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May 31, 2007

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth St., SW
Washington, DC 20554

**RE: High Cost Universal Service Support, WC Docket No. 05-337
Federal-State Joint Board on Universal Service, CC Docket No. 96-45**

Dear Ms. Dortch:

Alltel welcomes the Joint Board's renewed inquiry on long term, comprehensive high-cost universal service reform, and respectfully submits this letter and attachments as its comments on the Joint Board's Public Notice, FCC 07J-2 (May 1, 2007). Alltel is pleased to submit the attached White Paper, "Proposal for a Competitive and Efficient Universal Service High-Cost Approach," by James W. Stegeman, Dr. Steve Parsons, and Mike Wilson of CostQuest Associates. This White Paper focuses on a critical issue raised in the Public Notice: the development of network cost modeling techniques and geographic information systems that "could more efficiently calculate and target support at more granular levels." Public Notice, ¶ 5.

Alltel supports the development of a rational universal service system that would target funds to address the needs of consumers in high-cost areas, based on the efficient forward-looking costs of providing service in each area, rather than based on the rate of return or revenue requirements of historic monopoly carriers. In 1996 Congress directed the Joint Board and the Commission to establish a competitively neutral universal service system that would ensure that consumers in high-cost rural areas have access to affordable, high-quality telecommunications services in the context of a competitive telecommunications marketplace. One of the most critical analytical tasks needed to design an effective and sustainable system is to determine the cost of providing service efficiently in each geographic area. However, despite all the discussions of this issue over the past 11 years, today's universal service system continues to be based primarily on the same embedded cost-based model that has been in place since before the

enactment of the 1996 Act. This system is widely recognized as dysfunctional, and has created a fund that many believe is unsustainable. One of the main problems with the present system is that it rewards ILECs for losing customers by maintaining current overall support levels. This results in higher per line support and unnecessarily inflates the fund. Changes to the support model are necessary to avoid the type of abuses invited by the current system (as highlighted in the attached news articles).

The continued use of embedded costs to determine universal service support in 2007 would have surprised many in the industry if asked in the years following the 1996 Act. ^{1/} Unfortunately, no work has been done in the intervening years to address the inputs, assumptions, and other mechanisms needed to estimate the economic costs of providing universal service efficiently in rural areas. However, we are poised to address those issues today. Alltel is working with Cost Quest (and potentially other interested parties) to establish a concrete path toward:

- (1) creating a conceptual design or “mock-up” specifying the algorithms, technologies, input requirements, and output requirements for an economic cost model;
- (2) establishing a prototype of the cost model that implements the proof of concept design, utilizes test input data, and capabilities; and
- (3) creating a national platform based on this prototype.

Use of an economic cost methodology for determining the level of universal service support, as outlined in the attached White Paper, would provide for determining costs consistent with an efficient and competitive universal service market.

In addition to the network cost modeling issue (Public Notice, ¶ 4), Alltel addresses the issues raised regarding reverse auctions (¶ 4), disaggregation of support (¶ 6), competitive ETC support (¶ 7), and broadband (¶ 8). Alltel particularly appreciates the Joint Board’s request for comment on our broadband auction proposal (¶ 4 & n.11). We are attaching hereto our detailed description and justification for that proposal. The same document also addresses the disaggregation and broadband issues on which the Joint Board seeks comment. We are also attaching Alltel filings that provide additional information regarding the structure of reverse auctions and competitive ETC support.

^{1/} In 1997, the FCC “adopt[ed] the Joint Board’s recommendation that, after a reasonable period, support for rural carriers also should be based on their forward-looking economic cost of providing services designated for universal service support.” *Federal-State Joint Board on Universal Service*, First Report and Order, 12 FCC Rcd 8776, ¶ 291 (1997) (subsequent history omitted). By 2001, the Commission admitted that it “did not anticipate that the embedded cost mechanism for rural carriers would be in place for this long.” *Federal-State Joint Board on Universal Service*, Fourteenth Report and Order, 16 FCC Rcd 11244, ¶ 28 (2001) (“*RTF Order*”) (emphasis added). At the same, the Commission made it clear that it strongly disagreed with the contention that “the forward-looking cost mechanism should not be used to determine rural company support.” *Id.*, ¶ 174. The Commission found that an appropriate cost model could be developed if appropriate inputs and cost assumptions were used, and indicated that the embedded cost-based model should be replaced after five years. *Id.*, ¶¶ 175-77.

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We look forward to working with you on these important matters.

Respectfully submitted,

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cc: Joint Board members and staff

