

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 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

**ALLTEL REPLY COMMENTS**

Alltel Corp. (“Alltel”) respectfully submits these reply comments on the Joint Board’s Public Notice regarding long term, comprehensive high-cost universal service reform. [1/](#)

Alltel agrees with the many parties who urge the Joint Board and the Commission to focus on a comprehensive, long-term set of reforms to the high-cost universal service fund.[2/](#) The fund needs to be rationalized and re-targeted so as to more effectively and efficiently advance the fundamental purposes of the universal service program established in the 1996 Act. The purpose of the program is not to prop up revenues for any particular group of carriers. Rather the purpose is to ensure that consumers in high-cost, rural and insular areas have access to affordable, high-quality service options, including broadband and other advanced services over

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[1/](#) See Public Notice, “Federal-State Joint Board Seeks Comment on Long Term, Comprehensive High-Cost Universal Service Reform,” FCC 07J-2, 22 FCC Rcd 9023 (released May 14, 2007).

[2/](#) See Statement of Senator Daniel Inouye (D-HI), Chairman, Senate Commerce Committee: “In the end, we cannot let short-term proposals free us from the need to address long-term reform.” Hearing, *Universal Service Fund: Assessing the Recommendations of the Federal-State Joint Board* (June 12, 2007) (available at [http://commerce.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement\\_ID=263](http://commerce.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement_ID=263)). See also Statement of Senator Ted Stevens (R-AK), Vice Chairman, Senate Commerce Committee, “To put off comprehensive universal service reform risks a communications divide in this country. This would be a shameful outcome which would hurt jobs and small businesses throughout rural America, including my home state of Alaska.” Press Release, “Senator Stevens Calls for Universal Service Reform” (June 13, 2007) (available at [http://commerce.senate.gov/public/index.cfm?FuseAction=PressReleases.Detail&PressRelease\\_id=248835&Month=6&Year=2007](http://commerce.senate.gov/public/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=248835&Month=6&Year=2007)). Senator Stevens characterized the Joint Board’s proposed interim cap on CETC support as “someone’s putting their head in the ground. This is an ostrich approach as far as I’m concerned.” Federal News Service, Transcript of the Hearing of the Senate Commerce Committee, *Universal Service Fund: Assessing the Recommendations of the Federal-State Joint Board*, at 6 (June 12, 2007).

wireless and wireline networks – that are reasonably comparable to those available in urban areas.

Funding mechanisms must be specific, predictable, sufficient, explicit, and competitively

neutral.<sup>3/</sup>

Alltel continues to support the following reforms:<sup>4/</sup>

- In the short term, impose competitively-neutral caps to all ETCs – incumbents as well as CETCs – that would allow the per-line support in each study area to grow by no more than the inflation rate, in order to stabilize the existing fund.
- Target funds more effectively to consumers in high-cost areas by disbursing funding on a more geographically disaggregated basis, regardless whether an area formerly was dominated by a large, medium-sized, or small ILEC holding company.
- Set per-line funding levels for all carriers serving each geographic area based on the forward-looking economic costs incurred by the lowest-cost provider in the area. (Exceptions could be made for the smallest carriers if such a system results in financial hardship.)
- Develop a new program to support deployment of broadband in unserved and underserved areas, possibly using “pilot” reverse auctions to set the per-line funding levels – but do not allow competitive bidding to displace competitive markets for those broadband services.
- Impose comparable accountability standards on all ETCs, by requiring ILECs to comply with the same rigorous safeguards that the FCC adopted for CETCs in 2005, and by entrusting the management and distribution of funds to a neutral, accountable entity (*i.e.*, USAC) rather than an ILEC advocacy group (NECA).

By contrast, many of the proposals advanced by the ILECs would simply preserve the pre-1996 Act status quo rules that were designed to subsidize voice services provided by a single monopoly carrier, in the context of no facilities-based, intermodal competition in rural areas and no broadband or mobile technology alternatives. These proposals utterly fail to address the fundamental problems with the existing system, and would do consumers far more harm than good:

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<sup>3/</sup> 47 U.S.C. §§ 254((b)(1), (2), (3), (5), and (7); § 254 (e); *Alenco Communications, Inc. v. FCC*, 201 F.3d 608 (5th Cir. 2000); *Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393, 406 (5th Cir. 1999).

<sup>4/</sup> See Letter from Gene DeJordy, Steve Mowery, and Mark Rubin, Alltel, to Commissioners Tate and Baum (Feb. 15, 2007).

- Imposing a cap only upon competitors in high-cost areas, with no changes to ILEC funding, would harm consumers' ability to access wireless services in high-cost areas, would improperly impose a "double" cap on CETCs, and would violate the competitive neutrality principles of the Act, as Alltel and other parties have made clear. <sup>5/</sup>
- Eliminating fund portability would restrict rural consumers' ability to select their own service providers, and would place the government's thumb on the scale rather than allowing competition on a level playing field.
- Blocking competitive entry by restricting the designation of CETCs would reduce consumer choices and impede competition, in violation of the Act.
- Neither wireless nor wireline carriers should receive support based on their "actual" (*i.e.*, embedded or historical) costs, since such a "cost-plus" system would create incentives for inefficiency, improperly favor the least efficient, highest-cost service providers, and impose unnecessary regulatory burdens on wireless and other new entrants.

The ILECs' claims that CETCs somehow reap a "windfall" from high-cost support are long on rhetoric, but short on substance because they are simply not true. First, Alltel and other CETCs are required to put every dollar of universal service support into expenditures that support, maintain, and improve supported services for consumers, and the FCC and state commissions scrutinize their compliance with this requirement much more carefully than they scrutinize the ILECs.<sup>6/</sup> Alltel, for its part, has demonstrated that it has deployed network facilities and is providing service in a much broader area of some of the most rural states and

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<sup>5/</sup> See Alltel Comments (June 6, 2007); United States Cellular Corp. and Rural Cellular Corp. Comments (June 6, 2007); CTIA Comments (June 6, 2007); Dobson Cellular Comments (June 6, 2007). See also Letter from Senators John Sununu (R.-NH), John McCain (R.-AZ), Jim DeMint (R.-SC), and John Ensign (R.-NV) (Apr. 13, 2007) ("We do not support any plan that would cap only one select group of providers but not others, as we believe such a fix would unfairly skew the marketplace. Instead, we reiterate the need for capping the overall program and doing so in a manner that does not pick winners and losers or favor one technology over another. We also urge you not to use interim measures, such as a temporary cap, to address the pressing issues facing the USF program."); Statement of Chairman Edward Markey (D-MA), Chairman, Telecommunications and Internet Subcommittee, House Energy & Commerce Committee (May 2, 2007) (the Joint Board's CETC cap recommendation is "a major disappointment and a setback for true reform. The Joint Board appears to want to battle an oncoming tsunami with bows and arrows.").

<sup>6/</sup> See 47 U.S.C. § 254(e); 47 C.F.R. §§ 54.202, 54.209; *Federal-State Joint Board on Universal Service*, 20 FCC Rcd 6371, ¶ 92 (2005) ("*CETC Designation Framework Order*").

service areas where it has been designated as an ETC.<sup>7/</sup> Second, the ILECs’ rhetoric about the identical support rule is misplaced because at present CETC support is not, in fact, identical to that flowing to the ILECs. CETCs only receive the per-line equivalent of ILEC support, but do not receive the total amount of federal universal service support received by ILECs and do not receive the significant implicit support received by ILECs, nor the explicit state universal service support received by ILECs.<sup>8/</sup>

At root, many of the commenters are fundamentally mistaken in characterizing high-cost funding to ILECs and CETCs as two separate systems, and advocating limitations on the latter but not the former. To the contrary, to implement the “competitive neutrality” mandate of the Act, the Joint Board and the Commission must reform the existing rules to establish a single, “unitary” system of high-cost support that is targeted to consumers’ needs rather to support revenues for particular categories of service providers. Even today, there are no separate ILEC and CETC funding systems; both ILECs and CETCs currently receive funding under the same irrational formulas under the existing high-cost support mechanisms – HCL, LSS, HCM, ICLS, and IAS. None of these is sustainable any sense in the present and future telecommunications marketplace.

### **The New Communications Paradigm and the Transformation of Universal Service**

The competitive transformation of telecommunications requires changes to the basic paradigms on which the current universal system is based. Technological and market changes – driven by consumer choices – are rendering many aspects of the current regulatory paradigm

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<sup>7/</sup> See maps of Alltel coverage across the states of Montana and South Dakota, in general, and in the Pine Ridge Reservation in South Dakota in particular (attached as Exhibit 1)

<sup>8/</sup> See chart comparing the substantial implicit support to ILECs versus the limited explicit support to CETCs in South Dakota and Wyoming (attached as Exhibit 2).

obsolete and unsustainable. As set forth in more detail in the attached paper by Steve G. Parsons, Ph.D., “The New Communications Paradigm: Implications for Universal Service,”<sup>9/</sup> the current rules are predicated on the notion that a product defined as “local telephone service,” provided to connect specific locations (homes and businesses) to public networks, needs funding support in high-cost areas to ensure universal availability at reasonable rates. Wireless telecommunication is essential to Americans, many of whom are using wireless as a substitute for wireline service. This fundamental change, which is occurring in rural areas as well as urban areas, in turn must lead to shifts in the regulatory paradigm that recognize the importance of connecting individuals at all times and across geography, via diverse service providers and service packages that are not necessarily limited to the basic core of universal service requirements.

What has not changed is the fact that providing either wireline or wireless telecommunications service in rural areas is significantly more costly than in urban centers, which means that some form of universal service support continues to be necessary in high-cost areas. However, this proceeding must not be abused to turn back the clock on competition and restoring the ILECs’ monopoly power over rural telephony. None of the members of the Commission or the Joint Board, and not even the ILECs, purport to favor jettisoning the basic principle of competitive neutrality. But this requires that “universal service support mechanisms and rules [must] neither unfairly advantage nor disadvantage one provider over another, and [must] neither unfairly favor nor disfavor one technology over another.”<sup>10/</sup> Thus, for any fundamental reform of the universal service rules to be competitively neutral, the Joint Board must re-examine not only the funding rules for CETCs, but also for ILECs.

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<sup>9/</sup> (Attached as Exhibit 3).

<sup>10/</sup> *Federal-State Joint Board on Universal Service*, First Report and Order, 12 FCC Rcd 8776, 8801, ¶ 47 (1997), subsequent history omitted.

The attached paper by Dr. Parsons makes it clear that we are witnessing a new paradigm shift in universal service from service to a physical location (wireline service) to connecting individuals at all times and across geography (both wireless and wireline service in competition with one another). The telecommunications industry and the expectations of consumers have changed dramatically with the advent of new technologies and the implementation of the pro-competitive provisions of the Act by the FCC and state commissions. Consumers demand connectivity to the public telephone network across space, not merely at a particular building, residence, or location, but rather at all times and across geography. Such expectations should cause policymakers to rethink our notions of universal telephone service.

Historically, the nature and history of wireline telephone service led to concepts of subscribership and universal service based on connecting locations (homes and businesses). Universal service was originally established as a wireline concept with competitive carriers excluded from the market. This contributed to a bias against wireless providers and a distortion in the technology choices by providers, even though wireless technology has characteristics that are likely to make it the lower cost technology in some rural areas.<sup>11</sup> Wireless phones represent the ultimate in an individual's access to the public network over time and space – a wireless phone provides a person with constant connectivity to the public network across time and most space. The high-cost support fund must continue to support the services that consumers are increasingly demanding, rather than simply focusing on the wireline technologies of the past.

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<sup>11</sup> Even though wireless technology may be more efficient to provide universal service in certain areas, the current system of implicit and explicit universal service support results in the ILECs receiving significantly more universal service support than wireless carriers because the ILECs receive implicit support, plus, in some states, explicit state universal service support, together with explicit federal universal service support (explicit federal universal service support is the only support mechanism that CETCs receive). [Cite p. 42 of our January USF presentation to FCC?]

## Conclusion

For the reasons set forth above and in Alltel's past filings in these dockets, Alltel urges the Joint Board to develop sustainable long-term solutions that will be competitively neutral and promote the interests of consumers in rural America.

Respectfully submitted,

ALLTEL CORP.

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