



**Chinook Wireless**  
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Wayne, Pennsylvania 19087

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November 8, 2007

***VIA ELECTRONIC FILING***

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12th Street, S.W., Room TW-B204  
Washington, DC 20554

**Re: Federal-State Joint Board on Universal Service  
WC Docket No. 05-337**

Madam Secretary:

In accordance with Section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, we hereby provide you with notice of an oral ex parte presentation in connection with the above-captioned proceeding.

On Thursday, November 1, 2007, undersigned counsel, on behalf of Chinook Wireless, along with Jonathan D. Foxman, President and CEO of Chinook Wireless, met with John W. Hunter, Chief of Staff and Senior Legal Advisor to Commissioner McDowell, concerning the universal service program. We discussed issues set forth in the enclosed materials, focusing on whether a cap on all CETCs would contravene the purpose of the Universal Service Fund and could be avoided without significant impact on the Fund.

If you have any questions or require any additional information, you may contact the undersigned.

Sincerely,

Julia K. Tanner, Esq.  
General Counsel

Enclosures

cc: John W. Hunter, Esq.

There is no crisis in the Fund.

And increased funding is going more to ILECs than CETCs.

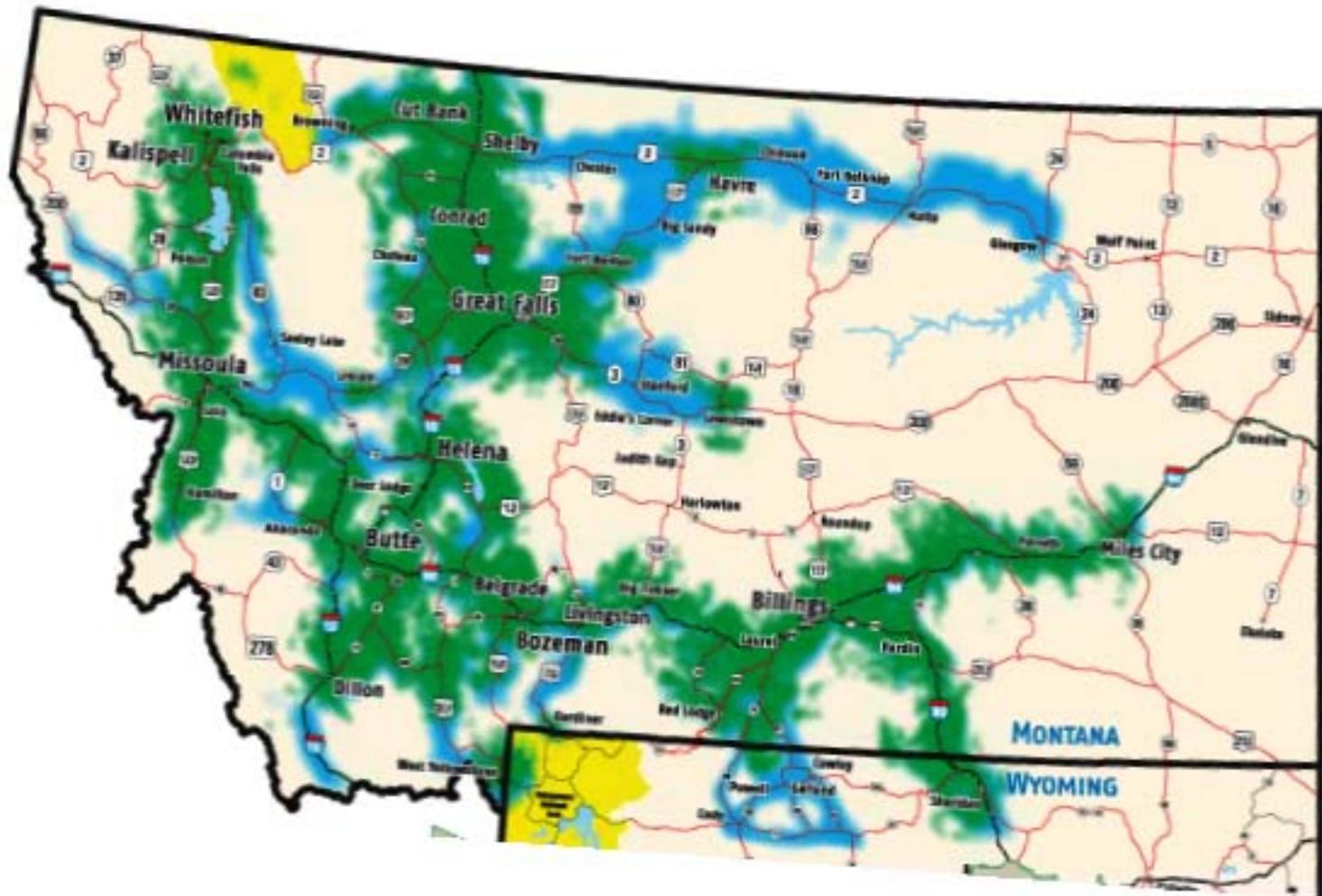
- See letter from Republican Senators opposing a CETC-only cap instead of across-the-board reform: “such a fix would unfairly skew the marketplace.”
- In 2006, the contribution factor was up, due overwhelmingly to temporary factors not related to CETC designations.
  - See Chairman Martin’s letter to Subcommittee Chairman Markey:  
Adjustments “arose from additional contributions made by AT&T and Verizon on past under-reported revenue, and from a change in the amount of funds that the Universal Service Administrative Company held in reserve for bad debts . . . [and] due to reductions in the funding base, increases in program demand, including for high-cost support.”
- Contributions are otherwise at sustainable, pre-2006 levels.
  - See Table of USF Contribution Factors.

Growth in the Fund has *not* been caused primarily by CETCs.

- See “ILEC Receipts” tab: Joint Board Monitoring Report, Table 3.15 (Dec. 2006).
- Between 1999 and 2006, high-cost fund payments to ILECs increased almost \$1.5 *billion*, from \$1.7 B to almost \$3.2 B.
- During the same time period, support to CETCs increased by \$819.9 *million*, from \$534 thousand dollars to \$820.4 M.
- Blaming increases on CETCs is disingenuous and ignores the primary source of increase in the Fund. Congress knew its 1996 legislation would enable some CETCs to in fact receive USF. But \$820.4 million to roll out wireless is minimal compared to the \$3.2 billion incumbents receive, including for lines being maintained or no longer served.

## The Playing Field Is Imbalanced Enough

- According to USAC statistics, more than a third of contributions are made by CETCs and their customers. Yet CETCs do not receive a third of distributions.
- Most ILECs keep receiving support even for subscribers they no longer serve. They lose support only if they happen to spend less – including discretionary spending. Conversely, if a CETC loses a customer, it loses that support.
- Even when more than one CETC is designated in an area, they do NOT receive duplicate support. When a CETC gains or loses a customer, it gains or loses support. Only by serving a line not served by others can they gain support.
  - See “Multiple CETCs” tab: comparing ILEC support to support for multiple CETCs in the ILEC’s territory.
- Entry of competitors on equal footing creates a healthy market, with competition on prices and services.
- Maintenance is not as expensive as buildout. CETCs are still efficiently building areas not previously served. To limit *only* CETCs sends a message to rural areas that they are not entitled to the same services and prices as urban areas.
- Wireless is most useful in rural areas – public safety; roadside assistance – distance medicine; farms and ranches; economic development.
  - See Public Safety letters –just a few of the many.
- Most rural areas are about 3 years behind urban areas in wireless deployment. A cap will freeze the reach of competitive benefits and not allow competitors, whether wireless or wireline, to move into those areas.



# United States Senate

WASHINGTON, DC 20510

April 13, 2007

The Honorable Deborah Tate  
Chairman  
Federal-State Joint Board on Universal Service  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

Dear Joint Board Chairman Tate,

The Federal-State Joint Board on Universal Service (Board) was established, in part, to provide recommendations on how best to preserve and advance the federal Universal Service (USF) program. We are writing today to provide the Board with our views on the USF program, which we believe must be substantially reformed to if it is to continue, and to share our serious concerns over reports of recent and future increases in the contribution factor, which has pushed the entire program closer to a boiling point. The Board has the opportunity and, in our judgment, the obligation, to suggest reforms and structural changes to the USF program that could result in long-term solvency, and ensure that only consumers who truly need the program's support receive it. Failure of the Board to make the difficult decisions necessary at this critical juncture will reduce political support and sustainability of the program. We urge the Board to make the tough decisions and proposals necessary to place the program on a new course. In other words, it is time to be bold.

We strongly request that the Board recommend an *overall* cap on the entire USF program. Last year, the four of us and others supported an amendment to a telecommunications reform bill during consideration in the Senate Commerce Committee that would have capped the overall USF program. We believe a cap would ensure that the administrators of the USF program spend the money more effectively and efficiently, and would work to reduce this limitless and reoccurring tax on consumers.

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. Many interim measures enacted by the Federal Communications Commission in the past have lived far longer than intended when proposed.

While a cap on *all* USF program funding is truly needed, a cap is only as valuable as the corresponding changes made to the USF distribution mechanism. Funding multiple providers without a reduction in the level of support for existing providers losing

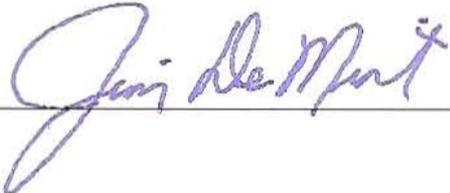
customers has put the fund on an uncontrollable growth pattern that will only result in higher telephone bills for all Americans. If this is not addressed, the USF program will over subsidize some markets at the expense of those markets most in need.

In addition, we strongly recommend the Board give significant weight to a reverse auction mechanism for distributing USF support. This can be done in a number of ways, including establishing the support level for a study area, state, or otherwise (i.e., maximum price support point), or establishing a *sole* provider eligible for support in a respective market. However accomplished, allowing all providers to take part of one unified auction in a market -- not just a platform-specific proposal -- to bid down support needed to serve particular consumers will reduce the total cost of the USF high cost program. It will also bring much needed efficiency to the system, facilitate regulatory parity, allow for the emergence of new technologies to many markets, eliminate the distinction between rural and non-rural incumbent carriers, and instill necessary market-oriented solutions.

In sum, the USF program has not kept pace with the remarkable innovation that has occurred in the communications industry over the last few years. It must be dramatically reformed to operate in a way that best serves the American people. The Board must transform this program into one that takes in and distributes USF funds in a responsible manner that ensures Americans are not subjected to limitless increases on their phone bills. We respectfully request that you take the steps necessary to fully reform the USF program and reject short-term solvency solutions.

We ask that this letter be handled in strict accordance with existing agency rules, regulations, and ethical guidelines.

Sincerely,

  
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## Responses to Chairman Markey's April 2, 2007 Letter

### Universal Service Contribution Factor

**(1) Please identify what you believe to be the root cause for this significant increase in the contribution factor.**

Several factors contributed to the two percent increase of the contribution factor for the second quarter of 2007. The largest single factor was prior period adjustments that acted to reduce the Universal Service Fund's revenue requirements in previous quarters. Specifically, these prior period adjustments arose from additional contributions made by AT&T and Verizon on past under-reported revenue, and from a change in the amount of funds that the Universal Service Administrative Company held in reserve for bad debts. The absence of these prior period adjustments caused a 1.5 percent increase in the contributions factor. The remaining 0.5 percent of the increase was due to reductions in the funding base, increases in program demand, including for high-cost support.

**(2) What impact did the Commission's designation of Digital Subscriber Line Service as an "information service" have on the contribution base? What would be the impact on the overall contribution base if all broadband Internet access services were required to contribute, regardless of their designation as "information services"?**

As part of the *Wireline Broadband Internet Access Service Order*, the Commission took an important step in ending the regulatory inequalities that existed between cable and telephone companies in their provision of broadband Internet services. Because cable modem providers were not subject to a universal service contribution obligation for cable modem Internet access, the Commission does not have historic data for these services. In leveling the playing field between the services, the Commission required telephone companies to continue contributing to the universal service fund on their DSL Internet access services based on their existing contribution levels for 270 days following the November 16, 2005, effective date of the order. On November 16, 2005, telephone providers paid approximately \$123 million per quarter into the USF for their DSL Internet access services. On August 14, 2006, telephone providers were no longer required to contribute based on DSL revenue. This change occurred in the third quarter of 2006 and had no impact on the 2 percent rise in the contribution factor in the second quarter of 2007.

**(3) Does the Commission plan to take any action to broaden the contribution base to reduce the contribution factor and the corresponding burden placed on consumers? If so, please describe the planned action and the timeframe in which the Commission intends to act.**

Preserving the stability of the universal service contribution system is one of the Commission's most important responsibilities. Changes in technology and increases in the number of carriers who are receiving universal service support have placed significant pressure on the stability of the fund. In June 2006, the Commission took action to broaden the contribution base to reduce the contribution factor by requiring interconnected Voice over Internet Protocol (VoIP) providers to contribute to the fund. In June 2006, the Commission also took steps to preserve and advance universal service by raising the mobile wireless safe harbor to 37.1 percent. Although the Commission took these interim steps to stabilize the fund, the system requires fundamental reform and I support modifying the current contribution system and moving to a more

**Table 19.17**  
**Universal Service Fund Contribution Factors**

<b>Year</b>	<b>Quarter</b>	<b>Factors for Interstate End-User Revenues</b>	<b>Factors for Intrastate End-User Revenues <sup>1</sup></b>
1998	First Quarter	3.19 %	0.72 %
	Second Quarter	3.14	0.76
	Third Quarter	3.14	0.75
	Fourth Quarter	3.18	0.75
1999	First Quarter	3.18	0.58
	Second Quarter	3.05	0.57
	Third Quarter	2.94	0.99
	Fourth Quarter	2.887	1.10
2000	First Quarter	5.8770	
	Second Quarter	5.7101	
	Third Quarter	5.5360	
	Fourth Quarter	5.6688	
2001	First Quarter	6.6827	
	Second Quarter	6.8823	
	Third Quarter	6.8941	
	Fourth Quarter	6.9187	
2002	First Quarter	6.8086	
	Second Quarter	7.2805	
	Third Quarter <sup>3</sup>	7.2805	
	Fourth Quarter	7.2805	
2003	First Quarter	7.2805	
	Second Quarter <sup>4</sup>	9.1	
	Third Quarter	9.5	
	Fourth Quarter	9.2	
2004	First Quarter	8.7	
	Second Quarter	8.7	
	Third Quarter	8.9	
	Fourth Quarter	8.9	
2005	First Quarter	10.7	
	Second Quarter	11.1	
	Third Quarter	10.2	
	Fourth Quarter	10.2	
2006	First Quarter	10.2	
	Second Quarter	10.9	
	Third Quarter	10.5	
	Fourth Quarter	9.1	
2007	First Quarter	9.7	

<sup>1</sup> Initially, contributions for the schools and libraries and rural health care support mechanisms were based on interstate, international, and intrastate end-user telecommunications revenues, while contributions for high-cost and low-income support mechanisms were based on interstate and international end-user telecommunications revenues. *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9200-05 (1997). Following a decision by the United States Court of Appeals for the Fifth Circuit, the Commission established a single contribution base for all universal service support mechanisms based on interstate and international revenues. *See Federal-State Joint Board on Universal Service, Access Charge Reform*, Sixteenth Order on Reconsideration and Eighth Report and Order in CC Docket No. 96-45 and Sixth Report and Order in CC Docket No. 96-262, 15 FCC Rcd 1679, 1685-86, para. 15 (1999) (*Eighth Report and Order*).

<sup>2</sup> Consistent with the Eighth Report and Order, the Wireline Competition Bureau (formerly Common Carrier Bureau) issued a single universal service contribution factor for November and December 1999. Effective November 1, 1999, this single contribution factor superseded the fourth quarter 1999 contribution factors previously announced by the Bureau on September 10, 1999. *See Proposed Fourth Quarter 1999 Universal Service Contribution Factors*, CC Docket No. 96-45, Public Notice, DA 99-2109 (Com. Car. Bur., rel. Oct. 8, 1999); *See Proposed Fourth Quarter 1999 Universal Service Contribution Factors*, CC Docket No. 96-45, Public Notice, DA 99-1857 (Com. Car. Bur., rel. Sept. 10, 1999).

<sup>3</sup> In the Schools First Report and Order, the Commission concluded that unused funds from the schools and libraries support mechanism would be applied to stabilize the collection requirement for universal service for the third and fourth quarters of 2002, and the first quarter of 2003, as necessary. (*See Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 2-6, First Report and Order, 17 FCC Rcd 11521 (2002).

<sup>4</sup> Beginning with the second quarter of 2003, carriers contribute based on projected, collected, end-user interstate and international telecommunications revenues. Previously, carriers contributed based on historical, gross-billed revenues. The Commission also released an Order and Second Order on Reconsideration, which, inter alia, directed the Wireline Competition Bureau to announce the universal service contribution factor as a percentage rounded up to the nearest tenth of one percent. (*See Federal Joint Board on Universal Service, 1998 Biennial Regulatory Review - Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, Order and Second Order on Reconsideration, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, FCC 03-58 (rel. March 14, 2003), at para. 22.)

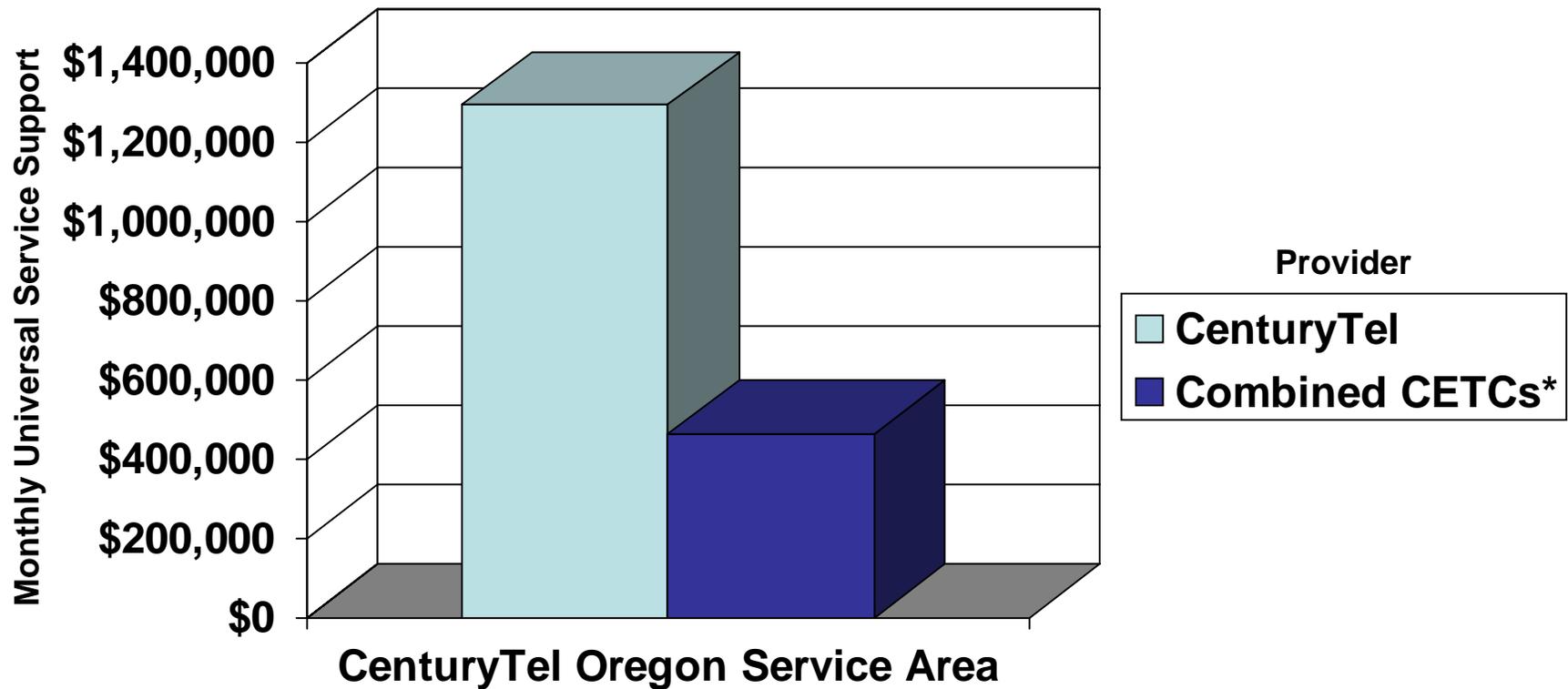
Source: Quarterly Public Notices on universal service contribution factors in CC Docket 96-45.

Joint Board Monitoring Report on Universal Service (Dec. 2006)  
Attachment to Testimony of Jonathan D. Foxman

Table 3.15  
Total High-Cost Support Payments by State or Jurisdiction - Es and CEC  
(Dollars)

State or Jurisdiction	1999		2000		2001		2002		2003		2004		2005		2006	
	ILECS	CETCS	ILECS	CETCS	ILECS	CETCS	ILECS	CETCS	ILECS	CETCS	ILECS	CETCS	ILECS	CETCS	ILECS	CETCS
Alabama	36,318,951	0	88,214,302	0	93,882,843	21,647	99,840,657	2,988,331	2,988,331	94,588,334	6,250,779	97,678,778	11,663,899	102,251,011	14,647,370	14,647,370
Alaska	67,816,605	0	70,315,653	0	74,543,499	124,846	79,633,434	1,403,390	1,403,390	95,096,980	4,973,083	100,627,607	19,846,224	98,674,638	39,994,917	39,994,917
American Samoa	124,410	0	473,151	0	458,928	0	875,238	0	1,230,722	0	1,860,943	0	2,317,903	0	1,496,616	0
Arizona	31,174,674	0	35,577,804	1,060,306	48,845,290	1,060,306	56,758,691	4,632,839	62,265,191	11,227,219	13,827,513	61,804,813	12,745,645	68,565,687	15,811,998	15,811,998
Arkansas	73,247,163	0	71,691,402	0	82,347,999	0	101,091,641	0	112,271,219	0	816,659	30,012,436	103,674,130	37,521,103	106,390,695	29,826,012
California	49,657,305	0	64,070,563	0	65,000,022	0	86,050,422	0	95,186,762	52,770	95,186,762	0	98,674,387	191,115	106,390,695	131,412
Colorado	43,789,464	0	53,761,542	0	62,003,540	0	66,143,448	688,329	73,651,142	2,876,978	8,311,404	7,226,901	7,226,901	71,123,691	8,381,643	8,381,643
Connecticut	958,953	0	952,617	0	1,192,074	0	1,506,436	0	2,242,663	0	2,445,617	0	2,048,744	0	2,032,395	0
Delaware	0	0	385,947	0	385,947	0	373,665	0	320,397	0	266,283	0	259,146	0	254,508	0
District of Columbia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Florida	18,547,026	0	49,781,316	0	84,627,004	0	85,609,445	0	80,109,504	1,939,141	81,841,610	1,939,141	81,140,368	10,309,805	76,734,600	7,593,162
Georgia	71,765,064	0	79,228,268	0	91,334,696	0	110,244,771	0	110,334,771	1,656,436	105,771,772	1,656,436	102,637,923	9,055,385	99,066,693	5,551,857
Guam	2,321,286	0	3,169,872	0	2,318,838	356,718	1,969,968	356,718	4,572,924	1,382,807	7,434,776	2,143,229	11,427,375	7,737,989	7,964,885	7,349,487
Hawaii	1,472,919	0	2,403,015	0	5,348,833	0	7,010,380	0	9,967,573	0	13,889,383	249,173	17,568,456	11,956,190	22,066,476	18,579,186
Idaho	29,219,598	0	35,787,777	0	44,531,158	0	49,013,604	0	51,909,601	0	53,012,454	0	55,055,167	0	53,095,818	0
Illinois	36,896,339	0	31,342,473	0	39,137,373	5,241	48,479,657	5,241	55,080,459	2,406	57,479,277	45	63,505,452	981	65,683,013	1,971
Indiana	17,056,453	0	30,488,022	0	42,060,071	0	47,141,468	0	53,149,059	12,474	55,299,595	12,474	54,481,006	21,514,559	57,492,699	3,325,992
Iowa	25,802,260	0	30,643,488	0	35,233,563	66,101	43,224,375	652,816	54,547,156	15,891,086	55,841,707	26,729,545	55,618,671	34,717,359	60,925,257	40,373,520
Kansas	64,603,071	0	67,053,729	0	81,019,830	5,967	94,268,913	147,749	108,785,249	2,692,475	121,727,826	7,838,024	132,251,224	46,433,044	132,065,755	53,349,474
Kentucky	19,501,563	0	29,807,009	0	36,026,757	0	57,147,036	0	59,757,488	15,989	71,749,339	276,334	75,144,011	8,456,057	75,210,951	21,800,331
Kentucky	63,648,414	0	72,467,664	0	80,748,606	0	87,583,016	0	91,029,193	0	88,157,077	14,094,355	85,913,185	25,327,599	86,366,865	40,404,837
Louisiana	18,968,121	0	32,099,073	0	30,927,750	0	29,496,861	0	29,725,830	832,312	27,779,095	2,241,525	24,533,155	4,278,734	25,349,043	4,860,493
Maine	596,790	0	2,580,717	0	4,657,430	0	4,704,481	0	3,451,702	0	2,936,699	0	4,326,582	0	4,361,691	1,098
Massachusetts	641,641	0	1,657,924	0	1,657,924	0	1,340,972	0	2,120,262	0	2,493,872	0	3,634,062	0	2,707,494	0
Michigan	34,738,875	0	39,393,036	10,688	44,477,695	800,750	44,379,093	1,553,320	43,022,294	6,163,546	43,744,197	6,163,546	43,744,197	9,830,363	44,631,927	14,154,780
Minnesota	41,442,858	0	48,130,605	94,060	49,698,984	104,776	65,788,105	2,039,645	74,228,194	18,909,324	75,428,179	18,909,324	81,420,327	31,931,697	82,321,251	38,474,865
Mississippi	26,773,044	0	132,785,751	0	141,139,843	0	149,599,072	20,997,855	145,961,305	24,339,170	146,413,078	41,255,118	147,106,117	62,144,436	140,588,648	109,744,027
Missouri	50,654,082	0	65,568,381	0	73,621,807	59,280	84,225,880	90,201	92,095,987	75,773	90,894,928	168,316	85,025,623	119,889	88,435,827	122,451
Montana	43,346,418	0	45,254,919	0	51,504,570	189,660	62,361,590	65,692,180	66,622,475	1,192,629	70,960,584	1,192,629	72,677,550	4,053,156	68,709,249	7,245,084
Nebraska	21,377,097	0	23,729,919	0	26,378,585	0	31,464,331	0	44,359,887	62,706	49,107,561	62,706	54,422,214	1,467,516	54,668,200	2,112,482
Nevada	10,994,325	0	15,066,937	0	22,846,950	63	22,973,633	289,777	26,224,437	3,907,911	24,211,672	3,540,695	24,451,060	5,187,803	25,630,626	6,445,818
New Hampshire	8,506,026	0	8,489,304	0	9,433,625	0	11,898,687	0	11,384,021	0	9,372,836	0	8,731,668	0	9,568,887	103,782
New Jersey	993,234	0	3,688,155	0	6,020,140	0	3,491,193	0	1,533,302	0	1,442,797	0	1,332,013	0	1,289,640	0
New Mexico	34,527,114	0	37,100,202	0	41,421,404	0	46,221,145	0	46,221,145	3,770,150	47,227,016	3,538,855	49,491,285	9,019,927	48,698,361	12,158,745
New York	37,395,060	0	51,532,557	0	59,460,149	482,043	55,659,061	523,518	51,104,130	729,603	49,633,569	180,316	47,160,351	4,672,277	49,473,066	4,193,142
North Carolina	31,719,741	0	33,997,699	0	38,944,285	0	55,742,932	0	71,561,647	0	79,069,350	1,180,132	72,920,918	7,256,337	76,169,481	5,181,300
North Dakota	21,703,062	0	25,437,877	0	28,584,627	0	31,654,811	89,341	39,959,801	11,066,151	38,869,743	14,946,255	36,413,361	26,304,977	42,433,701	37,368,354
Northern Mariana Islands	5,529,978	0	3,257,226	0	3,594,740	0	3,526,267	0	1,652,912	0	709,640	64,674	436,572	231,156	810,480	255,954
Ohio	15,056,667	0	19,503,900	0	29,246,406	0	33,911,495	0	38,248,134	0	40,738,649	0	37,754,247	0	38,602,698	0
Oklahoma	58,345,860	0	67,401,390	0	76,622,223	0	85,800,208	27,921	106,262,224	(18,225)	102,410,238	538,541	108,602,175	11,585,872	107,356,983	14,789,604
Oregon	36,809,835	0	47,354,850	0	60,851,409	0	67,392,263	0	70,843,149	0	66,199,436	3,973,730	64,914,449	3,554,296	64,870,959	10,060,758
Pennsylvania	21,611,712	0	28,472,919	0	35,438,459	0	42,712,402	0	55,174,266	0	58,321,676	0	63,459,742	2,043,871	64,707,909	1,754,400
Puerto Rico	132,925,644	534,012	139,946,898	1,494,642	111,508,014	6,440,727	86,185,212	10,363,326	85,955,805	13,672,345	58,567,786	22,843,398	66,047,054	67,738,447	47,407,680	75,966,315
Rhode Island	0	0	25,686	0	96,477	0	60,198	0	46,491	0	56,457	0	44,472	0	37,287	0
South Carolina	40,003,113	0	46,068,145	0	55,646,667	0	71,350,010	0	79,517,759	0	78,116,203	0	76,322,172	0	82,243,845	0
South Dakota	19,478,967	0	22,225,041	0	23,913,594	0	40,952,744	0	40,952,744	7,612,395	47,824,157	13,937,378	54,108,387	23,679,409	55,972,318	27,797,012
Tennessee	28,449,801	0	34,482,177	0	40,665,639	69,516	46,063,270	292,623	52,740,553	139,741	54,408,927	397,048	53,510,220	1,174,126	52,456,962	1,547,229
Texas	18,600,308	0	138,101,139	0	167,610,051	99,339	188,031,058	1,152,675	211,301,637	2,278,421	229,221,439	1,111,597	226,230,724	3,786,279	205,497,036	10,678,173
Texas	10,178,430	0	12,535,251	0	14,109,453	0	18,079,066	0	23,912,518	0	22,675,062	0	23,301,638	277,767	23,719,365	20,458
Utah	11,248,704	0	26,244,471	0	22,593,331	0	25,804,315	0	27,501,079	638,436	27,158,041	3,032,809	28,418,389	6,825,562	26,045,892	5,988,141
Virgin Islands	22,973,160	0	23,786,676	0	25,253,094	0	27,525,044	0	26,869,011	0	25,972,698	0	22,617,908	0	25,185,111	0
Virginia	12,837,387	0	38,477,018	0	64,489,462	0	69,908,969	261	75,789,178	2,887,069	72,048,998	15,263,371	72,048,998	15,263,371	67,111,638	12,167,124
Washington	43,165,287	0	53,885,595	0	68,815,275	8,232,717	75,016,670	3,030,131	72,354,489	7,939,390	68,107,492	19,806,072	65,989,527	28,397,734	64,046,469	34,724,406
West Virginia	22,991,175	0	63,450,822	0	72,163,053	0	80,382,176	83,529	76,909,660	1,539,760	64,014,520	4,420,527	58,577,740	7,739,910	60,104,661	9,190,040
Wisconsin	50,982,323	0	54,591,597	90	58,828,654	90	68,344,845	203,841	83,112,053	7,835,222	82,756,156	15,664,820	90,078,586	40,146,445	87,712,566	49,767,426
Wyoming	25,954,848	0	29,896,680	0	35,057,650	137,400	41,262,316	348,567	43,036,041	5,034,146	43,156,564	15,090,302	41,935,807	14,662,256	38,708,744	16,259,942
Industry	1,717,446,369	534,012	2,233,276,459	1,494,642	2,574,679,349	16,947,957	2,888,868,695	46,082,664	3,129,421,116	129,620,540	3,152,615,875	315,736,881	3,185,669,531	638,516,367	3,172,731,845	820,446,678

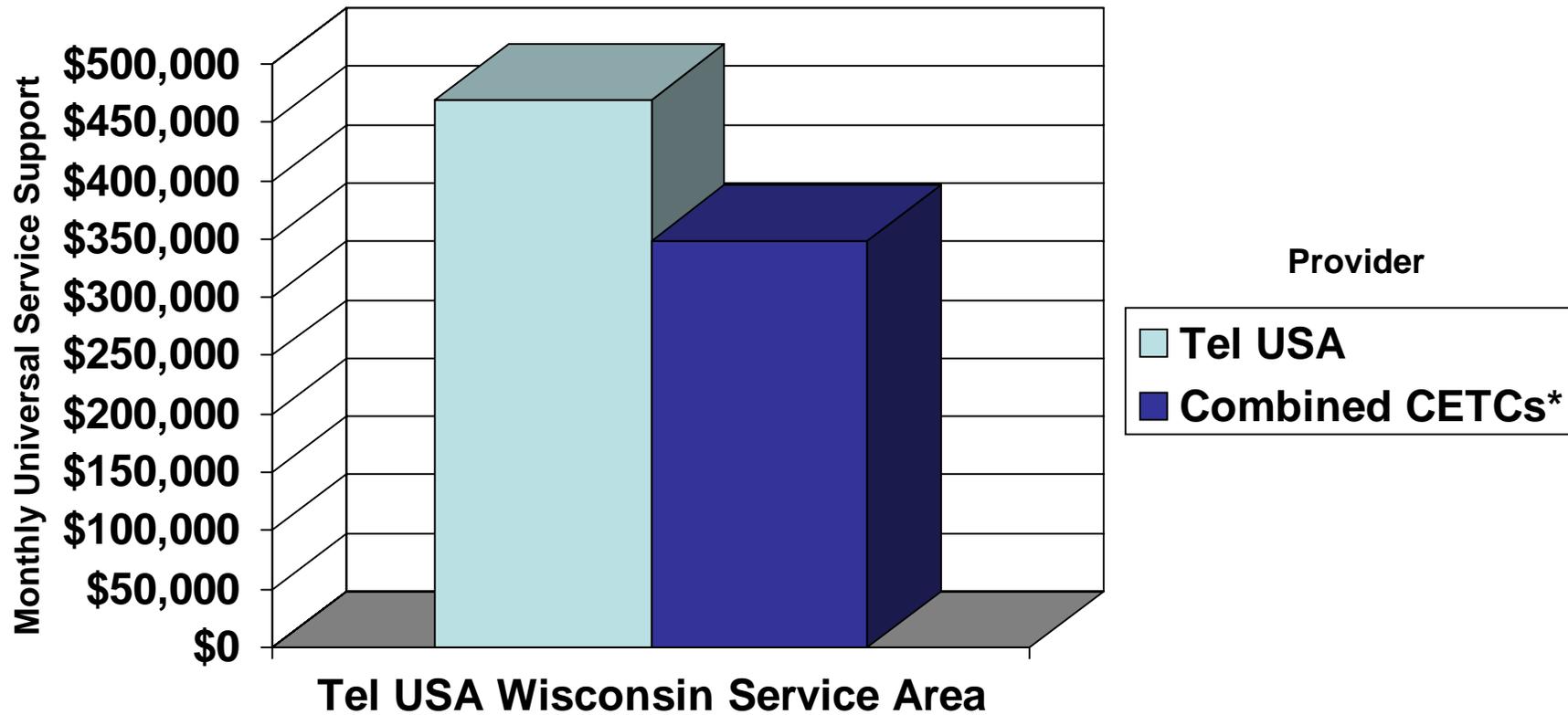
# Oregon



\*There are three Competitive Eligible Telecommunications Carriers in the CenturyTel Oregon service area

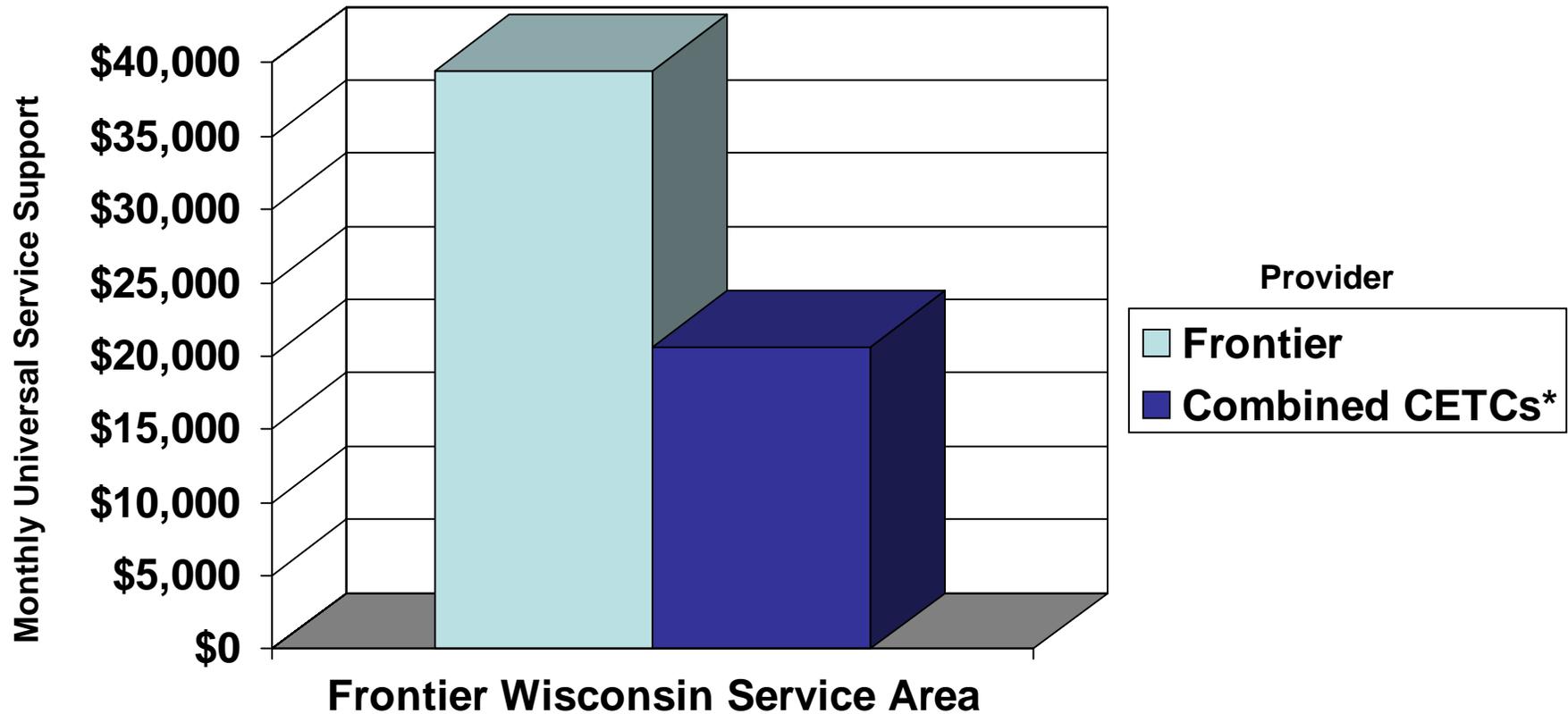
Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

# Wisconsin



\*There are ten Competitive Eligible Telecommunications Carriers in the Tel USA Wisconsin service area  
Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

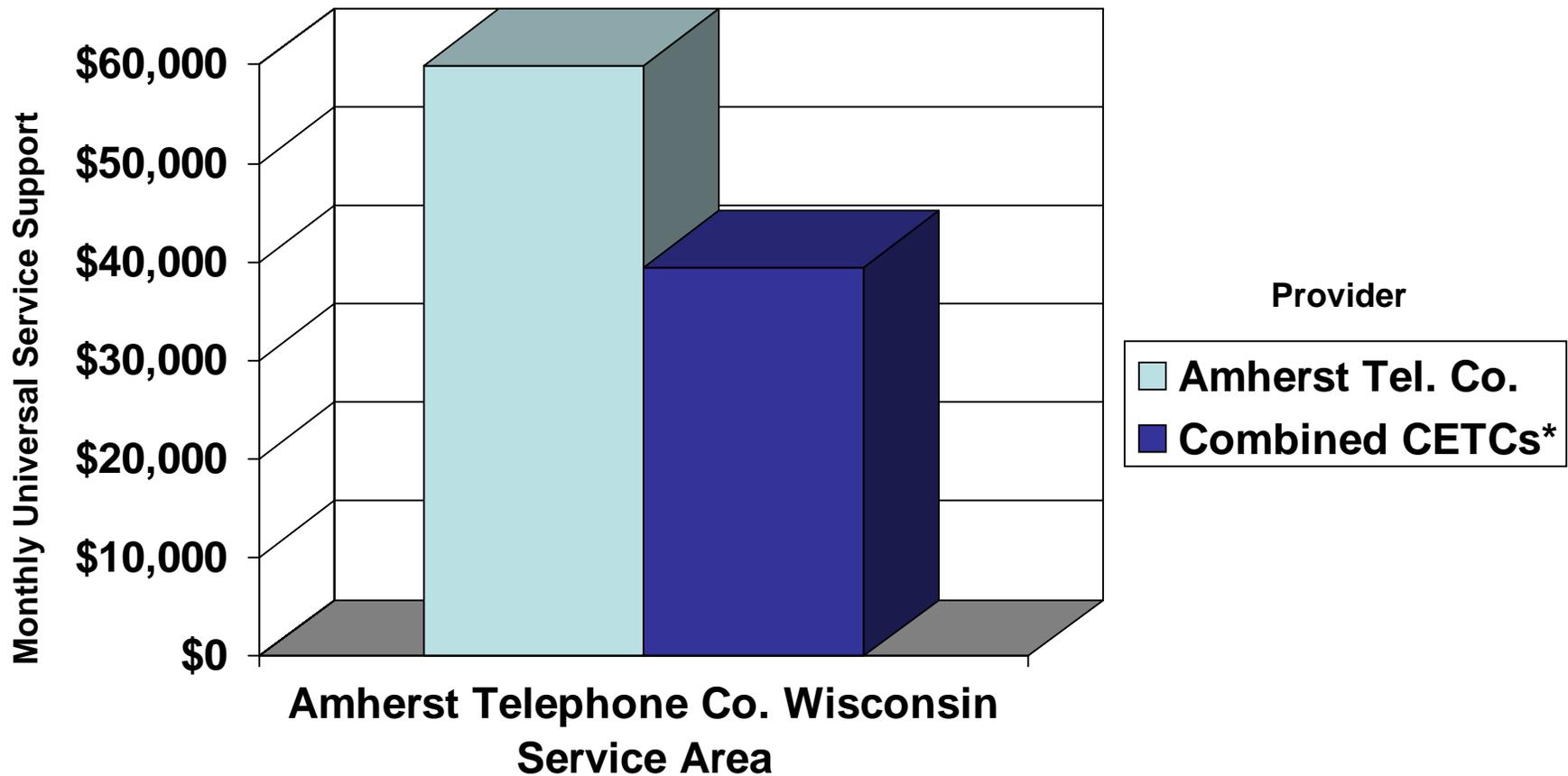
# Wisconsin (Cont'd)



\*There are seven Competitive Eligible Telecommunications Carriers in the Frontier Wisconsin service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

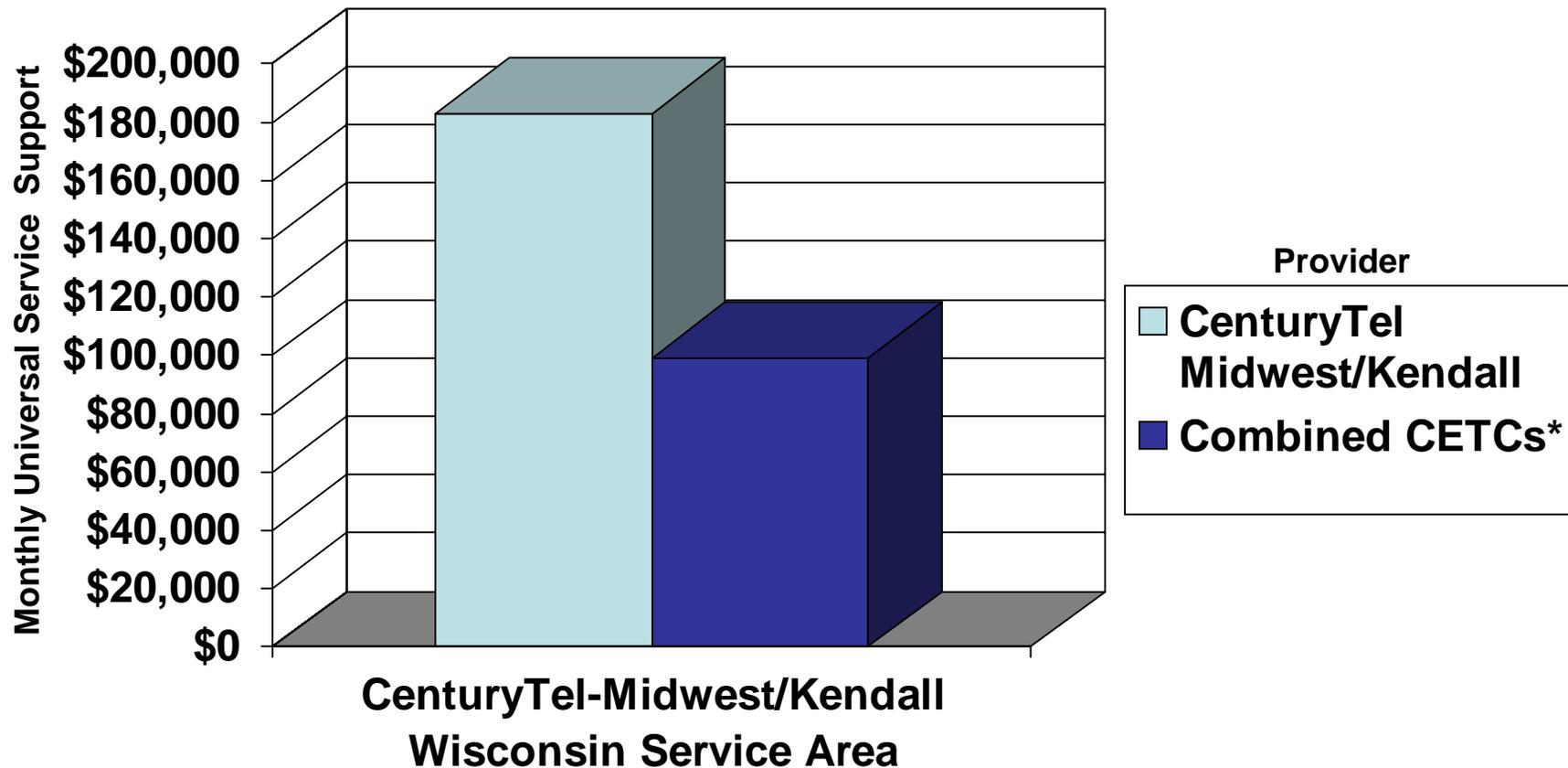
# Wisconsin Cont'd



\*There are six Competitive Eligible Telecommunications Carriers in the Amherst Telephone Co. Wisconsin service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

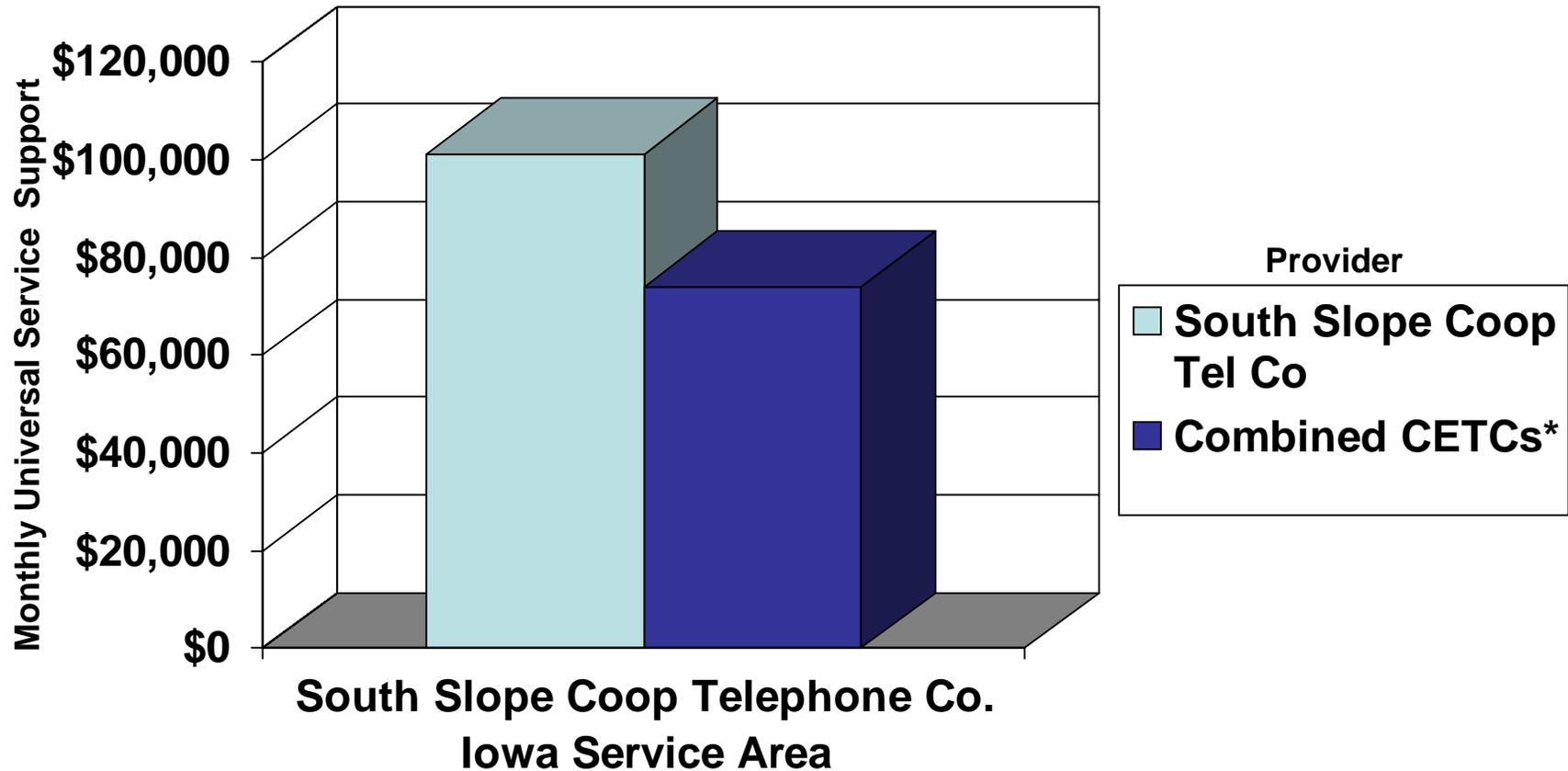
# Wisconsin (Cont'd)



\*There are seven Competitive Eligible Telecommunications Carriers in the CenturyTel Midwest/Kendall Wisconsin service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

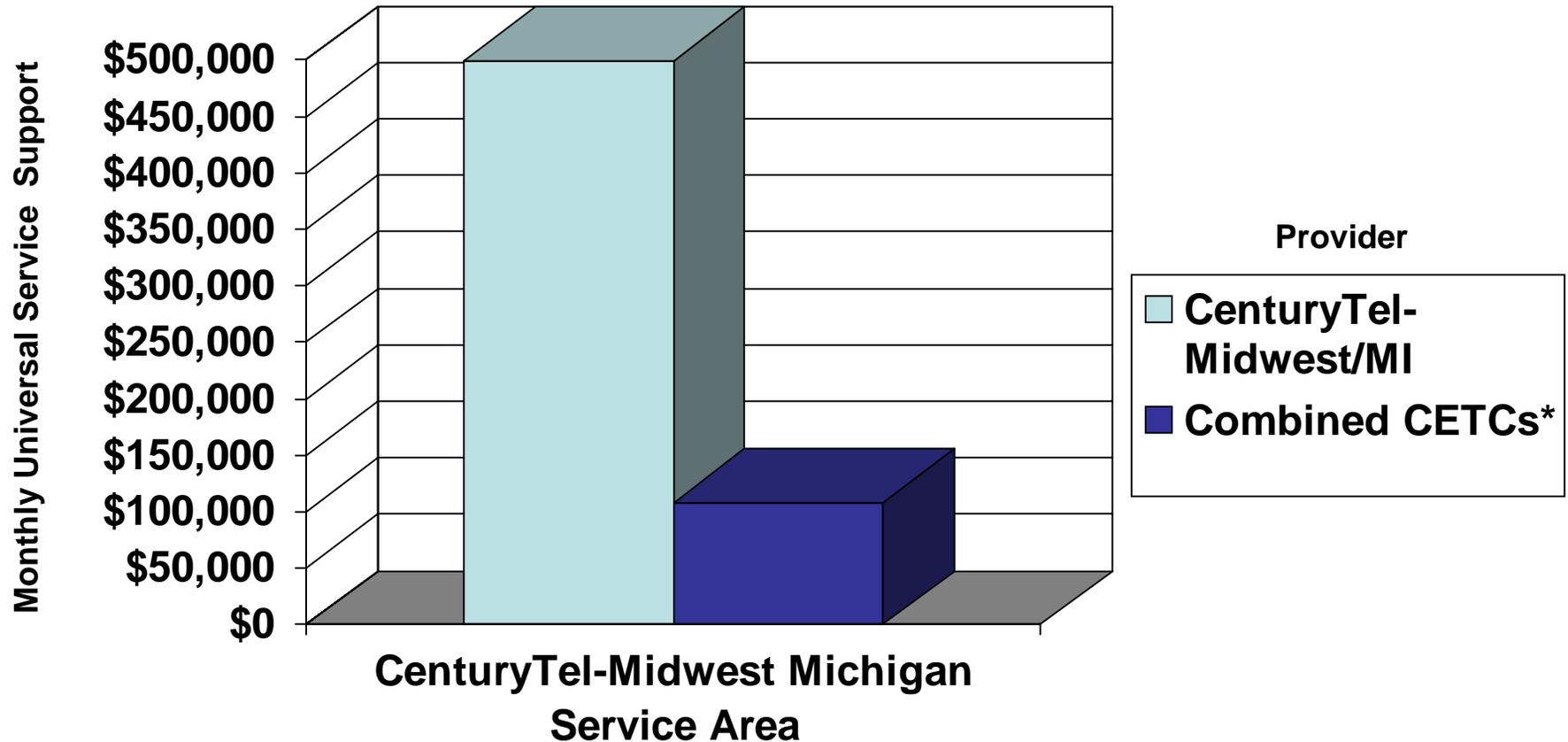
# Iowa



\*There are seven Competitive Eligible Telecommunications Carriers in the South Slope Coop Telephone Co. Iowa service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

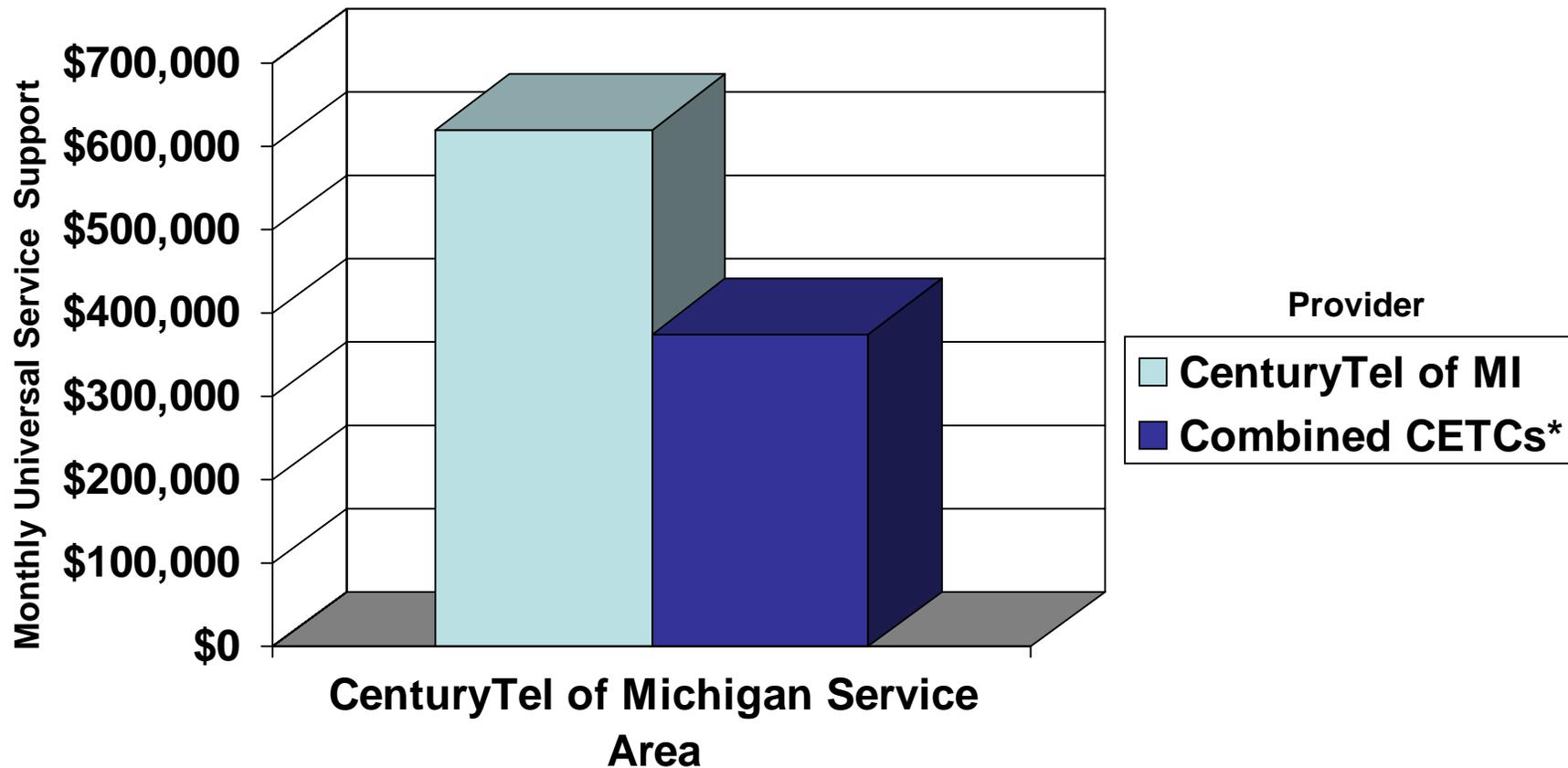
# Michigan



\*There are five Competitive Eligible Telecommunications Carriers in the CenturyTel of Midwest Michigan service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

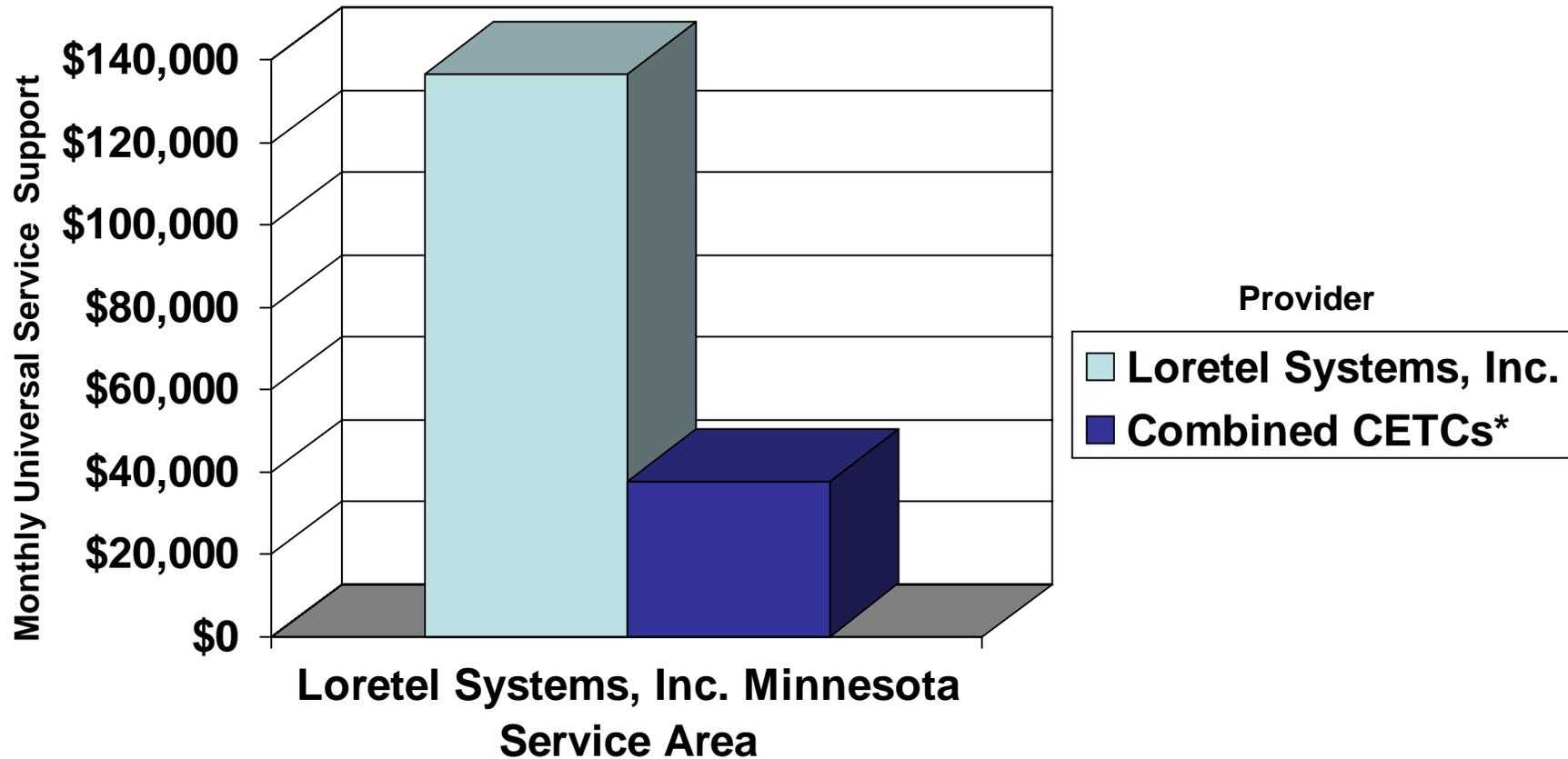
# Michigan (Cont'd)



\*There are five Competitive Eligible Telecommunications Carriers in the CenturyTel of Michigan service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

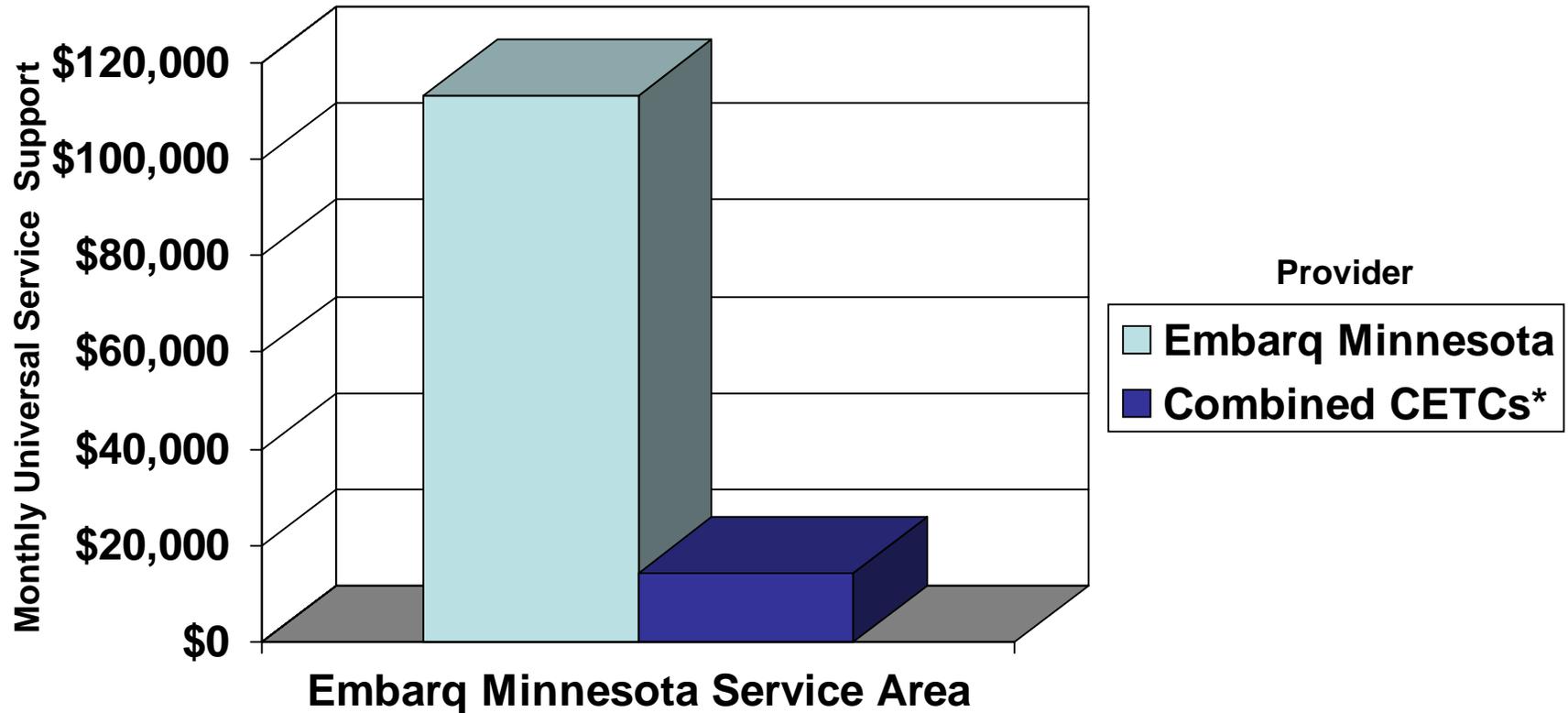
# Minnesota



\*There are four Competitive Eligible Telecommunications Carriers in the Loretel Systems, Inc. Minnesota service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

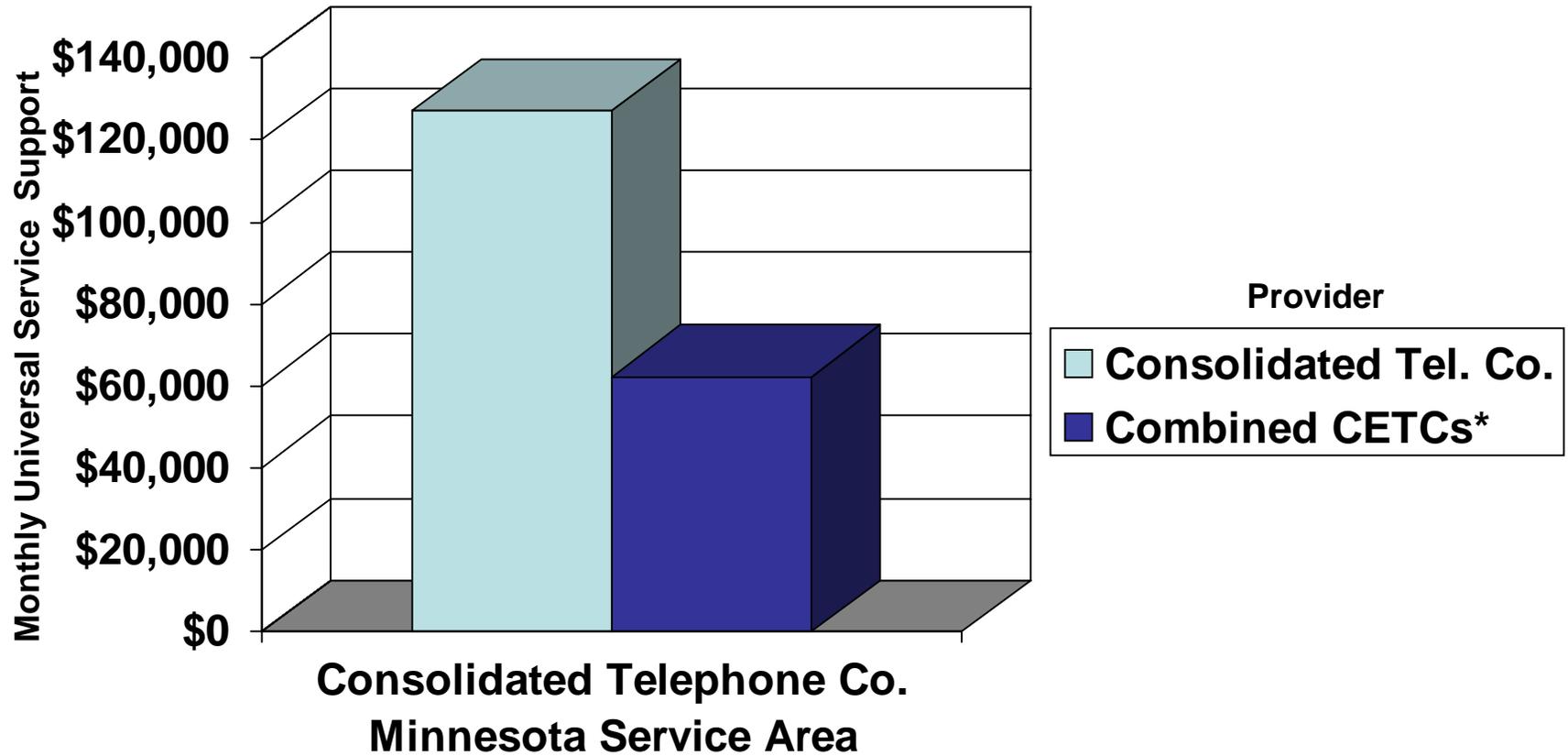
# Minnesota (Cont'd)



\*There are two Competitive Eligible Telecommunications Carriers in the Embarq Minnesota service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

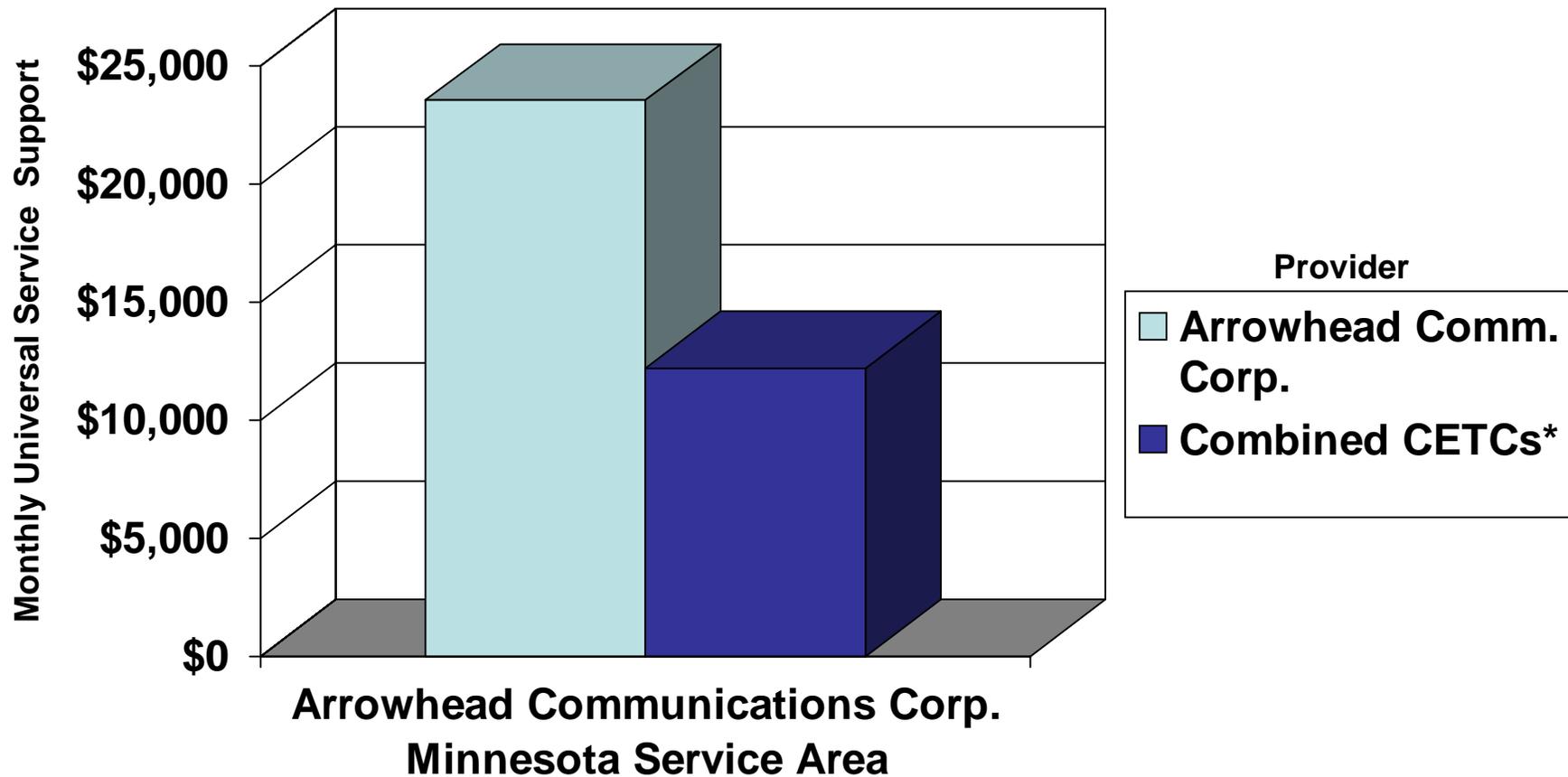
# Minnesota (Cont'd)



\*There are three Competitive Eligible Telecommunications Carriers in the Consolidated Telephone Co. Minnesota service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

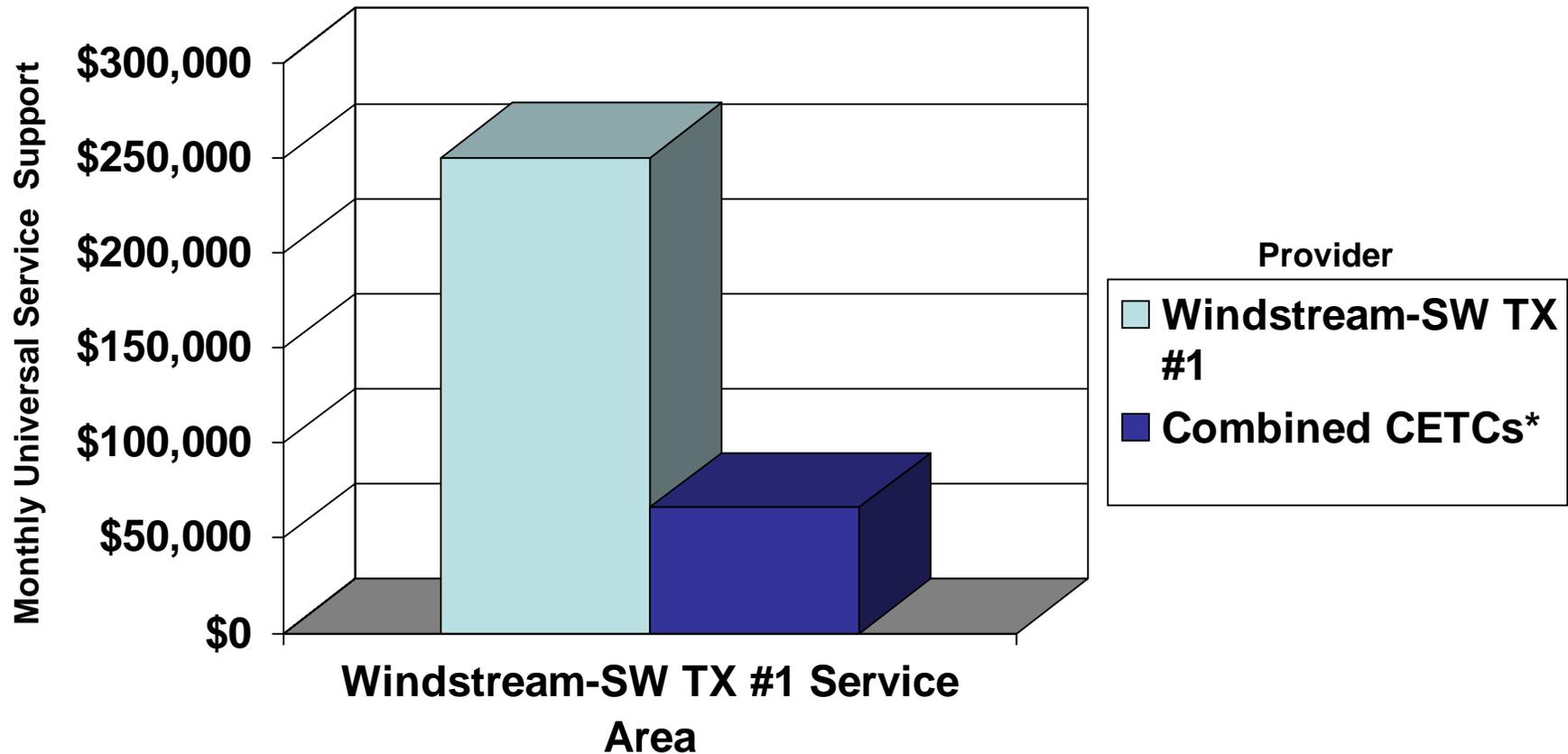
# Minnesota (Cont'd)



\*There are three Competitive Eligible Telecommunications Carriers in the Arrowhead Communications Corp. Minnesota service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

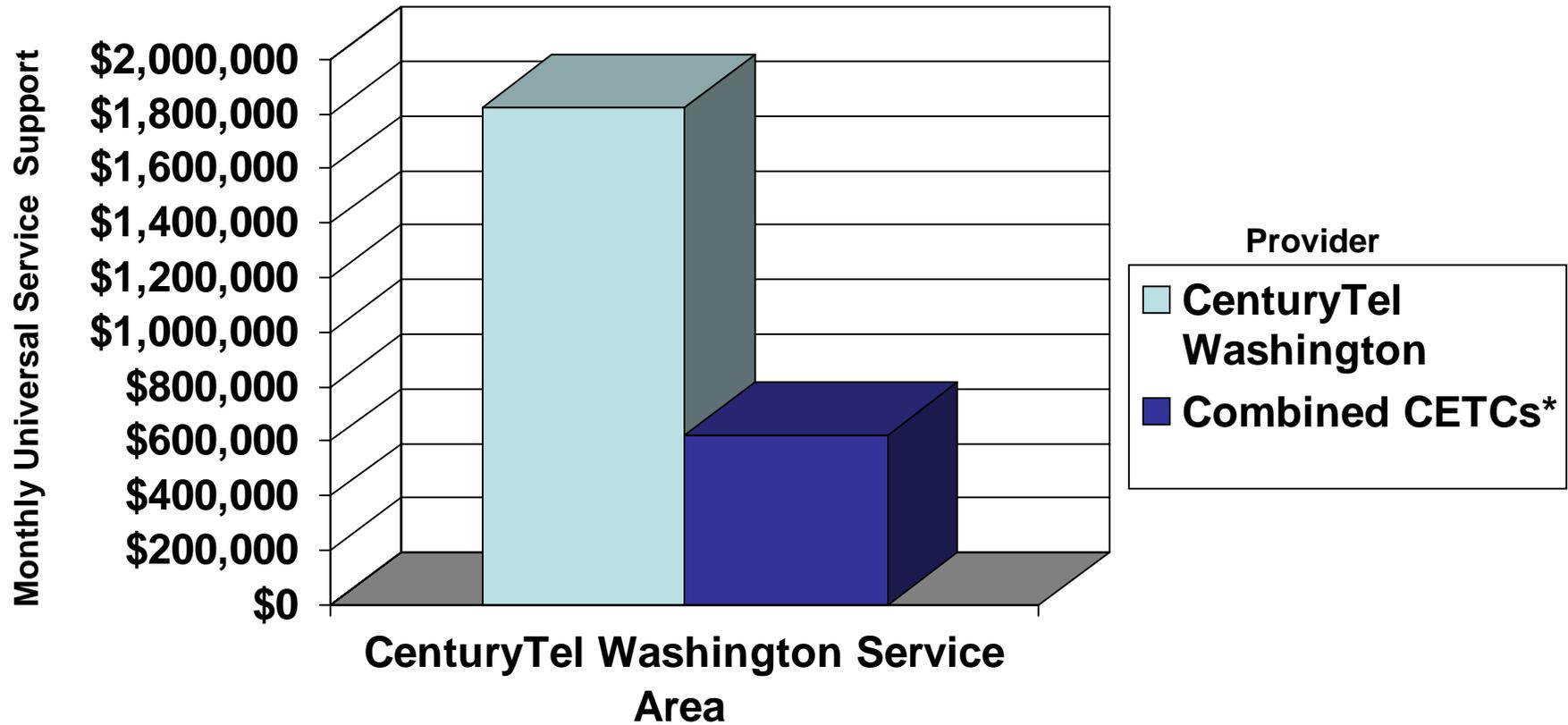
# Texas



\*There are six Competitive Eligible Telecommunications Carriers in the Windstream – SW TX #1 service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

# Washington



\*There are six Competitive Eligible Telecommunications Carriers in the CenturyTel Washington service area

Source: Universal Service Administrative Company, Second Quarter 2007 Projections ([www.usac.org](http://www.usac.org))

02001218

# Yellowstone County



MASTER FILE  
Computer Indexed

**EMERGENCY & GENERAL SERVICES**  
P.O. Box 35004  
Billings, MT 59107-5004

RECEIVED BY

2007 OCT 2 A 9:51  
(406) 256-2775  
Fax (406) 256-6947  
PUBLIC SERVICE  
COMMISSION

October 1, 2007

Montana Public Service Commission  
1701 Prospect Avenue  
PO Box 202601  
Helena, MT 59620-2601

Dear Commission Members:

Chinook Wireless is a viable telecommunications carrier in the Billings area and throughout Montana. I understand the company is seeking eligibility for funding from the Universal Service Fund (USF). My office would support any effort for Chinook to deploy equipment that would make cellular voice and data calls, including 911 calls, available to the public throughout the rural areas of Yellowstone County as well as the State of Montana. Being in public safety for the last 32 years in Yellowstone County, I am well aware of the need for rural residents to be able to access telecommunications services, especially in an emergency.

I would like to indicate my support for the Commission's designation of Chinook Wireless as an Eligible Telecommunications Carrier (ETC) so they may have access to the USF to expand their cellular services. I believe this would be in the public's best interest.

Sincerely Yours,

Handwritten signature of James L. Kraft in cursive.

James L. Kraft, Director

Cc: Chinook Wireless, Michael Strand

0200712110



MASTERFILE  
Computer Indexed  
RECEIVED BY  
2000 SEP 24 A 9:56  
PUBLIC SERVICE  
COMMISSION

September 20, 2007

Montana Public Service Commission  
1701 Prospect Ave.  
PO Box 202601  
Helena, MT 59620-2601

SEP 24 2007  
MONT. P. S. COMMISSION

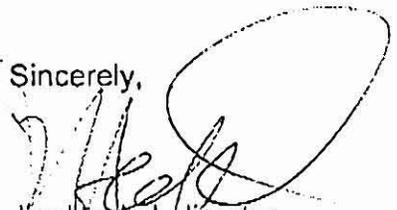
Dear Commissioners:

As director of the Great Falls Public Library, I would support the Commission's designation of Chinook Wireless as an Eligible Telecommunications Carrier and would support their use of funding from the Universal Service Fund to expand the availability of cellular services, including 911 services.

Chinook has supplied our bookmobile with free wireless connections for a number of years as a public service.

Thank you.

Sincerely,

  
Jim Heckel, director  
Great Falls Public Library  
301-2nd Ave. North  
Great Falls, MT 59401  
phone: 406-453-9706, x221;  
jheckel@mtlib.org





Linda Williams, Coordinator  
Phone (406) 622-3751  
Home (406) 622-3653

# Chouteau County

MASTER FILE  
Computer Index



RECEIVED BY  
2008 SEP 24 A 9:56

P.O. Box 1204  
Fort Benton, MT 59442

September 21, 2007 PUBLIC SERVICE  
COMMISSION

FILED

SEP 24 2007

MONT. P. S. COMMISSION

Montana Public Service Commission  
1701 Prospect Avenue  
PO Box 202601  
Helena, MT 59620

To whom it may concern,

Reference: Application of Chinook Wireless for ETC Designation in Docket D2007.2.18

On behalf of the Chouteau County Disaster and Emergency Services, I would simply like to indicate my support for the Commission's designation of Chinook Wireless as an Eligible Telecommunication Carrier or ETC.

Chouteau County is a very rural county with low population. Because of that, there is limited cell towers and financial incentive for cell phone companies to provide service to the area. The county recently became Phase II enhanced 9-1-1 compliant. This means that we can identify caller location from cell phone calls for emergency purposes. It is extremely important to increase the areas of the county that have cell phone coverage.

I would like to see them use the funding from the Universal Service Fund to expand the availability of affordable cellular telephone services, including mobile 911 services. I believe that doing so would be in the public interest.

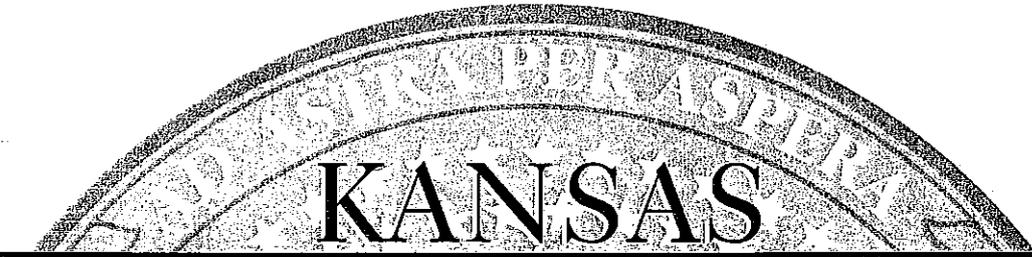
Thank you for your consideration.

Sincerely,

Linda Williams  
Chouteau County DES Coordinator

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JUN 12 2007



KANSAS

OFFICE OF THE GOVERNOR

KATHLEEN SEBELIUS, GOVERNOR

June 8, 2007

The Honorable Deborah Taylor Tate  
Commissioner  
Federal Communications Commission  
445 12 Street, SW  
Washington, DC 20554

Commissioner Tate:

It is my understanding that the Federal-State Joint Board may recommend that the FCC impose a "cap" on Universal Service Funds (USF) which may stay in effect for two years. In my state of Kansas, with a rural population separated by large distances; it is hard to over-estimate the value of the partnership between the wireless carriers and the Universal Service Fund. Without USP support, I can safely say that many rural communities in Kansas would not have the necessary infrastructure and wireless coverage they have today.

As you are aware, reliable wireless service is a vital part of today's telecommunications landscape. It allows Kansas farmers to stay apprised of the markets; it provides peace of mind to parents whose children travel on our rural roadways; and it gives cottage businesses the opportunity to compete in the global marketplace.

Rural telecommunication service has also provided for the delivery of healthcare to rural Kansans who live hundreds of miles from needed specialty care. The Kansas University Center for TeleMedicine & TeleHealth of the Kansas University Medical Center began delivery of healthcare to the rural areas of Kansas in 1991 with a single connection to a community in western Kansas. Since that time, the telehealth network has grown to more than 60 sites across the state and has delivered over 13,000 clinical consultations. This service has allowed Kansas residents to receive specialized medical care and follow-up in the comfort of their home communities.

I recognize that the Joint Board is struggling with pressures to contain the costs of the Universal Service Fund, especially the rapidly growing funding of the competitive Eligible Telecommunications Carriers (CETCs). I also appreciate the need for proper stewardship of the universal service mechanism. I am, however, very concerned that an approach which would only cap CETCs could have a detrimental effect on Kansas' rural consumers. I also question the fairness of burdening the rural population with the full brunt of any cap.

Capitol, 300 SW 10th Ave., Ste. 212S, Topeka, KS 66612-1590

Voice 785-296-3232

Fax 785-296-7973

[www.ks.gov/governor.org](http://www.ks.gov/governor.org)

[governor@state.ks.us](mailto:governor@state.ks.us)

June 8, 2007

Page 2

In light of the possible health, public safety, and economic consequences to rural consumers as a result of this cap; I urge you to pursue a long-term solution that will hold all recipients to similar standards and accountability and continue to provide the best service possible to all Americans.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathleen Sebelius". The signature is written in a cursive style with a large initial "K".

Kathleen Sebelius, Governor

kgs: sa

cc: Chairman Kevin J. Martin, FCC  
Commissioner Michael J. Copps, FCC  
Commssioner Jonathan S. Adelstein, FCC  
Commissioner Robert M. McDowell, FCC  
Senator Daniel Inouye  
Senator Ted Stevens

# Commonwealth of Kentucky

HOUSE OF REPRESENTATIVES

JODY RICHARDS  
20th Legislative District  
817 Culpeper Street  
Bowling Green Kentucky 42103-0902



SPEAKER OF THE HOUSE

STATE CAPITOL  
Room 309  
Frankfort, Kentucky 40601  
(502) 564-3366

June 5, 2007

Chairman Kevin J. Martin  
Federal Communications Commission  
Room 8-B201  
445 12th Street SW  
Washington, DC 20554

Re: Proposed Cap on universal service support

Dear Chairman Martin:

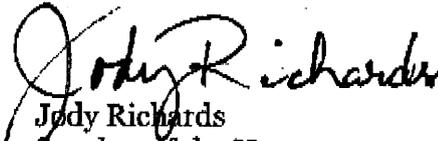
As you know, the Federal-State Joint Board on Universal Service has recommended that the Federal Communications Commission adopt an interim cap on high-cost universal service support for competitive eligible telecommunications carriers. As the Commission considers this proposed cap, I urge you to proceed cautiously to ensure that rural residents in need of expanded access to wireless communications are not adversely affected.

One of the important goals of Universal Service, as mandated by the 1996 Act, is to increase access to advanced telecommunications services to rural consumers at rates comparable to those paid in urban areas. This goal is particularly important for Kentucky where many citizens still reside in rural areas with limited access to state-of-the art wireless and broadband services. Expanding access to high quality and affordable wireless technology is essential to the economic development of our rural areas, as well as safety and mobility of rural residents. Without necessary resources for the expansion and upgrade of rural wireless networks, rural consumers will not be able to enjoy these benefits at the level they deserve.

While curbing the rapid growth of the Universal Service fund in order to reduce costs to customers is a legitimate goal, I am concerned that accomplishing this goal through the proposed cap may unfairly burden rural residents. Any cap on universal service support to particular carriers must be carefully evaluated for its impact on rural areas of the country still waiting to enjoy the level of advanced telecommunications now taken for granted by most Americans. I also urge you to take an approach to addressing the rapid growth of the fund which is fair and equitable to all telecommunications providers without regard to the underlying technology. I believe that you will be able to identify proposals which are both competitively neutral and promote the continued expansion and improvement of much needed services in rural areas.

Please contact my office if you have any questions about this matter.

Sincerely,



Jody Richards  
Speaker of the House



**Stanley E. Reed**

*President*

June 5, 2007

Chairman Kevin Martin  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

Dear Chairman Martin:

The Arkansas Farm Bureau Federation with over 230,000 member families is the state's largest advocacy organization for rural Arkansans. As such, we feel it important to our membership that we provide input into the proposal by the Federal-State Joint Review Board of the Federal Communications Commission (FCC) that would cap subsidies to wireless carriers from the Universal Service Fund (USF).

A high percentage of our members are farmers and ranchers who rely on the availability and convenience of wireless communications to conduct their business. Continued development of infrastructure for wireless communications is extremely important to our members who operate in rural areas which are naturally higher cost service areas. It is our understanding that infrastructure development in these areas is the primary purpose for which the USF was established.

We understand the need for the FCC to reform the entire USF program but we strongly support continuation of the USF to maintain affordable communication services in rural America, in general, and rural Arkansas specifically. We do not feel that capping payments to wireless service providers while determining reform measures is the answer, especially when one considers the fact that wireless consumers will continue to contribute to the fund.

Agriculture is our state's largest industry. Impacting the ability of our state's agriculture producers to have access to the latest wireless network, and the ever-changing applications that come with that technology, would hamper our state's most significant economic engine.

Again, please note our strong opposition to the proposal to cap payments from the USF for wireless service providers. We encourage the FCC not to implement the proposed caps on the wireless industry. I appreciate the opportunity to express the concerns of our organization on this most important issue.

Sincerely,

A handwritten signature in black ink that reads "Stanley E. Reed". The signature is written in a cursive style with a large, stylized "S" and "R".

Stanley E. Reed  
President

cc: Senator Blanche Lincoln  
Senator Mark Pryor



1211 NW Bypass  
PO Box 3387  
Great Falls, MT 59403

406-727-9742  
Fax: 406-590-3295

---

June 15, 2007

Senator John E. Sununu  
111 Russell Senate Office Building  
Washington, DC 20510

Dear Senator John E. Sununu:

As you recall, I recently testified before the Committee on Commerce, Science and Transportation. Thank you for the opportunity to share with you my thoughts on Universal Service reform and the Joint Board's recommended cap in particular. I have communicated the details of my testimony and my interaction with the Committee with our managers and employees, who live and work in Montana and Wyoming, and with our customers via our web site. I am pleased to tell you they are very gratified to know that the Senate is interested in their needs and that their local, Montana-based wireless carrier was given an opportunity to speak on their behalf.

I would like to take this opportunity also to address a question that Senator Stevens raised in his opening remarks and again when questioning some of the other witnesses on the panel. The question was whether paying competitive carriers (CETCs) "identical support" – that is, the same amount that is paid to the incumbent local exchange carriers (LECs) per line – represents an inappropriate "windfall" for the wireless companies.

My perspective is that it is not. If the government gives the incumbent ILEC \$1, then it should give the CETC \$1; that is competitive neutrality. Anything else amounts to favoring one technology or type of competitor over another. Specifically, if you support the highest cost competitor in a marketplace with greater subsidization, are you not favoring them? Are you not accommodating their inefficiency and interfering with the workings of the free market?

Furthermore, wireless is required and accountable to use the \$1 to expand its network. If it happens that the wireless company can do more with that \$1, for example build two cell sites instead of one, that is a good thing; it benefits consumers and avoids waste of public funds. Every penny of the dollar will be spent to further the public interest, as intended by Congress in the Telecommunications Act of 1996 and as mandated of the FCC in its formative statute. In fact, when the dollar goes to rural construction investment by the low-cost competitor, more of the dollar goes to serving the public interest than if the dollar were given to an incumbent ILEC, many of whom are guaranteed a very comfortable rate of return which they can send to their investors. Further, if identical support results in pressure on the incumbent ILEC to maximize its efficiency or even to improve or change its technology, those improvements will benefit consumers.

The benefits of identical support, regardless of how the level of support is determined, include resulting fairness, public service, and efficiency: (a) the government will have done its job of ensuring competitive neutrality, i.e., "I gave you each \$1; I did not arbitrarily decide that one of you would receive that funding but not the other," (b) the CETC will have done its job by investing that \$1 in its network as required by law, benefiting the customer and again with clear accountability because of the detailed accountings

required by state government, and (c) the marketplace will have done its job by then pressuring all competitors to be as efficient as possible, even to the point of evolving their businesses and technologies if necessary, to meet the needs of rural consumers. Perfect!

If the cap is imposed, it would reach back to 2006 levels, derailing business plans based on reasonable expectations. Chinook Wireless, as one example, will be able to build up to 20 fewer sites in rural Montana than it would be able to build without the cap. Fully 1/3 of its expected 2008 buildout funding will be foregone simply because efficiency in the fund has not yet been improved by appropriate means such as, for example, requiring portability of support, or ensuring that wireline carriers are accountable for their alleged costs to an organization not funded by LECs. We certainly hope a cap will not be imposed; the absence of a cap would help motivate the FCC to act very quickly to improve efficiencies in the underlying regulatory regime.

As Senator McCaskill noted, all carriers are not going to join hands and sing "Kumbaya." The intended beneficiary of the Universal Service Fund is the customer, as a result of the benefits of competition, not the carriers. The Act intends us to compete with each other, for the benefit of customers. But the drafters of the Act intended that as new carriers started to obtain funds, previous carriers who lost customers to the new ones would give up some funding. The pain of fund reduction should be inflicted equitably on all funding recipients, when we lose customers, not arbitrarily solely on carriers whose services are the most useful for rural customers.

You mentioned concerns for the welfare of local employers. Many wireless carriers are local, and our offices employ many local residents in rural states. Conversely, many LECs are now multi-state conglomerates. Consider the mergers that have been reuniting the Bell System. It is inaccurate to generalize that CETC's are not local and ILECs are. Any effort by LECs to assert that all or even most wireless companies are somehow less local, is simply not true.

I hope this adds a useful perspective for your consideration of the issues. Thank you again for the opportunity to testify before you.

Sincerely,  
  
Jonathan D. Foxman  
President and CEO

cc: Committee Members

**Testimony of  
Jonathan D. Foxman  
President and CEO  
Chinook Wireless**

**Before the  
United States Senate Committee  
On Commerce, Science and Transportation  
June 12, 2007**

**“Fair and Equitable Universal Service Reform”**

Chairman Inouye, Ranking Member Stevens, and Members of the Committee, my name is Jonathan Foxman and I am the President and CEO of Chinook Wireless. I thank you for this opportunity to be here to discuss the universal service system.

Chinook Wireless opposes the cap recommended by the Joint Board, and in this Testimony provides specific proposals for rapid and actual reform of the universal service system.

**I. Chinook Wireless – Background**

Our company provides wireless services to customers throughout Montana and northern Wyoming, and recently acquired licenses to also provide these services in central and southern Wyoming and western North Dakota and South Dakota.

We are a fully capable wireless communications company with our own network of cell sites and switching core, call center, and retail stores, all in Montana and Wyoming, representing a variety of high quality jobs in the markets we serve. Over the last two years, we have made a significant investment to upgrade and greatly expand our network and systems to bring state-of-the-art wireless voice and data communications to much of Montana. We now provide broadband wireless voice and data, including access to the Internet. We believe we are answering the urgent need for better telecommunications services and public safety in rural America. With universal service support, we could do so much more to answer what is truly a desperate need.

The fundamental limitation to addressing this need is that the high cost of deploying cell sites in these areas, while so important for public safety and other reasons, cannot be paid back by merely a handful of customers.

## **II. Universal Service Funds Are Critical For Extending Wireless Service to Rural Areas**

To date, unlike any wireline carrier we know, we have built our business in rural America without subsidies of any kind. We have built our business entirely with private investment and loans. We do not have a guaranteed rate of return, we have not received government funding, and we do not have an embedded subscriber base. As a result, we are what I would term, “business case limited. We have to build and operate as efficiently as possible. Our lenders and investors set very finite limits, and they will not fund infrastructure without a business case to support it. This constrains how much coverage we can provide in rural and remote areas where the need is greatest. Yet, citizens who live in and travel through these areas both deserve and demand wireless service, particularly for public safety purposes. We have had people beg us to build cell sites on their farms so they can have decent phone service. We have also had people tell us that they cannot understand why there is no wireless service on some of the highways they frequently travel. We want to serve these customers. We recognize the need, but we simply cannot meet it with private funding alone. Therefore, we have asked the Montana Public Utility Commission for authority to be eligible for universal service fund (USF) support. This support would greatly expand our company’s ability to build systems to serve areas that we otherwise could not reach. We urge Congress and continue to urge the FCC to recognize that there is a critical need in rural America for improved telecommunications services, particularly the public safety benefits that only wireless service can provide.

## **III. The Recommended Cap Would Inhibit Competition, Contravene the Intent of Drafters of the 1996 Act, And Would Not Repair Actual Flaws In The Universal Service System**

### **A. Capping Funds Only To Competitive Providers Impairs The Competitive Benefits For Consumers Envisioned By Drafters of the 1996 Act.**

We strongly oppose the universal service cap recommended by the Joint Board. This proposal would limit funding for “competitive carriers” (CETCs), a group that includes all wireless providers in the universal service system, but not incumbent landline carriers in the same rural areas. Any action taken should be balanced and applied equitably to all carriers, the older incumbents as well as their newer competitors.

Among “the four critical goals set forth for the new universal service program” the FCC identified in implementing the Telecommunications Act of 1996, was the goal “that the benefits of competition be brought to as many consumers as possible.”<sup>1/</sup> The cap proposed by the Joint Board in the *Recommended Decision* would directly conflict with this goal of bringing the benefits of competition to consumers. That would be

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<sup>1/</sup> *Federal-State Joint Board on Universal Service, Fourth Order on Reconsideration*, 13 FCC Rcd 5318, 5321-22, para. 2 (1997) (“*Fourth Reconsideration Order*”).

irresponsible. Where competition exists, it has dramatically driven down service prices and increased quality of service.<sup>2/</sup> Universal service funding to competitors *as well as* incumbent carriers *allows* that beneficial competition to take place.

B. The 1996 Act Was Intended To Increase Funding to Competitive Carriers – But It Was Also Expected To Result In Reduced Funding To Carriers That Were Less Efficient And Lost Customers, Whether They Proved To Be Incumbents Or Newer Carriers.

We understand the alarm over increases in the Fund, but those increases are caused by permitting surpluses and inefficiencies to remain in the program. Increased payouts to competitors were foreseen by the drafters of the 1996 legislation.<sup>3/</sup> Growth in the Fund was viewed as necessary in order to bring new technologies into rural America without materially harming rural ILECs in the short-term.<sup>4/</sup> What legislators did not anticipate<sup>5/</sup>

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<sup>2/</sup> As an example of consumer benefits from competition: consider the wireless industry, which became highly competitive after the introduction of spectrum auctions in 1996. From 1995 - 2005, the average cost per minute for wireless service dropped from 43 cents/minute to 7 cents/minute. See *Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993—Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Eleventh Report*, 21 FCC Rcd 10947 (2006), App. A, Table 10. Factoring in the current 11.7% contribution factor, the cost of a wireless call for 1995 is calculated at 7.8 cents/minute, as compared to the 43 cents of 10 years earlier. In other words, even including customers' contributions to the universal service fund, competitive forces have driven down the total amounts they pay for wireless service, even as those customers make more and longer calls, increasing 119 to 740 average wireless minutes per month over the same 10-year period. *Id.*

<sup>3/</sup> If concern over Fund size relates to carrier receipts, consider the fact that wireline carriers still receive an enormous share of universal service funding. In the state of Montana, in 2006, according to the Joint Board, incumbent wireline carriers received \$69.7 million in funding, and competitive carriers such as wireless received \$7.2 million in funding. See *Federal-State Joint Board on Universal Service, Universal Service Monitoring Report*, Table 7.2 (2006), attached hereto ("Monitoring Report Attachment"). Incumbent wireline carriers still receive more than three times as much funding as their wireless and wireline competitors, and in some states, they receive 100% of universal service funding.

<sup>4/</sup> In fact, the FCC adopted a five-year transition period during which rural ILECs would not lose support when CETCs entered. See *Federal-State Joint Board on Universal Service, Fourteenth Report and Order, Twenty-second Order on Reconsideration, and Further Notice of Proposed Rulemaking*, 16 FCC Rcd 11244, 11294-95 (2001).

<sup>5/</sup> Joint Board Member Billy Jack Gregg, in testimony before the Communications Subcommittee of this Committee, described legislative intent and expectations in 1996 as follows:

It should not be surprising that funding for competitive ETCs has increased. After all, before the advent of competition incumbents received 100% of high cost funding. It was expected that as competitors gained ETC status and won customers in high cost areas, their high cost funding would rise. What is surprising is that incumbent support has not dropped by an amount proportionate to the increase in competitive ETC funding. . . .

Not only was the introduction of competition expected to lower prices of telecommunications services, it was supposed to lower the cost of universal service as providers competed for the universal service subsidy.

Testimony of Billy Jack Gregg before Communications Subcommittee, Senate Commerce, Science and Transportation Committee, at 6-7 (March 1, 2007), *referencing* House Report No. 104-204 (I) (1995),

was that after competitors entered rural markets, there would be a failure of will by policymakers to concomitantly reduce funding to carriers who lost customers or used funds inefficiently.<sup>6/</sup> We understand that regulatory decisions in these matters cannot be universally popular with all industry participants, regardless of the choices made – but consumers, not carriers, are the intended beneficiaries of universal service.

For the short term at least, we think decreasing phone service rates<sup>7/</sup> will ensure customer bills do not increase overall, despite increases in the Fund.<sup>8/</sup> But we are concerned that imposition of the cap might permit the Commission to again avoid actual reform of the universal service system. So-called temporary measures often stretch into years of prolonged renewals.<sup>9/</sup>

Rather than risk infinite reduction of rural wireless services, we urge Congress to strongly suggest that the Commission rapidly and finally repair the Universal Service system, keeping in mind the goals of reducing inefficiencies and facilitating true competition, as mandated by the 1996 Act. It is crucial to level the playing field, which will improve prices, service quality and choice for consumers, rather than permitting cuts in funding only for newer market entrants.

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Arnold & Porter Legislative History P.L. 104-104 (A&P) at 60; Senate Report No. 104-23, A&P at 254 (1995).

<sup>6/</sup> In 2006, the FCC extended indefinitely the transition period during which rural ILECs would not lose support, without enacting any reforms. *Federal-State Joint Board on Universal Service, Order*, 21 FCC Red 5514 (2006).

<sup>7/</sup> Consumer Price Index data shows that telephone service costs are decreasing compared to other services. From 1995 through 2005, the annual rate of change in the Consumer Price Index (“CPI”) for all goods and services was 2.5%, while the annual rate of change for all telephone services was -0.2%. In 2005, CPI for all goods and services rose 3.4%, while the increase for all telephone services was only 0.4%. *See* Monitoring Report Attachment.

<sup>8/</sup> The Joint Board decision did not cite any evidence that consumers would be harmed absent a cap. And we believe any increase in customer bills from increasing contributions will be offset by declining rates. According to FCC analysis, average monthly rates for wireline and wireless services have decreased, for wireless as much as 20% to 30% *per year*, even when the universal service charge is taken into account. Average monthly combined charges for local and interstate/international long distance telephone service, approximately \$42 in 1995, declined to approximately \$28 in 2004 (the most recent year for which average bills can be calculated). FCC, *Trends in Telephone Service*, Table 3.3 (Feb. 2007) (“*Trends Report*”). Average monthly charges for residential local service taken from *Trends Report* at Table 13.3. Average monthly charges for residential interstate/international long distance service calculated by multiplying average revenue per minute by average monthly interstate and international long distance minutes for the same year. *See Trends Report* at Tables 13.4, 14.2. Wireless prices (reflected by average cost per minute) have dropped as much as 20% to 30% *per year* between 1998 and 2005. The overall decline in revenues per minute for wireless services from 1993 through 2005 was 84.1%. Average wireless service monthly bills fell by 18.7% from 1993 - 2005. *See Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993—Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Eleventh Report*, 21 FCC Rcd 10947 (2006), App. A, Table 10.

<sup>9/</sup> *See, e.g.*, nn. 4 and 6, *supra*.

The FCC has scrutinized universal service reform for years, repeatedly requesting comments. The proposed cap would only permit maintenance of this cycle. Instead, it is time to fix the system. The Commission could adopt meaningful reforms within a year, without using a cap that would injure rural citizens' access to wireless service. The FCC implemented spectrum auctions within a year, and drafted and released its Local Competition Orders under the '96 Act within a single year as well. This is no different – just another complex undertaking that the agency certainly *does* have the institutional expertise and resources to accomplish.

#### **IV. Actual Flaws Should Be Repaired, In Order To Reduce Fund Size More Equitably.**

##### **A. Solve the “Cost-Plus” Problem.**

Today, some carriers receive support on a “the more you spend, the more you get” basis, termed “cost plus.” There is no scrutiny of whether expenditures are efficient or appropriate. In addition, the current system guarantees a comfortable rate of return. These factors are incentives to *inefficiency*, motivating more spending on overhead and marketing, rather than finding the most efficient method of delivering service to a customer.

If the FCC would modify or eliminate “cost plus” support, that will reduce the Fund's size and free up resources that instead can be invested in broadband or other technologies – because competition will help discourage inefficiencies that regulators cannot effectively excise. States including Montana do not allow CETCs to serve only low-cost areas. Therefore, we must be efficient in building and operating our network. Support for all carriers should be based on the cost of providing an efficient network, in order that any carrier that wants to make additional expenditures will do so only out of its own pocket, not the public purse.

##### **B. Make Support Fully Portable.**

Portable support means support funds that travel with a customer: the carrier that retains a customer, receives the support for serving that customer's line. And logically, when a carrier loses a customer, the support should stop arriving. This approach was upheld by the Fifth Circuit Court of Appeals in the case of *Alenco Communications, Inc. v. FCC*:

...[T]he [FCC's universal service] order provides that the universal service subsidy be portable so that it moves with the customer, rather than stay with the incumbent LEC . . . The purpose of universal service is to benefit the customer, not the carrier. “Sufficient” funding of the customer's right to adequate telephone service can be achieved regardless of which carrier ultimately receives the subsidy.<sup>10</sup>

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<sup>10</sup> / *Alenco Communications, Inc. v. FCC*, 201 F.3d 608, 615 & 621 (5th Cir. 2000).

Yet, inexplicably, this course was reversed and now, the cost of USF subsidies that are still being paid to wireline carriers for customers those carriers have lost (lines that were built long ago and paid for many times over) is over \$300 million per year. Wireless carriers, in contrast, lose support when we lose customers. The Commission can reduce waste in the system by requiring that a carrier no longer serving a customer give up its claim to funds initially relating to that connection.

#### **IV. Conclusion: Competition is Encouraging A Beneficial Paradigm Shift.**

In the broader perspective, a nationwide paradigm shift is taking place – a shift toward consumer desire for the benefits of competition: lower prices, higher quality service, and more options. Some markets are already supporting multiple, often complimentary, communications technologies. To the extent government chooses to aid extension of these technologies to the “last mile,” all services should be placed on an equal footing, and all market participants should receive equal support per customer, based on the costs of building an efficient network in a particular area. The FCC reached these conclusions between 1996 and 2001, and they remain valid today.

Universal service improvements should be consistent with the core principles of the 1996 Act: that all Americans deserve the benefits of competition, and support should work with competition, rather than hamper the success of a free market. Support should be distributed efficiently, freeing up funds for investments in broadband.

Government’s role is not choosing winners in the world of business. Instead, a level playing field can support competition for the benefit of consumers. The current focus on new entrants simply distracts attention from true issues threatening the future of USF.

I urge Congress to oppose this inequitable cap on funds for competitive carriers. Instead, Chinook Wireless supports rapid and diligent reform of the underlying system, in order that the goals Congress enacted in 1996 may finally be realized. Competition can coexist with a policy of supporting service to underserved areas. By encouraging a level playing field and efficiencies in the use of funding, regulators can curb Fund growth while providing consumers with the benefits of universal service *and* competition.

END