Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

COMMENTS OF TRACFONE WIRELESS, INC. ON JOINT BOARD PROPOSAL FOR INTERIM HIGH COST FUNDING CAP

TracFone Wireless, Inc. ("TracFone") hereby comments in response to the Commission's notice of proposed rulemaking in this matter.[1] In that Notice, the Commission invites expedited comment on a recommendation by the Federal-State Joint Board on Universal Service to implement an interim cap on Universal Service Fund ("USF) high-cost support provided to so-called "competitive" Eligible Telecommunications Carriers ("ETCs").[2] As a provider of prepaid Commercial Mobile Radio Service, TracFone contributes to USF based on its interstate revenues. Unlike other providers who recover their USF contributions through USF cost recovery surcharges billed to end users, TracFone has no such means for recovering its USF contributions. It pays its USF assessments out of its own revenues.

TracFone concurs with the Joint Board's recognition of a need for an interim cap on the amount of USF high-cost support provided to Eligible Telecommunications Carriers ("ETCs") for a one year period while the Joint Board and the Commission develop and adopt rules to fundamentally reform the USF high cost support distribution policies and procedures. However, in TracFone's view, the Joint Board recommendation does not go far enough. Rather, TracFone

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[1] In the Matter of High-Cost Universal Service Support, *et al* (*Notice of Proposed Rulemaking*), FCC 07-88, released May 14, 2007 ("Notice" or "NPRM").

[2] In the Matter of High-Cost Universal Service Support, *et al*, (*Recommended Decision*), FCC 07J-1, released May 1, 2007 ("Recommended Decision").

suggests that an interim cap on high-cost support distribution be applicable all ETCs, irrespective of whether they are so-called "competitive" ETCs, or "incumbent" ETCs, or wireline ETCs or wireless ETCs. A cap on receipt of high-cost support limited to competitive ETCs will not have a significant impact on curtailing growth of the USF.

In considering the Joint Board proposal, the Commission should keep its eye focused on the most pressing issue regarding the Universal Service Fund -- the continued unrestrained escalation in the amount of high cost support being distributed and the resulting upward pressure on the size of the USF -- a fund that currently is in excess of $7 billion per year -- and growing! Based upon public statements which have been made regarding USF growth, a "blame game" is being played out before the Commission. For example, in an advertisement contained in the May 30, 2007 edition of Communications Daily, the Coalition to Keep America Connected (an "incumbent" ETC advocacy group) stated that "Explosive growth in the Universal Service Fund is largely attributable to wireless providers." In contrast, a recent ex parte submission by CTIA - The Wireless Association® asserts that a cap on wireless ETCs' high cost support would "severely undermine policy-makers' shared goal of ubiquitous mobile wireless and broadband services."[3] It is anticipated that the comments filed in this proceeding will continue to place blame on specific industry segments for the rapid and continuing growth of the USF.

Attempts to place the blame for growth in USF high cost funding on competitive ETCs or incumbent ETCs largely disregard the real problem: how to control the growth of the USF while the Joint Board and the Commission consider mechanisms for reforming the high-cost distribution process. What is not open to debate or to blame placing is the fact that as the USF continues to grow, the entire domestic interstate telecommunications industry sector -- and ultimately consumers of the services provided by all interstate service providers, will continue to

[3] Notice of *Ex Parte* Presentation; WC Docket No. 05-337, submitted May 25, 2007.

"foot the bill" for that growing level of high-cost support; indeed consumers will be footing an ever larger USF bill. This public concern with the continued growth of the USF and the impact on consumers of telecommunications services was recently articulated in an editorial in the Honolulu Advertiser.[4] There, Hawaii's leading daily newspaper stated that the Universal Service Fund has "become wasteful of consumer resources and needs serious revision." The newspaper further opined that ". . . phone company subscribers are tired of subsidizing a service that has grown fat and lacks any system checks to see that it runs at peak efficiency." With the USF contribution factor for second quarter 2007 at 11.7 percent -- an all time high, it is clear that something significant must be done to forestall that growth and the resulting waste of consumer resources.

TracFone recommends that high cost support to all recipients be capped based on statewide 2006 distribution levels. Notwithstanding the well-documented fact that competitive ETC high cost support has grown in recent years,[5] the amount of high-cost support received by competitive ETCs is less than one-quarter of the total amount of high cost support distributed.[6] Thus, a cap limited to competitive ETCs would do nothing to curtail the continuing growth of more than seventy-five percent of overall high-cost support.

ETC receipt of high-cost funding is not a government-mandated entitlement to ensure the continuing economic prosperity of ETCs -- incumbent or competitive. Rather, it is to provide funding to allow for affordable telecommunications service throughout the country such that rates in rural, insular, high cost areas should be reasonably comparable to the rates for similar

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[4] "Phone service subsidy needs new regulation," Honolulu Advertiser, May 30, 2007 at 14A.

[5] According to the Recommended Decision, between 2001 and 2006, competitive ETC high cost support increased from $15 million to nearly $1 billion. (Recommended Decision at ¶ 4).

[6] *Id.* See also Universal Service Monitoring Report, CC Docket No. 98-202, Prepared by the Federal and State Staff for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45, Table 3.2 (2006).

services in more densely-populated, lower cost urban areas. TracFone is not aware of any data which demonstrate that capping high-cost support for all ETCs would imperil or compromise those objectives. In recent years, much has been written and stated about inefficiencies inherent in the USF distribution system. See, for example, "Universal Service" Telephone Subsidies: What Does $7 Billion Buy?, by Thomas W. Hazlett, Professor of Law and Economics and Director, Information Economy Project, George Mason University, prepared on behalf of the Seniors Coalition. Among the examples of inefficient allocation of USF high cost support described by Professor Hazlett is the situation involving Sandwich Isles Communications, Inc. - a wireline carrier in Hawaii which receives more than $13,000 per year per line in high cost support![7] Whether or not one fully agrees with Professor Hazlett's conclusions regarding waste and inefficiency in the USF high-cost distribution procedures, there is little doubt that massive amounts of telecommunications consumer moneys are being transferred to ETCs, with little control on how those ETCs incur costs or how those funds are used to serve those companies' customers.

Implementation of an across-the-board cap on high-cost support would protect American telecommunications consumers from bearing the cost of an escalating USF. TracFone recognizes that the Commission is also considering reform of the USF contribution methodology. For reasons which have been detailed in numerous prior filings, TracFone opposes proposals to replace the current revenue-based contribution methodology with a methodology based on working telephone numbers or network connections, unless such reform properly addresses the circumstances of those providers and consumers which would be harmed by such changes. This proceeding is not the forum to debate USF contribution methodology

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[7] Not surprisingly, the Sandwich Isles example is specifically identified in the Honolulu Advertiser editorial referenced at n. 4.

reform. However, TracFone urges the Commission to remain mindful of the fact that no contribution methodology will protect consumers from substantial and unwarranted USF contribution increases unless responsible steps are taken to control how USF funds, especially high-cost funds, are distributed and how they are used. TracFone has previously commented in support of a proposal to implement a reverse auctions mechanism to govern the distribution of high-cost support.[8] It continues to favor a reverse auctions approach. TracFone also agrees with those commenters who have advocated the elimination of the so-called "identical support" rule. If there ever was any public interest justification for providing ratepayer-provided funding to subsidize multiple providers serving the same high cost areas -- and at the same level of subsidization -- no such justification for continuing that practice exists, given that the size of the USF has ballooned above $7 billion and that the contribution factor is now at 11.7 percent.

Accordingly, TracFone urges the Commission to implement a cap on all high-cost funding immediately so that the growth of the USF can be limited during the period that the Commission is considering proposals for comprehensive USF distribution reform.

Respectfully submitted,

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[8] Comments of TracFone Wireless, Inc. on Federal-State Joint Board Inquiry on the Merits of Using Auctions to Determine High-Cost Universal Service Support, WC Docket No. 05-337, filed October 10, 2006.