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***Executive Summary***

The Joint Board recommendation seeks to address in the short term the cause of the current USF problem, while some parties are evidently seeking to deny the problem exists. Competitive entry that is motivated only by the possibility of universal service support based on other carriers' costs does not serve the public interest in a prudent manner. The recent rapid rise in CETC support has borne out that the USF is a scarce national resource that should be monitored in order to meet the public interest.

A large number of CETCs are wireless carriers. Wireline and wireless carriers provide different types of services and operate under different rules and regulations. In the approximately 800 study areas where wireless carriers receive USF support, carriers not receiving support provide substantially more wireless coverage. So, despite collecting over \$637 million in subsidies in 2006 for providing service in the lower 48 U.S. states, wireless CETCs provide little incremental coverage. In addition, contrary to the claims of wireless carriers, when holding constant key factors that affect availability of wireless service, there is no statistical correlation between the amount of USF support paid and the proportion of the population or land area that has wireless coverage.

Despite the evidence of the extensive lobbying from the wireless community as reflected in the June 12 Senate hearing, there are a large number of commenters that have expressed a broad base of support for the Joint Board recommendation of an interim cap on CETC support and with the concept of eliminating the identical support rule. GVNW Consulting, Inc. supports the Joint Board's interim recommendations.

## **INTRODUCTION AND BACKGROUND**

GVNW Consulting, Inc. (GVNW) is a management consulting firm that provides a wide variety of consulting services, including regulatory and advocacy support on issues such as universal service, intercarrier compensation reform, and strategic planning for communications carriers in rural America.

The purpose of these reply comments is to respond to the Notice of Proposed Rulemaking that requested comment on the recommendation of the Federal-State Joint Board on Universal Service (Joint Board) that the Commission take immediate action to “rein in the explosive growth” in high-cost universal service support disbursements. The Joint Board has requested specific comments on their recent recommendation that the Commission impose an interim, emergency cap<sup>1</sup> on the amount of high-cost support that competitive eligible telecommunications carriers may receive. The recent rapid rise in CETC support has demonstrated that the USF is a scarce national resource that should be monitored in order to meet the public interest.

The Joint Board and Commission have an opportunity in this instant proceeding and its companion docket to craft solutions that will meet the statutory mandate of Section 254 for the next decade. We applaud the Joint Board and Commission for addressing these difficult challenges.

GVNW Consulting, Inc. supports the Joint Board’s interim recommendations as detailed in the following reply comments.

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<sup>1</sup> Due to the nature of the current USF dilemma, the recommendation offered by the Joint Board is intended to be a short-term solution while a balanced longer-term solution is crafted.

## **THE OPPONENTS ATTEMPT TO SHIFT THE FOCUS AWAY FROM THE CURRENT PROBLEM**

In the comment round, several parties provided a variety of rationale in an attempt to shift the focus away from the cause of recent USF growth – competitive eligible telecommunications carriers. Competitive entry that is motivated only by the possibility of universal service support based on other carriers’ costs does not serve the public interest in a prudent manner.

The Joint Board recommendation seeks to address in the short term the cause of the current USF problem, while some parties are evidently seeking to deny the problem exists.

In the comments of United States Cellular Corporation and Rural Cellular Corporation (US Cellular et al), the filer speciously asserts arguments including, but not limited to: the Joint Board fails to demonstrate that an interim cap is necessary to preserve and advance universal service (page 5); the fund is not experiencing “explosive” growth as a result of funding to CETCs (page 8); rural consumers will be harmed if a cap on CETC support is imposed (page 16); denying wireless carriers the ability to invest in new cell sites amounts to a fundamental assault on public safety in rural areas (page 17).

The first two arguments above appear to indicate that US Cellular et al have been ignoring the empirical data of the last several years with respect to CETC fund growth. The last argument with respect to investment strategies is discussed on the next page in the context of several new studies that have just been placed into the record of the universal service debate.

**THE RECORD INCLUDES TWO RECENT STUDIES THAT DEMONSTRATE THAT THE IDENTICAL SUPPORT RULE HAS NOT WORKED**

Two recent studies released by Criterion Economics on June 13, 2007 have indicated that there is no basis for wireless carriers' claims that they use the subsidies to build out coverage to areas that otherwise would not be served.

The first Criterion study, authored by Nicholas Vantzelfde<sup>2</sup>, compares the coverage of wireless carriers that receive USF support with the coverage provided by wireless carriers that do not receive USF support in the same areas. This analysis concluded that in the approximately 800 study areas where wireless carriers receive USF support, carriers not receiving support provide substantially more wireless coverage. As stated at page 1 of the report, "despite collecting over \$637 million in subsidies in 2006 for providing service in the lower 48 U.S. states, wireless CETCs provide little incremental coverage..."

The second Criterion study<sup>3</sup> examined the relationship between USF support and wireless availability through the use of regression analysis. Dr. Caves and Dr. Eisenach assert that, contrary to the claims of wireless carriers, when holding constant key factors that affect availability of wireless service, there is no statistical correlation between the amount of USF support paid and the proportion of the population or land area that has wireless coverage. In addition, the study concludes there is no statistical correlation between the amount of USF support paid and the number of carriers from which consumers can choose. The study also concluded that since wireless CETCs receive little

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<sup>2</sup> Nicholas Vantzelfde, *The Availability of Unsubsidized Wireless and Wireline Competition in Areas Receiving Universal Service Funds*, Criterion Economics (June 2007).

<sup>3</sup> Kevin W. Caves and Jeffrey A. Eisenach, *The Effects of Providing Universal Service Subsidies to Wireless Carriers*, Criterion Economics (June 2007).

USF from the low-income programs, they are providing little benefit to this group of consumers.

## **THE REMOVAL OF THE IDENTICAL SUPPORT RULE ENJOYS SUPPORT**

For the past several years, FCC Commissioners<sup>4</sup> have questioned the public policy foundation<sup>5</sup> of the identical support rule. Treating carriers that do not have an obligation to serve all customers similar to those that do have that costly obligation has contributed significantly to the current USF problems.

Despite the evidence of the extensive lobbying from the wireless community as reflected in the June 12 Senate hearing, there are a large number of commenters that have expressed a broad base of support for the Joint Board recommendation of an interim cap on CETC support and with the concept of eliminating the identical support rule.

This broad base of support includes Public Utility Commissions including urban states (Ohio); consumer groups (NASUCA); large (Verizon and Verizon Wireless), medium (TDS) and small (Totah, et al ) carriers; state associations (Alaska Telephone Association) and national associations including the NTCA, WTA and OPASTCO. The Commission has sufficient support to adopt the Joint Board recommendation based on the evidence in the public record.

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<sup>4</sup> On March 1, 2007, Commissioner Copps testified before the Senate Commerce Committee on the topic of USF reform. In recommending that the identical support rule be eliminated, he stated in part: “...*the time has come to put an end to the irrational and costly system of supporting wireless carriers based on the cost of wireline incumbents.*”

<sup>5</sup> At a 2004 OPASTCO meeting, Commissioner Adelstein addressed USF issues in the following manner: “*A large number of CETCs are wireless carriers. Wireline and wireless carriers provide different types of services and operate under different rules and regulations. Their cost structures are not the same. To allow a wireless CETC to receive the same amount of funding as the wireline carrier, without any reference to their cost structures, is artificial.*”

GVNW Consulting, Inc.  
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Respectfully submitted

Via ECFS on 6/21/07

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