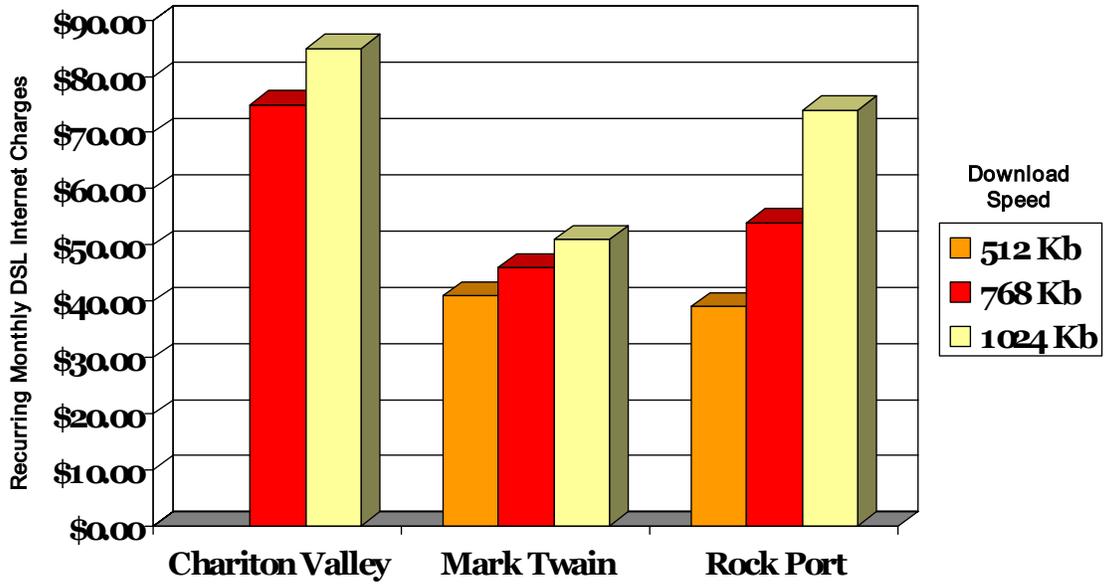
Park Region Mutual Telephone Co. – Ottertail County

Arrowhead Communications Corporation – Cass and St. Louis Counties

Garden Valley Telephone Co. – Clearwater, Polk, Red Lake, Pennington, and Marshall Counties

Exhibit 3-F

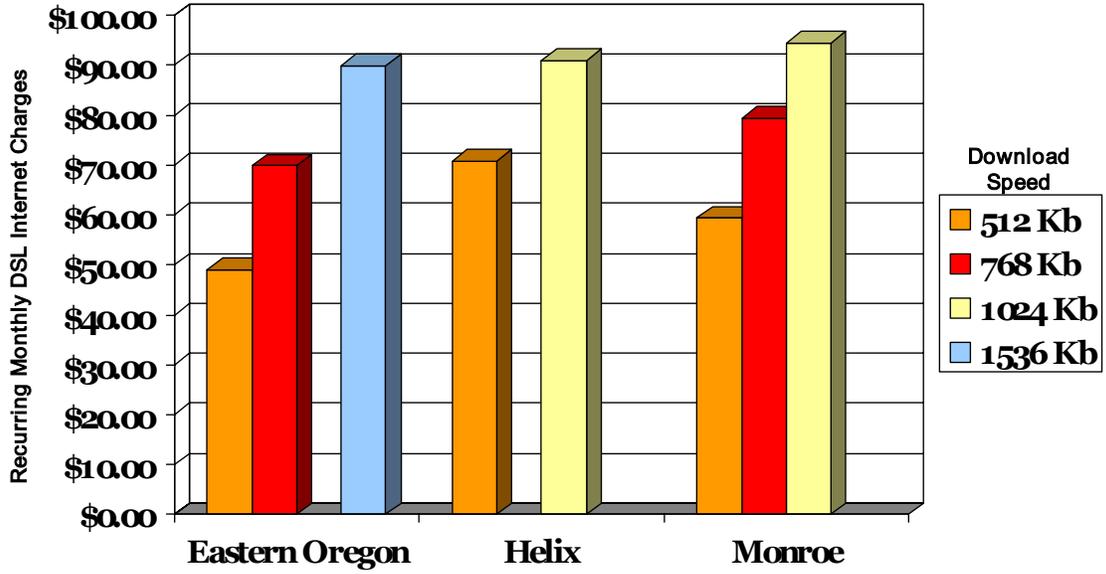
# Missouri



Chariton Valley Telephone Corporation – Chariton, Macon, Randolph, and Linn Counties  
Mark Twain Rural Telephone – Shelby, Lewis, Macon, Know, Schuyler, and Scotland Counties  
Rock Port Telephone – Atchinson, Worth, and Holt Counties

Exhibit 3-G

# Oregon



Eastern Oregon Telecom – Umatilla County  
Helix Telephone Co. – Umatilla County  
Monroe Telephone Company – Monroe County

Exhibit 3-H

# DSL Offerings by Large Wireline Providers

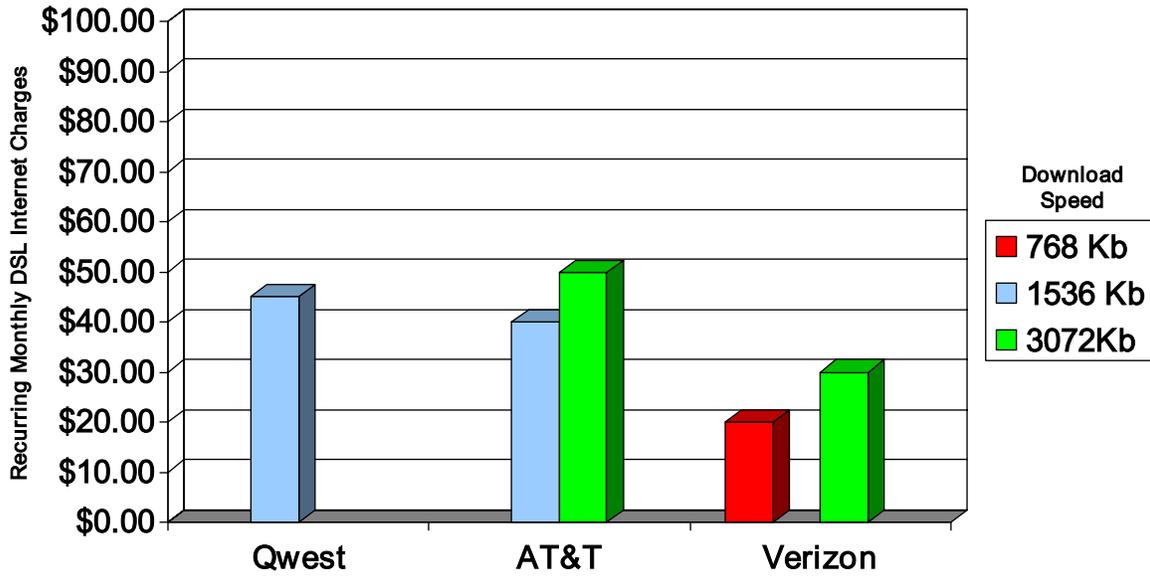
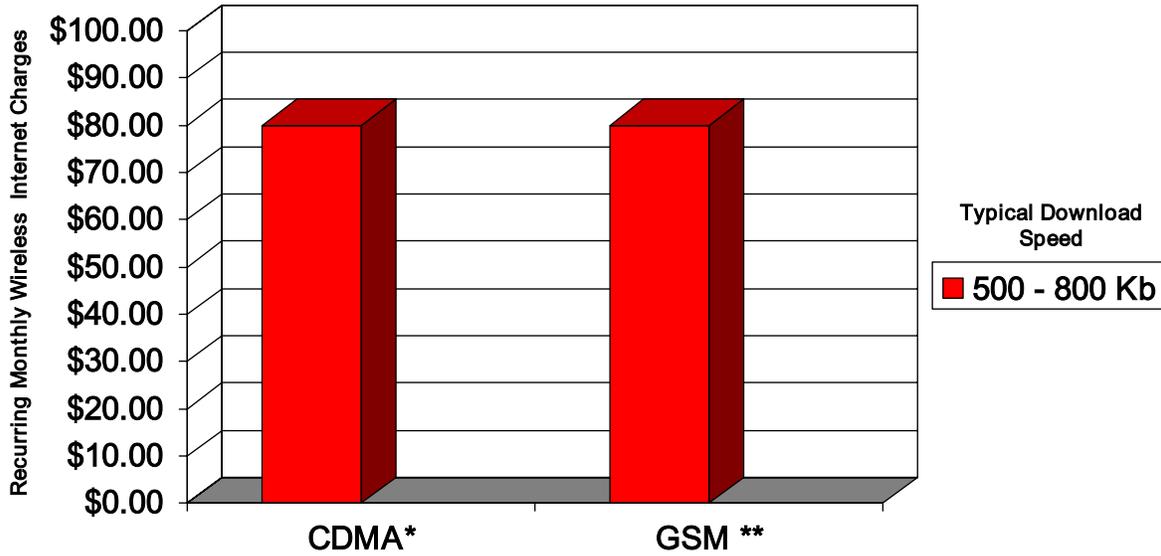


Exhibit 3-I

# Mobile Wireless Broadband Access

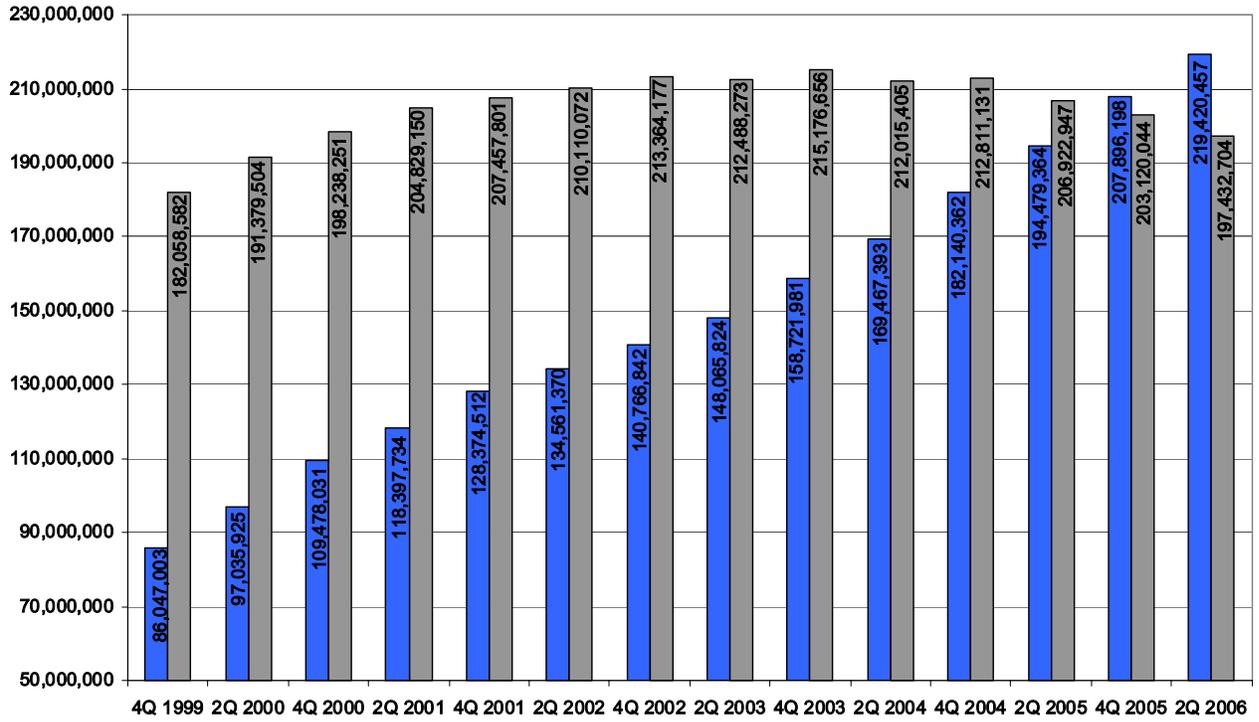


\*Peak burst download speed 1433 Kb  
\*\*Peak burst download speed 3686 Kb

**Exhibit 4**

# Wireless Subscriberhip Has Passed Wireline

Total ILEC and CLEC End-User Lines vs. Wireless Subscriberhip: 1999 - 2006



Sources: CTIA, USAC, FCC Local Competition Report

■ Wireless Subscribers ■ Total ILEC and CLEC End User Lines

CLEC lines estimated for 2Q06

Exhibit 5

**ILEC HIGH-COST SUPPORT FUND PAYMENT HISTORY**  
Source: Federal-State Joint Board on Universal Service,  
*Universal Service*  
*Monitoring Report, Table 3.2 (2006)*

YEAR	TOTAL HIGH-COST SUPPORT	PCT CHANGE
2002	2,888,900,000	--
2003	3,129,400,000	8.3%
2004	3,152,600,000	0.7%
2005	3,185,700,000	1.0%
2006*/	3,116,405,000	-2.2%

\*/ Unaudited total amount from USAC, 2006 Annual Report at p. 41.

**ILEC HIGH-COST SUPPORT FUND PAYMENT HISTORY**  
Source: Federal-State Joint Board on Universal Service,  
*Universal Service*  
*Monitoring Report, Table 3.2 (2006)*  
(In Millions of Dollars)

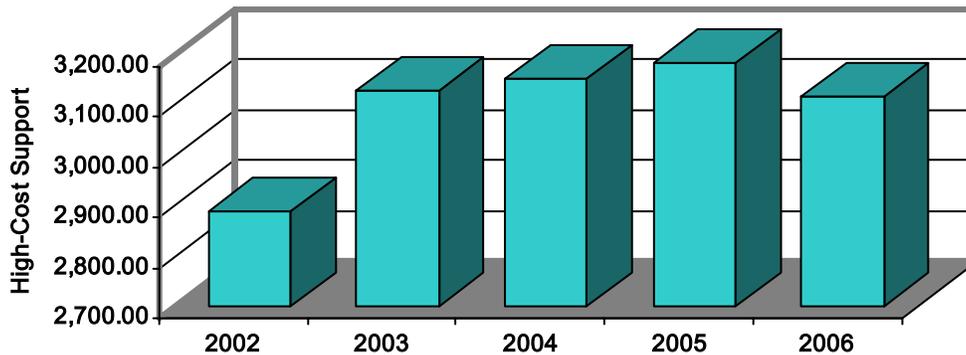
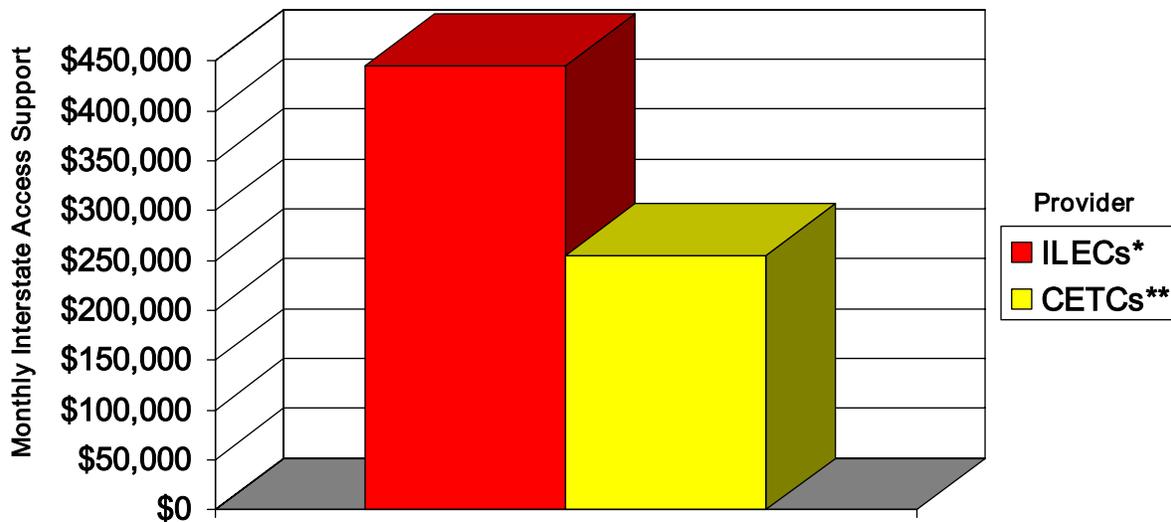


Exhibit 6-A

## Comparison of ILEC and CETC Interstate Access Support in Iowa



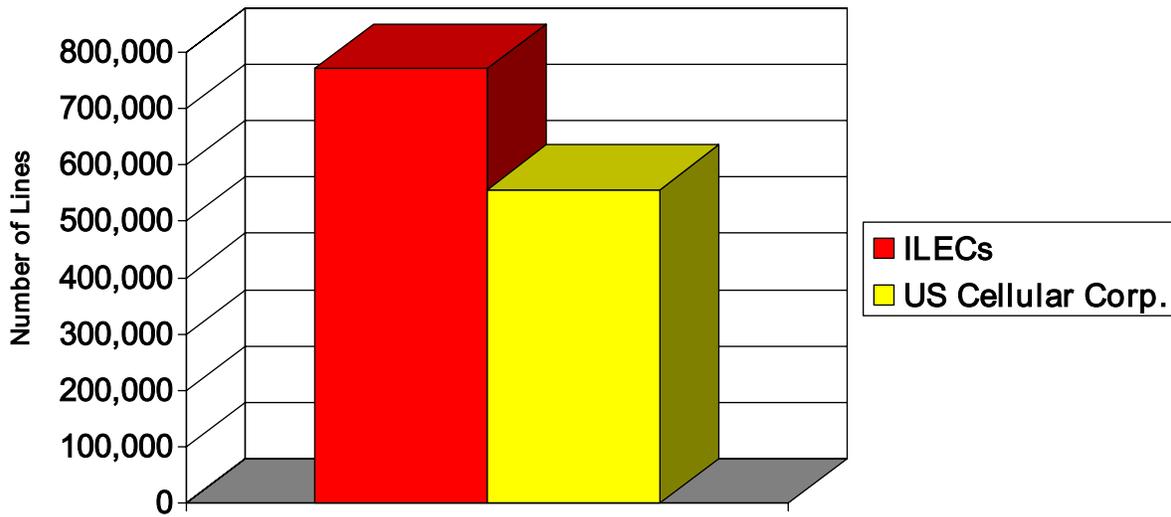
\* 4 ILECs in Iowa receive Interstate Access Support

\*\* 44 CETCs in Iowa have been designated in areas served by the 4 ILECs that receive IAS

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

Exhibit 6-B

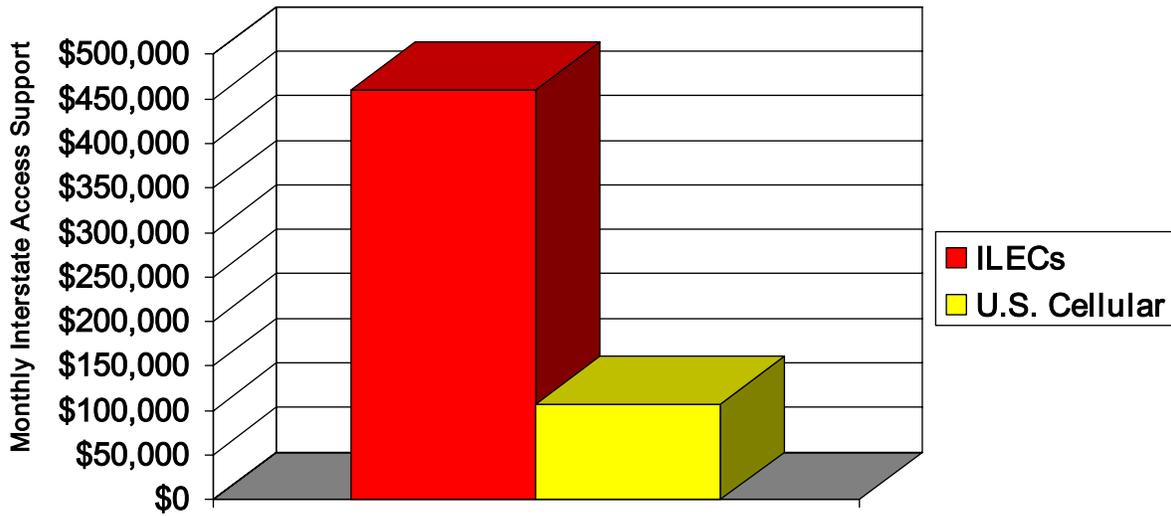
## Comparison of U.S. Cellular and ILEC Lines in Iowa Areas Receiving IAS



Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

Exhibit 6-C

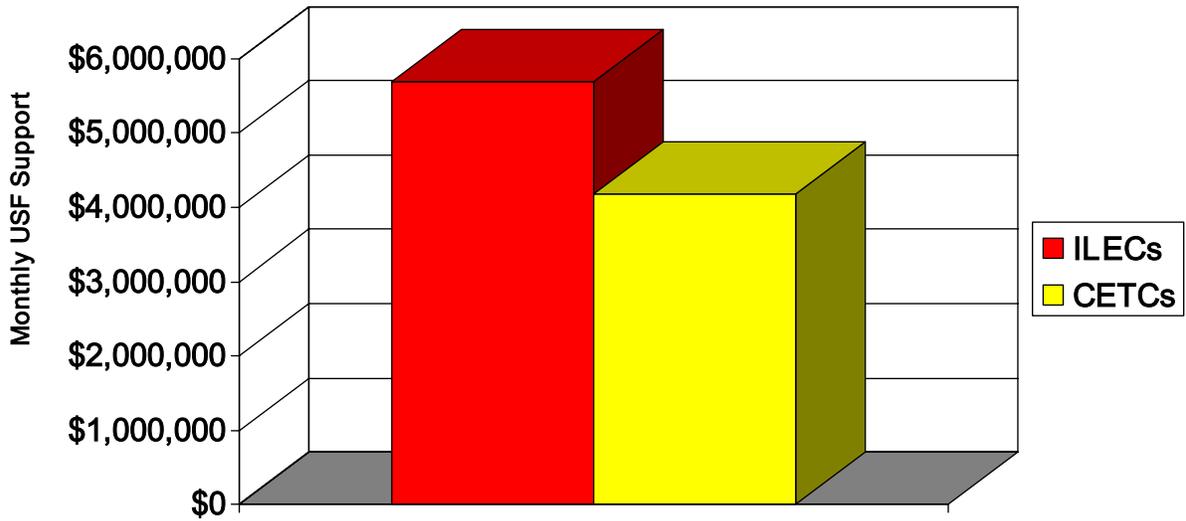
## Comparison of Interstate Access Support Received by Iowa ILECs and U.S. Cellular



Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

Exhibit 6-D

## Comparison of Total Monthly Support Received by ILECs and CETCs in Iowa



Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

**Exhibit 7-A**

**EXAMPLE OF SUBSIDY LEVELS BEFORE AND AFTER DISAGGREGATION**

**Note:** The chart below reflects the affect of an actual ILEC plan of disaggregation on one carrier. Further analysis would be needed to determine nationwide impact.

**CARRIER:** Highland Cellular, Inc., West Virginia\*

**Table 1**

<b>Wire Center Name</b>	<b>Number of Customers</b>	<b>Support Available</b>	<b>Total</b>
Athens	686	\$11.92	\$8,177.12
<b>Bluefield</b>	<b>3,470</b>	<b>\$11.92</b>	<b>\$41,362.40</b>
Bluewell	640	\$11.92	\$7,628.80
Bramwell	113	\$11.92	\$1,346.96
Matoaka	239	\$11.92	\$2,848.88
Oakvale	198	\$11.92	\$2,360.16
<b>Princeton</b>	<b>4,521</b>	<b>\$11.92</b>	<b>\$53,890.32</b>
Frankford	282	\$37.72	\$10,637.04
Rupert	27	\$16.80	\$453.60

**TOTAL WITHOUT DISAGGREGATION: \$128,705.28**

**Table 2**

<b>Wire Center Name</b>	<b>Number of Customers</b>	<b>Support Available</b>	<b>Total</b>
Athens	686	\$38.24	\$26,232.64
<b>Bluefield</b>	<b>3,470</b>	<b>\$0.00</b>	<b>\$0.00</b>
Bluewell	640	\$20.44	\$13,081.60
Bramwell	113	\$20.44	\$2,309.72
Matoaka	239	\$38.24	\$9,139.36
Oakvale	198	\$38.24	\$7,571.52
<b>Princeton</b>	<b>4,521</b>	<b>\$0.00</b>	<b>\$0.00</b>
Frankford	282	\$34.04	\$9,599.28
Rupert	27	\$23.80	\$642.60

**TOTAL WITH DISAGGREGATION: \$68,576.72**

Note that Highland Cellular has 3,470 and 4,520 customers within the two population centers located in the ILEC study area

(Princeton and Bluefield). Before disaggregation, Highland received \$11.92 per line per month for every customer it served within those population centers. Both areas have been constructed without high-cost support.

After disaggregation, the ILEC (Citizens-Frontier) removed all support from the Princeton and Bluefield population centers. Now Highland Cellular gets no support when serving customers in those areas. But in high-cost rural areas such as Athens and Bramwell, where Highland Cellular has few customers and relatively little coverage, it now receives higher levels of support.

As a result of disaggregation, Highland now has an incentive to construct facilities out in these high-cost areas, which is exactly what customers living in those areas need.

\* Note: Highland Cellular was recently acquired by American Cellular Corp., a subsidiary of Dobson Communications Corp.

**Exhibit 7-B**

**EXAMPLE OF SUBSIDY LEVELS BEFORE AND AFTER DISAGGREGATION**

**Note:** The chart below reflects the affect of an actual ILEC plan of disaggregation on one carrier. Further analysis would be needed to determine nationwide impact.

**CARRIER: N.E. Colorado Cellular, Inc. (Nebraska) d/b/a Viaero Wireless**

**Table 1**

<b>Wire Center Name Available</b>	<b>Number of Customers Total</b>	<b>Support</b>	<b>Support</b>
BTLYNEXS	76	\$33.27	\$2,528.52
CMBRNEXS	92	\$33.27	\$3,060.84
MDRDNEXS	13	\$37.71	\$490.23
PXTNEXS	25	\$37.71	\$942.75
WLLCNEXS	8	\$37.71	\$301.68
WLLFNEXS	24	\$37.71	\$905.04
MYWDNEXS	1	\$37.71	\$37.71
ARTHNEXS	7	\$40.92	\$286.44
BNHMNEXS	3	\$40.92	\$122.76
ASHBNEXS	12	\$40.92	\$491.04
THFRNEXS	0	\$40.92	\$0.00
HYSNEXS	96	\$40.92	\$3,928.32
WHMNEXS	36	\$40.92	\$1,473.12
AURRNEXM	40	\$22.32	\$892.80
DNPHNEXM	7	\$22.32	\$156.24
GLTNEXM	52	\$22.32	\$1,160.64
PHLPNEXM	12	\$22.32	\$267.84
TMBLNEXM	5	\$22.32	\$111.60
MRQTNEXM	2	\$22.32	\$44.64
HRVLNEXM	9	\$22.32	\$200.88
HMPTNEXM	16	\$22.32	\$357.12

HRSHNEXS	40	\$26.62	\$1,064.80
BRDYNEXS	34	\$32.19	\$1,094.46
ESTSNEXS	24	\$32.19	\$772.56
MXWLNEXS	31	\$32.19	\$997.89
GBBNEXS	20	\$15.74	\$314.80
ASTNNERB	8	\$15.74	\$125.92
BRWLNEXB	0	\$15.74	\$0.00
ELBANERB	5	\$15.74	\$78.70
SCOTNEXS	4	\$15.74	\$62.96
RVNNNEXS	4	\$15.74	\$62.96
SHTNNEXS	10	\$15.74	\$157.40
SRGNEXS	0	\$15.74	\$0.00
DBRGNERC	8	\$15.74	\$125.92
BOLSNERB	0	\$15.74	\$0.00
ERSNNEXS	2	\$15.74	\$31.48
LTFDNERB	1	\$15.74	\$15.74
RKVLNERC	1	\$15.74	\$15.74
BRTLNEXS	21	\$33.78	\$709.38
BUTTNERE	0	\$33.78	\$0.00
CLWRNEXS	34	\$33.78	\$1,148.52
SPNCNERC	1	\$33.78	\$33.78
SNTNNEXS	1	\$98.25	\$98.25
BRWRNEXU	130	\$8.14	\$1,058.20
BYRDNEXU	149	\$8.14	\$1,212.86
CHPLNEXU	236	\$8.14	\$1,921.04
GRNGNEXU	297	\$8.14	\$2,417.58
LWLNEXU	25	\$8.14	\$203.50
LYMNNEXU	43	\$8.14	\$350.02
MNTRNEXU	124	\$8.14	\$1,009.36
MORLNEXU	82	\$8.14	\$667.48
MTCHNEXU	98	\$8.14	\$797.72

OSHKNEXU	80	\$8.14	\$651.20
PTRNEXU	261	\$8.14	\$2,124.54
SCTSNE XU	734	\$8.14	\$5,974.76
KMBLNEXU	402	\$8.14	\$3,272.28

**TOTAL WITHOUT DISAGGREGATION: \$46,332.01**

**Table 2:**

Wire Center Name Available	Total	Number of Customers	Support
Bartley Zone 1	76	\$36.44	\$2,769.44
Cambridge Zone 1	92	\$13.15	\$1,209.80
MDRDNEXS Zone 1	13	\$10.73	\$139.49
PXTNNE XS Zone 1	25	\$9.58	\$239.50
WLLCNEXS Zone 1	8	\$12.13	\$97.04
WLLFNEXS Zone 1	24	\$14.92	\$358.08
MYWDNEXS Zone 1	1	\$13.05	\$13.05
ARTHNEXS Zone 3	7	\$26.28	\$183.96
BNHMNEXS zone 3	3	\$62.73	\$188.19
ASHBNEXS Zone 1	12	\$15.51	\$186.12
THFRNEXS Zone 1	0	\$7.89	\$0.00
HYSNEXS Zone 1	19	\$7.45	\$141.55
HYSNEXS Zone 2	0	\$11.61	\$0.00
HYSNEXS Zone 3	69	\$25.28	\$1,744.32
HYSNEXS Zone 4	8	\$36.53	\$292.24
WHMNEXS Zone 1	1	\$12.75	\$12.75
WHMNEXS Zone 2	0	\$28.66	\$0.00
WHMNEXS Zone 3	29	\$49.73	\$1,442.17
WHMNEXS Zone 4	6	\$65.37	\$392.22
Aurora Zone 1	14	\$2.54	\$35.56
Aurora Zone 2	16	\$11.33	\$181.28
Aurora Zone 3	10	\$17.23	\$172.30
Doniphan Zone 1	1	\$6.09	\$6.09
Doniphan Zone 2	0	\$9.55	\$0.00
Doniphan Zone 3	6	\$28.49	\$170.94
Giltner Zone 1	28	\$12.02	\$336.56
Giltner Zone 2	20	\$24.19	\$483.80
Giltner Zone 3	4	\$29.55	\$118.20
Phillips Zone 1	4	\$9.44	\$37.76
Phillips Zone 3	4	\$24.12	\$96.48
Phillips Zone X	4	\$14.06	\$56.24

Trumbull Zone 1	4	\$21.14	\$84.56
Marquette Zone 1	2	\$12.59	\$25.18
Hordville Zone 2	9	\$40.02	\$360.18
Hampton Zone 3	5	\$33.02	\$165.10
Trumbull Zone 2	1	\$41.79	\$41.79
Hampton Zone 1	11	\$9.39	\$103.29
HRSHNEXS Zone 1	3	\$9.07	\$27.21
HRSHNEXS Zone 2	14	\$10.40	\$145.60
HRSHNEXS Zone 3	23	\$25.40	\$584.20
Brady Zone 1	34	\$8.16	\$277.44
Eustis Zone 1	24	\$8.46	\$203.04
Maxwell Zone 1	31	\$11.89	\$368.59
GBBNNEXS Zone 2	11	\$7.77	\$85.47
GBBNNEXS Zone 1	9	\$3.57	\$32.13
ASTNNERB Zone 1	8	\$15.15	\$121.20
BRWLNEXB Zone 1	0	\$3.57	\$0.00
ELBANERB Zone 2	5	\$26.79	\$133.95
SCOTNEXS Zone 1	4	\$9.78	\$39.12
RVNNNEXS Zone 1	3	\$3.96	\$11.88
RVNNNEXS Zone 3	2	\$9.28	\$18.56
SHTNNEXS Zone 1	0	\$4.53	\$0.00
SHTNNEXS Zone 2	10	\$9.19	\$91.90
SRGNNEXS Zone 1	0	\$5.68	\$0.00
DBRGNERC Zone 1	8	\$8.20	\$65.60
BOLSNERB Zone 1	0	\$16.59	\$0.00
ERSNNEXS Zone 1	2	\$15.17	\$30.34
LTFDNERB Zone 2	1	\$10.90	\$10.90
RKVLNERC Zone 1	1	\$28.02	\$28.02
Bartlett Zone 1	21	\$18.59	\$390.39
Butte Zone 1	0	\$11.42	\$0.00
Clearwater Zone 1	34	\$8.55	\$290.70
Spencer Zone 1	1	\$8.34	\$8.34
Stanton Zone 1	1	\$15.07	\$15.07
BRWRNEXU Zone 3	130	\$7.83	\$1,017.90
BYRDNEXU Zone 3	149	\$7.83	\$1,166.67
CHPLNEXU Zone 3	236	\$7.83	\$1,847.88
GRNGNEXU Zone 3	297	\$7.83	\$2,325.51
LWLNEXU Zone 3	25	\$7.83	\$195.75
LYMNNEXU Zone 3	43	\$7.83	\$336.69
MNTRNEXU Zone 3	124	\$7.83	\$970.92

MORLNEXU	Zone 3	82	\$7.83	\$642.06
MTCHNEXU	Zone 3	98	\$7.83	\$767.34
OSHKNEXU	Zone 3	80	\$7.83	\$626.40
PTTRNEXU	Zone 3	261	\$7.83	\$2,043.63
SCTSNE XU	Zone 1	734	\$0.00	\$0.00
KMBLNEXU	Zone 2	402	\$4.03	\$1,620.06
<b>TOTAL WITH DISAGGREGATION</b>				<b>\$28,425.69</b>

**Exhibit 7-C**

**EXAMPLE OF SUBSIDY LEVELS BEFORE AND AFTER DISAGGREGATION**

**Note:** The chart below reflects the affect of an actual ILEC plan of disaggregation on one carrier. Further analysis would be needed to determine nationwide impact.

**CARRIER:** US Cellular Corporation (Missouri)

**Table 1**

<b>Wire Center Name Available</b>	<b>Total</b>	<b>Number of Subs</b>	<b>Support</b>
BARING	0	\$53.79	\$0.00
BETHEL	0	\$53.79	\$0.00
BRASHEAR	318	\$53.79	\$17,105.22
DURHAM	57	\$53.79	\$3,066.03
GREEN TOP	525	\$53.79	\$28,239.75
HURDLAND	1437	\$53.79	\$77,296.23
KNOX CITY	0	\$53.79	\$0.00
LEONARD	0	\$53.79	\$0.00
NEWARK	0	\$53.79	\$0.00
NOVELTY	0	\$53.79	\$0.00
PHILADELPHIA	1,200	\$53.79	\$64,548.00
STEFFENVILLE	8	\$53.79	\$430.32
WILLIAMSTOWN	0	\$53.79	\$0.00
WYACONA	0	\$53.79	\$0.00
ARBELA	217	\$47.84	\$10,381.28
BROCK	0	\$47.84	\$0.00
DMAHA	118	\$47.84	\$5,645.12
GREEN CITY	381	\$47.84	\$18,227.04
LEMONS	0	\$47.84	\$0.00
LURAY	162	\$47.84	\$7,750.08
MARTINS TOWN	48	\$47.84	\$2,296.32
MEMPHIS	1342	\$47.84	\$64,201.28
NOVINGER	491	\$47.84	\$23,489.44
POLLOCK	33	\$47.84	\$1,578.72
QUEEN CITY	487	\$47.84	\$23,298.08
TOBIN CREEK	164	\$47.84	\$7,845.76
UNIONVILLE	1171	\$47.84	\$56,020.64
WINIGAN	13	\$47.84	\$621.92
ROCKPORT	24	\$23.53	\$564.72
SOUTH HAMBURG	0	\$23.53	\$0.00
WATSON	6	\$23.53	\$141.18

CHERRYVILLE	0	\$68.19	\$0.00
HUZZAH	0	\$68.19	\$0.00
STEELVILLE	5	\$68.19	\$340.95
VIBURNUM	1	\$68.19	\$68.19

**TOTAL WITHOUT DISAGGREGATION: \$413,156.27**

**Table 2**

Wire Center Name Available	Number of Customers Total	Support	
BARING Zone 1	0	\$25.22	\$0.00
BARING Zone 2	0	\$53.81	\$0.00
BETHEL Zone 1	0	\$25.22	\$0.00
BETHEL Zone 2	0	\$53.81	\$0.00
BRASHEAR Zone 1	318	\$25.22	\$8,019.96
BRASHEAR Zone 2	0	\$53.81	\$0.00
DURHAM Zone 1	0	\$25.22	\$0.00
DURHAM Zone 2	57	\$53.81	\$3,067.17
GREEN TOP Zone 1	525	\$25.22	\$13,240.50
GREEN TOP Zone 2	0	\$53.81	\$0.00
HURDLAND Zone 1	974	\$25.22	\$24,564.28
HURDLAND Zone 2	463	\$53.81	\$24,914.03
KNOX CITY Zone 1	0	\$25.22	\$0.00
KNOX CITY Zone 2	0	\$53.81	\$0.00
LEONARD Zone 1	0	\$25.22	\$0.00
LEONARD Zone 2	0	\$53.81	\$0.00
NEWARK Zone 1	0	\$25.22	\$0.00
NEWARK Zone 2	0	\$53.81	\$0.00
NOVELTY Zone 1	0	\$25.22	\$0.00
NOVELTY Zone 2	0	\$53.81	\$0.00
PHILADELPHIA Zone 1	63	\$25.22	\$1,588.86
PHILADELPHIA Zone 2	1137	\$53.81	\$61,181.97
STEFFENVILLE Zone 1		\$25.22	\$0.00
STEFFENVILLE Zone 2	8	\$53.81	\$430.48
WILLIAMSTOWN Zone 1	0	\$25.22	\$0.00
WILLIAMSTOWN	0	\$53.81	\$0.00

Zone 2			
WYACONA Zone 1	0	\$25.22	\$0.00
WYACONA Zone 2	0	\$53.81	\$0.00
ARBELA Zone 1	0	\$6.23	\$0.00
ARBELA Zone 2	217	\$33.27	\$7,219.59
BROCK Zone 1	0	\$6.23	\$0.00
BROCK Zone 2	0	\$33.27	\$0.00
DMAHA Zone 1	0	\$6.23	\$0.00
DMAHA Zone 2	118	\$33.27	\$3,925.86
GREEN CITY Zone 1	281	\$6.23	\$1,750.63
GREEN CITY Zone 2	100	\$33.27	\$3,327.00
LEMONS Zone 1	0	\$6.23	\$0.00
LEMONS Zone 2	0	\$33.27	\$0.00
LURAY Zone 1	0	\$6.23	\$0.00
LURAY Zone 2	162	\$33.27	\$5,389.74
MARTINS TOWN Zone 1	0	\$6.23	\$0.00
MARTINS TOWN Zone 2	48	\$33.27	\$1,596.96
MEMPHIS Zone 1	1342	\$6.23	\$8,360.66
MEMPHIS Zone 2		\$33.27	\$0.00
NOVINGER Zone 1	404	\$6.23	\$2,516.92
NOVINGER Zone 2	0	\$33.27	\$0.00
POLLOCK Zone 1	0	\$6.23	\$0.00
POLLOCK Zone 2	33	\$33.27	\$1,097.91
QUEEN CITY Zone 1	487	\$6.23	\$3,034.01
QUEEN CITY Zone 2	0	\$33.27	\$0.00
TOBIN CREEK Zone 1	0	\$6.23	\$0.00
TOBIN CREEK Zone 2	164	\$33.27	\$5,456.28
UNIONVILLE Zone 1	1171	\$6.23	\$7,295.33
UNIONVILLE Zone 2	0	\$33.27	\$0.00
WINIGAN Zone 1	0	\$6.23	\$0.00
WINIGAN Zone 2	13	\$33.27	\$432.51
ROCKPORT Zone 1	19	\$16.41	\$311.79
ROCKPORT Zone 2	5	\$27.98	\$139.90
SOUTH HAMBURG Zone 1	0	\$0.00	\$0.00

SOUTH HAMBURG			
Zone 2	0	\$27.98	\$0.00
WATSON Zone 1	0	\$0.00	\$0.00
WATSON Zone 2	6	\$27.98	\$167.88
CHERRYVILLE			
Zone 1	0	\$0.00	\$0.00
CHERRYVILLE			
Zone 2	0	\$77.47	\$0.00
HUZZAH Zone1	0	\$0.00	\$0.00
HUZZAH Zone2	0	\$77.47	\$0.00
STEELVILLE Zone			
1	3	\$19.42	\$58.26
STEELVILLE Zone			
2	2	\$77.47	\$154.94
VIBURNUM Zone 1	1	\$19.42	\$19.42
VIBURNUM Zone 2	0	\$77.47	\$0.00

**TOTAL WITH DISAGGREGATION:      \$189,262.84**