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
	)	
Federal-State Joint Board on Universal Service Seeks Comment on Long-Term, Comprehensive High-Cost Universal Service Reform	)	

To: The Federal-State Joint Board

REPLY COMMENTS OF CTIA–THE WIRELESS ASSOCIATION®

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SUMMARY

CTIA–The Wireless Association® ("CTIA") urges the Federal-State Joint Board on Universal Service ("Joint Board") to recommend reform of the high-cost universal service support system that acknowledges the evolution of the telecommunications marketplace. Today, consumers are demanding mobility and broadband above all other services, and the revised support system must reflect this reality. At the same time, consumer preferences relating to services and technologies will continue to evolve. If past is prologue, the Joint Board's recommendations regarding long-term reform will have a profound influence on how high-cost universal service support is determined and distributed for the next several years. Cutting edge in 2007 will look nothing like cutting edge in 2014. Therefore, the Joint Board's recommendations must look forward, not backward, but must do so with humility with regard to our ability to predict future evolution in technology and consumer demand.

To account for these factors, CTIA has proposed a technologically- and competitively-neutral "winner-takes-more" reverse auctions mechanism that properly balances the efficiency-producing characteristics of an auction with the fundamental statutory requirements for the universal service system. CTIA's approach also will produce greater consumer benefit than other proposals in the record by requiring all funding recipients to participate in an auction. The combination of broad participation and "winner takes more" ensures that auction participants will have adequate incentives to submit low bids, while fulfilling the statutory mandate for a competitive marketplace that allows eligible carriers to continue responding to evolving consumer demands for new services and technologies.

CTIA recognizes that the transition to an auctions-based mechanism cannot occur overnight. Thus, CTIA proposes a concrete transition plan. In the near term, support should be disaggregated into at least two cost zones wherever there is competitive eligible

telecommunications carrier ("ETC") entry. Modern cost modeling techniques should guide the reform, and a six-month deadline should be established for processing ETC petitions. In the medium term, incumbent local exchange carriers ("ILECs") with 50,000 or more access lines in a state and their competitors should be transitioned to model-based support. These changes will deliver significant cost savings to consumers even before reverse auctions pilots begin. Finally, all ILECs and their competitors should convert to models-based support pending broader use of auctions based on the pilot experience.

At the same time, the Joint Board must reject a number of wrong-headed or self-serving proposals that have been submitted in the record. Many of these proposals – such as that most recently announced by Qwest – predictably shift all of the pain of reform onto other parties. Reform without addressing underlying problems with how the majority of high-cost cost support is determined and distributed to incumbent LECs is no reform at all. Requiring competitive ETCs to submit embedded or "actual" cost data would merely import the inefficiencies of the existing system into CETC support. Similarly, high-cost funding should not depend on the size or regulatory classification of the carrier receiving support.

Unlike most other parties' proposals, CTIA's proposal appropriately requires shared sacrifice among all participants, and focuses on the core statutory universal service goals. Most importantly, CTIA's proposals singularly focus on delivering benefits to consumers – the only intended beneficiaries of universal service.

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REPLY COMMENTS OF
CTIA–THE WIRELESS ASSOCIATION®

CTIA–The Wireless Association® ("CTIA") submits the following reply to the initial comments filed in response to the Federal-State Joint Board on Universal Service's ("Joint Board's") Public Notice seeking comment on long-term, comprehensive high-cost reform.[1] As CTIA observed in its initial comments in this proceeding, the challenge to meet statutory universal service goals today is to ensure the availability of *mobile* and *broadband* services to rural American consumers.[2] To meet this challenge, the Joint Board must recommend

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[1] *Federal-State Joint Board on Universal Service Seeks Comment on Long-Term, Comprehensive High-Cost Universal Service Reform*, WC Docket No. 05-337, CC Docket No. 96-45, Public Notice, FCC 07J-2 (rel. May 1, 2007) *("Long-Term Reform PN").*

[2] Comments of CTIA-The Wireless Association, WC Docket No. 05-337, CC Docket No. 96-45 at 1 ("CTIA comments"). Unless otherwise noted, references in this reply to parties' comments refer to the initial comments filed in response to the *Long-Term Reform PN* on or about May 31, 2007.

comprehensive reform that looks *forward* rather than backward, and focuses on *consumers* rather than companies. CTIA's specific recommendations further these important goals.

In formulating its recommendations in this proceeding, CTIA strives to represent its broad membership, and the mobile wireless industry as a whole, in a comprehensive and effective way. CTIA's wireless carrier members run the gamut from very large carriers to very small carriers. CTIA's members include those with and without wireline affiliates. Some CTIA members have been designated as competitive eligible telecommunications carriers ("ETCs") while others have not. CTIA's membership also includes equipment manufacturers, network services providers, and other non-carrier interests that are part of the wireless industry. CTIA's Board of Directors reflects this diverse membership.[3] In formulating its positions, CTIA works pursuant to policy positions approved by the Board to represent *all* of these members. As a result, CTIA's positions do not (indeed, cannot possibly) match all of its members' positions at all times.

For example, as ITTA points out, CTIA has joined a broad and diverse cross-section of parties in opposing an interim cap on competitive ETCs' support, even though two of CTIA's large carrier members favor such action.[4] At the same time, CTIA supports a reverse auctions proposal, which other CTIA members oppose.[5] Other members oppose specific elements of CTIA's reverse auctions proposal. Neither of these policy differences raises a "question of precisely which carriers CTIA represents in its comments;"[6] rather, they demonstrate an association with a broad membership striving to represent the industry as a whole in an effective

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[3] *See* www.ctia.org/aboutCTIA/board_of_directors/.
[4] ITTA comments at 2-3.
[5] *See, e.g.,* U.S. Cellular/Rural Cellular Corp. comments at 34; ACS Wireless comments at 4-5.
[6] ITTA comments at 2.

way. This broad-based process requires a thoughtfulness and caution that lends credibility to CTIA's policy recommendations.

I. THE UNIVERSAL SERVICE PROGRAM MUST REFLECT MARKETPLACE EVOLUTION

The universal service program must ensure that "access to advanced telecommunications and information services" is "provided in all regions of the Nation,"[7] and that consumers in "rural" and "high-cost" areas have access to telecommunications and information services "that are reasonably comparable to those services provided in urban areas."[8] To put these principles into effect, the reformed universal service program that the Joint Board recommends must candidly assess the services that carriers are providing – and consumers are demanding – in urban areas, and ensure that rural Americans receive comparable access. Given present market conditions, the Joint Board must ensure that rural consumers have access to an evolving level of *mobile* and *broadband* services.[9]

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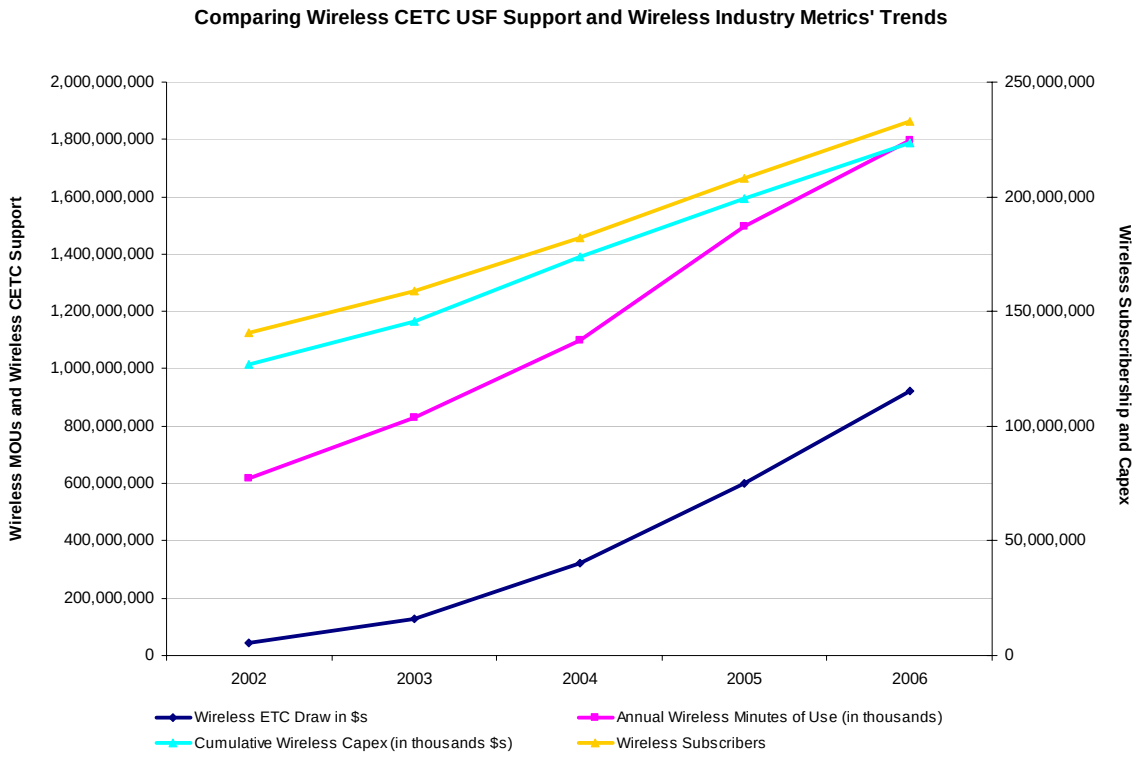
[7] 47 U.S.C. § 254(b)(2).

[8] *Id.* at § 254(b)(3).

[9] *See* "The New Communications Paradigm: Implications for Universal Service," Steve G. Parsons, Ph.D., at 4-17 (attachment to Reply Comments of Alltel, WC Docket No. 05-337 (filed July 2, 2007)).



As the chart above reflects, over the past five years the number of mobile wireless subscribers has increased from 118 million in June 2001 to more than 233 million in December 2006.[10] In that same timeframe, the average number of minutes that subscribers use their mobile devices each month rose from 380 to 714 minutes, or approximately 12 hours per month.[11] In 2006, there were approximately 1.8 trillion minutes of use on wireless networks.[12] U.S. commercial wireless service providers are investing more than $27 billion dollars a year to increase the capacity of their networks so they can respond to consumer demand and deliver

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[10] CTIA's Semi-Annual Wireless Industry Survey Results, January 1985-December 2006, *available at http://files.ctia.org/pdf/CTIA_Survey_Year_End_2006_Graphics.pdf.*

[11] CTIA's Year-End 2006 Wireless Industry Indices Report, May 2007.

[12] CTIA's Semi-Annual Wireless Industry Survey Results, January 1985 - December 2006, *available at http://files.ctia.org/pdf/CTIA_Survey_Year_End_2006_Graphics.pdf.*

next-generation services to consumers.[13] This amount does not include billions of dollars spent on spectrum at auction. These statistics and the chart demonstrate that the growth in high-cost universal service support to wireless ETCs has actually been quite modest relative to the dramatic increase in demand for wireless services.[14] Compared to ILECs, wireless carriers also still have substantial work to do to complete their network deployment in rural areas, justifying a greater share of support.

Wireless networks have also responded aggressively to consumers' demands for broadband services – and have paired high-speed and advanced services with the advantage of mobility. From December 2005 to June 2006, almost 60% of all new high-speed lines reported were mobile wireless broadband lines.[15] Over that six month period, mobile wireless broadband subscription grew by almost eight million subscribers, a tremendous 250%. Collectively, wireless companies are providing wireless broadband coverage to more than 200 million Americans in communities across the country. Public safety users also are increasingly using commercial mobile wireless broadband networks.

In contrast, subscribership to wireline voice service has declined by 20% in the past five years.[16] At the same time, rural ILECs have presented data showing that their rollout of

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[13] *See* Annual Capital Expenditures: 2005, U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, at Table 4a (Issued February 2007).

[14] CTIA comments at 3-4.

[15] *See* HIGH-SPEED SERVICES FOR INTERNET ACCESS: STATUS AS OF JUNE 30, 2006 at Tables 1, 8 *at* http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-270128A1.pdf (Jan. 31, 2007).

[16] *Local Telephone Competition: Status as of June 30, 2006*, FCC WCB IATD (rel. Jan. 2007) at Table 1 (ILEC access lines declined from 174,752,275 in June 2001 to 142,249,668 in June 2006).

broadband technology is largely complete.[17] This is thanks, in large part, to their receipt of high-cost universal service support.

Universal service policy must embrace, rather than ignore, these marketplace realities. To fulfill the statutory mandate, universal service support must be directed judiciously to spur the development and deployment of mobile and advanced-services networks deeper into rural America. As Alltel has shown, universal service support can be effective at achieving this goal – wireless carriers receiving universal service support make service available much more broadly in rural areas than do unsupported carriers.[18] Indeed, "there are wireless companies which operate on a business model targeted primarily to serving rural areas, and which contribute significantly to realizing the goal of providing truly universal service to areas where costs are such that no business case can be made for buildout, absent Universal Service support."[19] At the same time, because this is a cost borne by consumers, it is fair to regularly examine whether universal service support remains a necessity for delivering high-quality, affordable telecommunications and advanced services in high-cost, rural areas.

In light of the state of the marketplace, universal service reform must address how support is determined for *all* carriers that receive support. If the support mechanism directs a significant majority of support to one industry segment (currently, rural ILECs), there must be a detailed explanation of how this advances statutory universal service goals. Finally, as noted

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[17] Fred Williamson and Associates ex parte, CC Docket No. 96-45 (filed May 14, 2007); Cheryl L. Parrino ex parte, WC Docket No. 05-337 and CC Docket No. 96-45 (filed April 16, 2007).

[18] Alltel Reply Comments on Cap Recommendation, WC Docket No. 05-337 and CC Docket No. 96-45 (filed June 21, 2007) at 12-21.

[19] *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, WC Docket No. 05-337; CC Docket No. 96-45, Recommended Decision, FCC 07J-1 (rel. May 1, 2007), Statement of Comr. Larry S. Landis.

above, the reform effort must remain focused on the true intended beneficiaries of support – rural *consumers* – and ignore the parochial interests of any carrier or class of carriers.

II. THE JOINT BOARD SHOULD RECOMMEND A TECHNOLOGICALLY AND COMPETITIVELY NEUTRAL REVERSE AUCTIONS MECHANISM

As CTIA and other parties have explained, reverse auctions have enormous potential to reveal the efficient amount of support that is necessary to ensure the provision of service in rural and high-cost areas.[20] As Verizon and Verizon Wireless stated, using auctions to distribute high-cost support will "allow market forces to set subsidy levels, and enhance the efficiency of service providers."[21] In order to fully harness the power of the marketplace, however, an auctions mechanism must apply to all universal service recipients in an area. Wireless and wireline incumbent and competitive carriers should participate in the same auctions. At the same time, the Commission must structure the auctions mechanism so that it remains consistent with statutory requirements. CTIA supports a "winner-takes-more" style of auction, which would reward the lowest bidder with the bid-upon level of support and would provide some lesser level of support for auction participants that fail to submit the lowest bid.

A. CTIA's Winner-Takes-More Approach Is the Only Auctions Proposal That Is Consistent With the Statute

CTIA carefully crafted its winner-takes-more reverse auctions proposal to balance the efficiency-producing power of auctions with the requirements of the statute. By contrast, a

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[20] CTIA comments at 7-9; AT&T comments at 6-7 (advocating auctions-based pilot programs for broadband and wireless deployment); Verizon and Verizon Wireless comments at 2 (describing the efficiency benefits of an auctions-based system). *See also* Reply Comments of CTIA-The Wireless Association® on Merits of Auctions, WC Docket No. 05-337 (filed Nov. 8, 2006) at Attachment (detailed description of CTIA's auctions proposal).

[21] Verizon and Verizon Wireless comments at 2.

winner-takes-all reverse auction and/or auctions that segregate "wireline" and "wireless" carriers would violate important statutory goals, including the promotion of competitive markets and the achievement of core universal service principles.

The Act requires that the Joint Board establish universal service policy that advances a number of universal service "principles."[22] Among these principles are that rural consumers should have access to quality services and advanced services, and generally to services that are reasonably comparable to those available in urban areas.[23] These principles must be viewed through the prism of the 1996 Act's fundamental goal of creating a "pro-competitive, de-regulatory" framework for the provision of telecommunications services.[24] By relegating rural consumers to a single-provider system, a winner-takes-all auction approach would deprive rural consumers of the benefits that flow uniquely from a competitive marketplace.[25] In the process, the Act's universal service principles would be irretrievably undermined.[26] If urban consumers have access to a competitive marketplace for telecommunications and information services, a single-provider model cannot provide reasonably comparability for rural consumers. Ultimately, a winner-takes-all reverse auction would return rural consumers to the "regulated monopoly"

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[22] 47 U.S.C. § 254(b).

[23] 47 U.S.C. § 254(b)(1) - (3).

[24] S. Conf. Rep. 104-230, at 113 (1996). *See also* Dobson comments at 11-14.

[25] The explosion of consumer welfare in the competitive wireless marketplace readily underscores the power of markets. *See supra* Section I.

[26] Indeed, a "winner-takes-all" universal service reverse auction developed by the Public Utilities Commission of Hawaii was previously found to be unlawful under sections 253 and 254 of the Act. *See GTE Haw'n Tel. v. Pub. Util. Comm'n*, Findings of Fact, Conclusions of Law and Order, Civil No. 97-4732-10 (Haw. 1st Cir. Ct. Apr. 1, 1999).

model that the 1996 Act specifically repudiated. As a result, single-winner "reverse auctions do not constitute the competition that was envisioned in [the 1996 Act]."[27]

CTIA's winner-takes-more approach, in contrast, will preserve the efficiency of auctions while protecting rural consumers' ability to purchase telecommunications and information services in a competitive marketplace, thereby furthering the Act's pro-competitive intent and core universal service principles.

B. CTIA's Technology-Neutral Auctions Proposal Will Produce a More Efficient Outcome

Simply stated, an auctions mechanism cannot introduce efficiency into high-cost funding levels unless all funding recipients are subject to auction. This is the key lesson learned from the success or failure of universal service auctions in other countries. In addition, holding separate auctions for carriers using different technology platforms will prevent carriers using different platforms from bidding against one another, further undermining the consumer benefits of an auction outcome.

As a result, *all* ETCs (including ILECs) must compete in the same auction. CTIA adamantly opposes separate auctions for different technologies or groups of carriers. For example, some have proposed that reverse auctions should apply only to wireless carriers or that separate auctions should be conducted for different technologies. These proposals are premised on outmoded and overly simplistic thinking about distinct wireline and wireless markets. A key lesson learned from the successes and failures of reverse auctions in other countries and in other contexts is that reverse auctions can only succeed if there is competition for the subsidy. That

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[27] GVNW comments at 6.

competition can be maximized only by holding a single auction for support in each selected geographic area.

Moreover, proposals to segregate wireless and wireline platforms fail to account for convergence in telecommunications markets. A number of carriers are launching hybrid services that allow connectivity via a wireline or Internet connection while the customer is in or near their home, but utilize CMRS spectrum at other times.[28] Would a carrier like Cincinnati Bell offering this type of service in a supported area be treated as an ILEC or a wireless carrier? Would the answer be different in five years if a higher percentage of customers subscribe to these hybrid, converged offerings? Given the pace of technological change, the universal service system must be technologically neutral.

The availability of support to multiple providers under CTIA's "winner-takes-more" proposal is also consistent with economic efficiency. A winner-takes-more approach will provide an incentive for carriers to submit low bids, while preserving the statutory requirement of a competitive marketplace.[29] CTIA's winner-takes-more approach does not "amount[ ] to proposing an auction where no one ever loses."[30] Under CTIA's proposal, ETCs that bid higher than the lowest bid receive less subsidy payment (based upon the difference between the bid and winner's bid) – the higher an ETC's bid, the greater its loss.

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[28] *See, e.g.*, "T-Mobile Introduces Unlimited Calling Over Wi-Fi With the National Launch of T-Mobile HotSpot @Home," Press Release, T-Mobile USA (June 27, 2007) (available at http://www.t-mobile.com/Company/PressReleases.aspx?tp=Abt_Tab_PressReleases); "Cincinnati Bell Wireless Launches Wi-Fi/Cell Service," CNET News (June 18, 2007) (available at http://news.com.com/8301-10784_3-9730963-7.html).

[29] *See supra* Section II.A.

[30] Verizon comments at 7.

The Commission's spectrum auctions are an example of highly successful auctions that did not result in single-winner outcomes. In conducting spectrum auctions, the Commission has never auctioned an exclusive franchise to provide wireless service in a given area; instead, the Commission first subdivides the spectrum into blocks that can reasonably be served by competing carriers. For example, in the broadband PCS auctions, the Commission divided the spectrum into blocks ranging from 10 MHz to 30 MHz and auctioned multiple blocks in the same geographic areas.[31] For the same reason, economic efficiency would not be served by granting a universal service auction winner an exclusive right to receive universal service support throughout the designated area. Instead, like spectrum, universal service support should be subdivided to the lowest natural unit, which is the customer connection. CTIA's winner-takes-more approach will allow all ETCs to compete to serve customers at the customer connection level.

Critiques of the efficiency of CTIA's winner-takes-more proposal ring hollow coming from commenters whose own proposals would produce far less efficient results. Precluding or forestalling ILECs' participation in the auctions process shelters ILECs' subsidies from the rigors of the competitive process, preserving the enormous inefficiencies in the existing rural ILEC support mechanisms.[32] It also reduces the number of bidders and therefore the probability of lower bids. In this way, eliminating or delaying ILECs' participation in the auction process would permit the ILEC to receive funding significantly greater than the winning wireless bid, a perverse result. ILECs have received $24 billion in high-cost universal service support since 1997. Should a reverse auctions system guarantee ILECs, which are losing customers, another

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[31] *See generally* 47 C.F.R. Part 24.
[32] *See, e.g.,* Verizon comments.

$24 billion over the next eight years while denying their competitors access to similar support amounts? What incentive would that create for ILECs to compete for customers, instead of primarily competing for universal service dollars? It is virtually certain that a winner-takes-more reverse auction with all providers participating (as CTIA proposes) would lead to lower overall subsidy levels than a winner-takes-all auction that excludes a significant class of ETCs, such as ILECs.

Providing a lump-sum payment to a single auction winner – as opposed to the per-connection support that CTIA proposes – also would create incentives that are inconsistent with universal service goals. If an ETC's subsidy does not depend upon the number of customers that it serves in the designated area, the ETC will have every incentive to reduce its costs by serving fewer customers – precisely the opposite of "universal" service. While this outcome could be controlled with pervasive, monopoly-style regulation,[33] such an approach would be contrary to the deregulatory intent of the 1996 Act.

C. The Joint Board Should Recommend a Concrete and Rational Transition to Reverse Auctions

CTIA is realistic that the transition to a reverse auction system cannot happen overnight. For that reason, we advocate a multi-step transition process. Each step in that transition must be a step forward in developing efficiency-rewarding high-cost universal service mechanisms. Selecting a "winner-gets-more" auction as the end goal will mitigate the effect of migrating existing wireless and wireline ETCs to an auction based system because existing ETCs will retain some opportunities to recover the costs of investment made under the current high-cost

[33] Indeed, this is the approach in effect today for ILEC ETCs.

system. In the more immediate term, however, CTIA has proposed a concrete transition plan towards a reverse auction system.

- Initial stage (first 6 months): Implement mandatory disaggregation of high-cost support to at least two cost zones upon competitive ETC entry. Substantially update the existing cost model or develop a new one that can be used both to identify the relevant geography of auction areas and to place a cap on support amounts. Under such a system, bids above modeled amounts would be rejected. To that end, CTIA supports proposals to use geographic information system ("GIS") technologies to determine areas that should qualify for support.[34] Establish a six-month deadline for processing pending ETC petitions.

- Medium term (first 18 months): Transition ILECs with 50,000 or more access lines in a state (and their competitors) to model-based support. Conduct reverse auction pilots, particularly in highly competitive markets currently receiving high-cost support. Important lessons could be learned from reverse auction pilots.

- Longer term: First, transition remaining ILECs (and their competitors) to model-based support. Eliminate the exchange transfer ("parent trap") rule.[35] Then, merge the access related mechanisms into the model-based support mechanism. The model would determine support based on the cost of the most efficient technology for a particular geographic area. Roll out auctions nationwide based on pilot program experience to further drive down the cost of support.

As noted above, CTIA supports the development of an updated, more accurate cost model that includes current input data and corrects the oversimplifications in the Commission's current high-cost model (such as grid-based customer placement and rectilinear plant routing). With its comments, Alltel submitted a detailed report from CostQuest Associates, a well-respected network mapping and economics firm, describing a plan for the development of a current and accurate cost model.[36] CTIA commends Alltel for its initiative in developing this

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[34] *See Long-Term Reform PN* at para. 5.
[35] 47 C.F.R. § 54.305.
[36] Alltel comments at Attachment 1 ("Proposal for a Competitive and Efficient Universal Service High-Cost Approach"). *See also* Dobson comments at 5-8.

proposal, and notes the broad support among a variety of different types of commenters for the development of a workable model.[37] Indeed, even some of those opposing models support statistical sampling that amounts to a version of modeling.[38] CTIA stands ready to participate as part of a broad-based effort to develop a model that includes all industry sectors (including ILECs, wireless ETCs, other competitive ETCs, and other interested parties).

III. REQUIRING CETCS TO REPORT THEIR EMBEDDED COSTS WOULD BE COUNTERPRODUCTIVE

The Joint Board should reject proposals to determine support for competitive ETCs based on their "actual" or embedded costs.[39] Such a change would be a significant setback in market-based reforms. An embedded cost system for competitors would require complex and indeterminable new reporting requirements[40] and would simply repeat the mistakes of the past. Neither the incumbent nor any competitor should receive support based on their inefficiencies. Under an embedded cost system, competitive carriers would have the same incentives for inefficiency that rural incumbent carriers now have. Many commenters recognize these

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[37] *See, e.g.*, California PUC comments at 4-5; Dobson comments at 5-8; NCTA comments at 7; Nebraska PSC comments at 5-6; T-Mobile comments at 9; Windstream comments at 5-6. *See also* Embarq comments at 3; Fred Williamson comments at 19.

[38] Verizon comments, attachment at 5.

[39] *See, e.g.*, BEK comments at 5-6; Frontier comments at 5-6; GVNW comments at 14; Iowa Utilities Board comments at 4; NASUCA comments at 20; NECA comments at 9-10; NTCA comments at 26; Nebraska PSC comments at 1; OPASTCO comments at 10; Windstream comments at 8. *See also Long-Term Reform PN* at ¶ 7.

[40] Alltel comments at Attachment C; Letter to Marlene Dortch, Secretary, Federal Communications Commission from Gene DeJordy, Vice President, Regulatory Affairs, Alltel Wireless, WC Docket No. 05-337, CC Docket No. 96-45 (filed Feb. 16, 2007); ACS Wireless comments at 6-8.

important reasons not to embark on a misguided effort to require competitive ETCs to submit book cost figures in order to receive support.[41]

As a practical matter, an embedded cost system for competitive ETCs would impose regulatory obligations not imposed today on many incumbent LECs. It is simply incorrect that all incumbent LECs receive high-cost universal service support based on their actual costs. We conservatively estimate that about $1.3 billion or about 40% of annual incumbent LEC high-cost universal service support is not based on their actual or embedded costs. This estimate includes interstate access support, model-based support, local switching support, high-cost loop support for average schedule incumbent LECs, and transferred section 54.305 support. Moreover, as CTIA previously pointed out, incumbent LECs that receive support based on their "embedded costs" also receive a guaranteed universal service rate of return of 11.25%. That guaranteed universal service profit would need to be included in any calculation of "embedded cost" support for competitors.

The better alternative to support based on embedded costs is to move forward with developing mechanisms proposed by CTIA, such as competitively- and technologically-neutral reverse auctions, that will encourage and reward both incumbents' and competitive carriers' efficiency and further important universal service goals. Such a mechanism would in fact be a better measure of actual costs than any mechanism that relies on complex and highly regulatory cost reporting. Under a reverse auctions mechanism, wireline and wireless carriers alike would simply reflect their "actual costs" in their bids. GIS modeling or network cost estimation tools,

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[41] ACS Wireless comments at 6-8; Alltel comments at Attachment C; Sprint Nextel comments at 11-13; Verizon and Verizon Wireless comments at 15.

too, hold more promise to reveal accurate and efficient cost figures than any carrier reporting of expenditures or investment.[42]

IV. HIGH-COST SUPPORT SHOULD NOT DEPEND ON THE SIZE OR REGULATORY CLASSIFICATION OF THE CARRIER

As a number of ILEC commenters have observed, patent inequities result from a universal service support system that provides different amounts of support based on the size or regulatory classification of the ETC. Larger ILECs complain that they receive little or no universal service support even though they serve objectively high-cost areas.[43] At the same time, other commenters observe that the existing system's favoritism towards small rural ILECs creates incentives for inefficient avoidance of economies of scale.[44]

In the long term, the universal service support mechanism must account accurately and objectively for the cost of serving all high-cost areas, irrespective of the size or regulatory classification of the carrier or carriers serving them. A competitively- and technologically-neutral reverse auctions mechanism would achieve this goal by eliciting carriers' own best estimates of the amount of support they will need to serve an area, in addition to their anticipated other revenue. Similarly, cost modeling techniques can accurately predict the true cost of service in a particular area, putting aside carrier-specific factors. The reformed universal service system should make such distinctions irrelevant, not perpetuate them.[45]

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[42] *See supra* Section II.C.
[43] *See, e.g.,* AT&T comments at 1-2.
[44] *See, e.g.,* Dobson comments at 7-8.
[45] *See* Fred Williamson comments at 15 (urging a distinction in wireless ETC funding comparable to current distinctions in ILEC funding).

V. THE JOINT BOARD MUST REJECT THE MYRIAD OF SELF-SERVING PROPOSALS IN THE RECORD AND PROPOSE RATIONAL REFORM

In reviewing the comments in this proceeding, one is struck by the profoundly self-serving nature of virtually all of the reform proposals in the record. A large ILEC and IXC with no facilities-based wireless operations and lagging broadband roll-out proposes to cut funding for wireless deployment to pay for a new program to fund broadband in unserved areas.[46] Rural ILECs argue for caps and cuts in wireless ETCs' funding, but assert that no changes are warranted in their own bloated support levels.[47] A diversified carrier with some wireline universal service revenues but few wireless ETC designations urges an aggressive program of winner-takes-all auctions for wireless carriers, but would maintain the status quo for wireline carriers unless a wireline competitor is present – a rarity in objectively high-cost areas.[48] All of these proposals involve little or no sacrifice on the part of their proponents; instead, they shift the entire burden of reform onto other industry segments (usually wireless carriers).

In contrast, CTIA's proposal for a measured transition to competitively- and technologically-neutral winner-takes-more auctions, using cost modeling techniques as a transitional and guiding mechanism, is a balanced proposal calling for shared sacrifice among all interested parties. CTIA also has proposed an alternative to the Joint Board's CETC-only cap proposal that would spread the pain of a cap among all high-cost universal service recipient

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[46] Qwest ex parte, CC Docket No. 96-45 (filed June 27, 2007).
[47] *See, e.g.*, CenturyTel comments at 5-21; Frontier comments at 4-9; ITTA comments at 34-50.
[48] Verizon and Verizon Wireless comments at 4-8.

groups.[49] CTIA has put forth a long-term reform plan that is consistent with the statute and marketplace realities.

The Joint Board faces a momentous task in formulating comprehensive reform for the high-cost universal service system. The Joint Board's recommendations must serve the fundamental goals of universal service, as laid out in the statute, which focus solely on *consumers* in rural and high-cost areas. To achieve consumer-focused reform consistent with the statutory principles – and to do so without imposing an undue burden on all fund contributors – will require some measure of sacrifice from all current recipients of support.

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[49] Comments of CTIA-The Wireless Association®, WC Docket No. 05-337 (filed June 6, 2007); Reply Comments of CTIA-The Wireless Association®, WC Docket No. 05-337 (filed June 21, 2007).

CONCLUSION

The Joint Board should recommend forward-looking reform of the high-cost universal service support mechanism, consistent with CTIA's recommendations.

Respectfully submitted,

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