

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

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| 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  |

**REPLY COMMENTS OF  
THE UNITED STATES TELECOM ASSOCIATION**

USTelecom is pleased to submit its reply comments in support of comprehensively reforming the high cost support mechanisms of the federal Universal Service Fund.<sup>1</sup>

**I. THERE IS CONSENSUS THAT THE CURRENT HIGH COST MECHANISM MUST BE CHANGED**

Although there are substantial differences on the optimal direction to take in reforming high cost universal service support, there is almost complete consensus on two propositions – (1) high cost support is an essential tool in bringing service to parts of the country where the market alone cannot support its presence, and (2) the current system of distributing high cost support is far from efficient in accomplishing this goal. No commenters object to ensuring that all Americans have affordable, reliable access to telecommunications service.

Many of the commenters offer predictable solutions to the universal service fund crisis.<sup>2</sup>

While USTelecom’s advocacy in this proceeding and others has emphasized separately addressing issues such as universal service contributions, universal service distributions and

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<sup>1</sup> USTelecom represents innovative companies ranging from the smallest rural telecoms in the nation to some of the largest corporations in the U.S. economy. USTelecom members provide a wide range of services across the communications landscape, including voice, video and data over local exchange, long distance, Internet and cable networks.

<sup>2</sup> For example, commenters seeking preservation of the identical support rule suggest that when an ILEC loses a line it should lose a proportional amount of support. Of course, most ILEC network costs are fixed, and line losses do not directly translate into lower costs.

comprehensive reform of intercarrier compensation (and other severable issues such as phantom traffic and access pumping), comprehensive approaches correctly acknowledge that these issues are intertwined.<sup>3</sup> Such aspirational proposals provide a useful perspective but need not stand in the way of incremental progress towards better targeting and increased efficiency in the distribution of high cost universal service funding.

## **II. FUND SIZE MUST BE CONSTRAINED TO ACHIEVE UNIVERSAL SERVICE GOALS**

Universal service funding is a scarce resource and should be allocated as such. Moreover, it is important that any constraints on the size of the high cost fund be matched with the purposes at which funding is directed. Our proposals to retarget the fund enhance its efficiency and demonstrate that necessary changes can be accomplished within a reasonable budget which requires no greater than a modest increase over today's amount. Those changes include redirection of support to high cost wire centers within large study areas receiving little or no support because of averaging within the study area, and the provision of mobile voice service in areas without such service.

Several commenters endorse tax and spend proposals to assess broadband services in order to fund a much larger universal service program.<sup>4</sup> It is contradictory and counterproductive to place an obligation on broadband which would discourage its use for the express purpose of funding increased broadband use and deployment. Others ignore the impact of a substantially larger fund by suggesting that the Joint Board's suggested \$300 million broadband fund is inadequate but make no proposals for offsetting reductions in other areas.<sup>5</sup> On the other hand, the fund retargeting suggested by USTelecom's reasonable approach would

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<sup>3</sup> See comments of AT&T

<sup>4</sup> See comments of OPASTCO at page 27, NTCA at page 4, AARP at page 30, TDS at page 11, NECA at page 34

<sup>5</sup> See comments of US Cellular, North Dakota PSC, CoBank, Texas Statewide Telephone Cooperative, Inc., WTA

accomplish core universal service goals, promote broadband deployment, enhance consumer confidence in the universal service system, and not substantially increase consumer burdens.

### **III. THE COMMISSION SHOULD TAKE SEVERAL IMMEDIATE STEPS TO CONSERVE SCARCE HIGH COST FUNDING**

Comprehensive reform is best accomplished by making obvious, practical and achievable changes in the short term, while other, more complex aspects of the reform are being developed and phased in. The Commission took an enormous step forward in this regard by adopting the interim cap on high cost universal service support to competitive ETCs. It should build on the momentum created by this action and take further steps in the short term to address problems with the structure of high cost support, including the gradual and phased removal of access funding from CETC support and limitation of support to wireless CETCs to one line per household while redirecting those savings to higher fund priorities.

The Commission's tentative conclusion to remove the support attributable to access replacement<sup>6</sup> for competitive ETCs was endorsed by numerous commenters.<sup>7</sup> The growing savings from a phase out of such funds should be redirected to higher universal service funding priorities such as providing wireless service in areas in which such service is absent and the enhancement of support to high cost wire centers in large study areas subject to averaging with low cost portions of the same study area. Much of the opposition to the tentative conclusion referenced the definition of competitive neutrality.<sup>8</sup> USTelecom strongly supports the principle of competitive neutrality, but in the last several years, it has been used as a tool of misguided industrial policy to encourage telecom competition through market distorting subsidies.

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<sup>6</sup> USTelecom supports a carefully measured transition to remove such support

<sup>7</sup> See comments of Verizon, CenturyTel, Embarq, Qwest, Windstream, Alaska Telephone Association, Alexicon, Colorado Telecommunications Association., Oregon Telecommunications Association, and Washington Independent Tel. Association, Iowa Telecommunications Association, ITTA, JSI, Missouri Small Telephone Company Group, Montana Telecommunications Association, NASUCA.

<sup>8</sup> See comments of ALLTEL, Rural Cellular Association and the Alliance of Rural CMRS Carriers, Sprint, T-Mobile, Atlantic Tele-Network, GCI, Nex-Tech.

Providing access support to wireless carriers who never charged access nor are subject to pervasive economic regulation is what contravenes the principle of competitive neutrality, not the removal of such payments.<sup>9</sup>

Similarly, funding multiple wireless lines per household may not be the most efficient use of scarce resources, therefore a limit should be imposed on the number of supported wireless handsets. Savings derived from such a limit should be re-directed towards more effective higher priority universal service high cost goals such as supporting wireless service in unserved areas.

#### **IV. COMPETITIVE BIDDING, NOT COST STUDIES, SHOULD REPLACE THE IDENTICAL SUPPORT RULE FOR MOBILE CETCS**

USTelecom generally agrees with the Commission's tentative conclusion that the identical support rule should be eliminated.<sup>10</sup> However, USTelecom strongly disagrees with the support by several commenters for the Commission's further tentative conclusion that the identical support rule should be replaced by a mechanism which would base support to a CETC on its own costs of providing the supported services.<sup>11</sup> Instead, both the selection of and support for a mobile CETC serving a particular high cost area should be based on the results of a competitive bidding mechanism such as reverse auctions.<sup>12</sup>

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<sup>9</sup> Access replacement support was designed to partially replace revenues lost from reductions in access charges.

<sup>10</sup> *Identical Support Rule NPRM*, ¶1.

<sup>11</sup> See comments of ALLTEL, Panhandle, Petrocom License Corp., CenturyTel, Alaska Telephone Association, Alexicon, CoBank, Colorado Telecommunications Association, Oregon Telecommunications Association and Washington Independent Telephone Association, GVNW, Iowa Telecommunications Association, ITTA, JSI, Kansas Rural Independent Telephone Companies, MITS, Montana Telecommunications Association, NECA, OPASTCO, Rural Iowa Independent Telephone Association, TCA, Telephone Association of Maine, Texas Statewide Telephone Cooperative, Inc., Utah Rural Telecom Association, WTA, North Dakota PSC.

<sup>12</sup> However, use of competitive bidding to select a single ETC, including wireline, is impractical at this time. Wireline providers are subject to pervasive price or profit regulation by both the state and federal governments. Such regulation could interfere with the proper operation of a competitive process such as reverse auctions, and particularly would put into question about how such a process would be conformed to rate of return regulation. Many commenters agree, including the Montana Telephone Association, the National Tribal Telecom Association, the Alaska Telephone Association, the Rural Telecom Group, the Utah Rural Telecom Association, TCA, the Missouri Small Telephone Company Group, NTCA, ITTA, the Telephone Association of Maine, the Texas Statewide Telephone Cooperative, WTA, the Iowa Telecom Association, NASUCA, OPASTCO, the Colorado Telecom Association, et al, Montana Independent Telecom Systems, John Staraulakis, Inc., Alexicon, GVNW, Windstream, Verizon, TDS, Sacred Wind, Embarq, Kansas Rural Independent Tel., Rural Independent Telephone

Replacing the identical support rule with cost studies would not address the real problem, which is the support for multiple mobile CETCs in particular geographic areas and the misdirection of high cost funding to areas in which mobile service would be provided absent any support. A market-oriented competitive process such as reverse auctions is the most fair and practical way to select a single mobile recipient of high cost universal service support in a particular geographic area. There was a dearth of comments addressing methods other than competitive bidding to reduce the number of mobile ETCs to one per geographic area. Supporting multiple mobile providers with universal service support in any geographic area is an unneeded luxury, especially considering both the limited amount of universal service funds available and other unmet universal service needs.

Not only would a system of competitive bidding such as reverse auctions be an efficient way to select one mobile provider per area, it would reasonably and accurately reflect the business plans of the bidders and the level of support required to make such plans feasible in low density high cost areas. Eventual implementation of a project-oriented approach for mobile service further directs funding to the extension of universal service to unserved areas.

The design and implementation of an actual cost methodology in the place of identical support, whether based on the ILEC model or specifically designed for wireless, would be extraordinarily regulatory, burdensome and time consuming. Several wireless carriers articulate well the infirmities of implementation of cost studies for competitive ETCs.<sup>13</sup> Sprint, for example, notes that “Requiring wireless carriers to undertake a process of separations and accounting similar to that used by ILECs under Part 32 would be disruptive and expensive,

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Association, Range Telephone, RTFC, Consumers Union, CoBank, the Oregon PUC, the Missouri PUC, the North Dakota PUC, and the Oklahoma Corporation Commission.

<sup>13</sup> See comments of CTIA, Rural Cellular Association and the Alliance of Rural CMRS Carriers, Sprint, Verizon and Verizon Wireless.

undermining and possibly eliminating wireless carrier efforts to provide ETC services.” Sprint goes on to say, “Moreover, even if a new system of regulatory accounting could be devised to account specifically for wireless network architecture, the cost of implementing such a system for purely regulatory purposes would be prohibitive, imposing an unreasonable burden on CETCs.” USTelecom agrees and is not in favor of adding onerous layers of regulation to any industry providers whether they are incumbent ILECs or fixed or mobile competitive ETCs. Grafting the same regulatory structures and burdens applied to incumbent ETCs onto competitive ETCs is inappropriate and unwise. The inevitable disputes over the details of accounting and cost study proposals would inordinately delay needed comprehensive reform.

As an integral part of implementing a competitive bidding process to distribute support to mobile ETCs, the Commission should initially allocate a portion of the savings from the reductions in support to such ETCs to be used to provide project-based support to extend mobile service to unserved areas.<sup>14</sup> Eventually the vast bulk of the high cost universal service funding for mobile service should be focused on such project-based support.

## **V. MULTIPLE WIRELESS TECHNOLOGIES NEED NOT BE SUPPORTED**

Some parties have argued that ongoing support for providers offering CDMA/EvDO and GSM/HSDPA in the same geographic area is necessary so as not to disenfranchise users of the unsupported service. First, this assumes that a mobile carrier using the unsupported technology would depart the market. That is not necessarily the case according to the Criterion Study which demonstrates the presence of unsubsidized carriers in areas in which other wireless carriers receive high cost support.<sup>15</sup> Second, the Commission has never endorsed a particular wireless

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<sup>14</sup> A significant portion of the savings should also be used to provide greater levels of support to high cost wire centers residing within large study areas which may receive little or no support due to averaging.

<sup>15</sup> See Letter from Jeffrey A. Eisenach, Chairman, Criterion Economics, LLC, to Marlene H. Dortch, Secretary, Federal Communications Commission, CC Docket No. 96-45, WC Docket No. 05-337, attaching “The Availability

standard and should not begin now. In any event, as the technology evolves towards building out fourth generation wireless networks, it appears to be moving towards a more common standard. Finally, the market oriented mechanism of competitive bidding should be applied on a technologically neutral basis.

#### **V. HIGH COST SUPPORT FOR ILECS SHOULD BE BETTER TARGETED**

Major changes to the method of allocating high cost support to ILEC ETCs also should be made to most effectively use scarce high cost funds by better targeting support on a geographic basis. Rural consumers should not be penalized because they are served by carriers who are making rational economic investment decisions in response to the regulatory structure of high cost universal service support and market conditions characterized by increasingly intense urban and suburban competition resulting in the unavailability of implicit support. Better targeting at and below the wire center level within larger study areas will help ensure that scarce universal service dollars are accomplishing their intended purpose. Furthermore, it is reasonable to expect that if such areas receive a proper level of universal service support the accompanying increased investment will establish a platform of joint use facilities conducive to the deployment of broadband service. Similar areas served by smaller companies which generally have a much smaller proportion of low cost areas with which to average have a significantly higher penetration of broadband facilities because the better targeted universal service fund support they receive allows more investment in outside plant upgrades for joint use facilities.

#### **VI. BROADBAND SHOULD NOT BE FUNDED DIRECTLY AT THIS TIME**

USTelecom does not agree with the position of several commenters that broadband should be added to the list of supported services. Much of the nation currently has access to

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of Unsubsidized Wireless and Wireline Competition in Areas Receiving Universal Service Funds” authored by Nicholas Vanzelfde, (“*Criterion Study*”)

affordable broadband service without the support provided by universal service funding. Funding for the mechanisms which apply to the current supported services must be reformed, targeted and properly prioritized prior to any expansion of the fund to additional services. Also, as noted by AT&T in its proposal, intercarrier compensation and state economic regulation need to be a part of an integrated whole that would address funding for broadband services. There are many steps that can be taken now to enhance broadband access and subscription including addressing demand side issues as well as ensuring a light regulatory touch and regulatory parity for all broadband providers.

However, if the Commission nevertheless adds broadband to the list of supported services, it should be structured as project-oriented -- building out infrastructure in unserved areas -- through a size limited mechanism entirely separate from current universal service high cost support mechanisms.

## **VII. CONCLUSION**

The Commission should take advantage of this opportunity to begin comprehensive reform of the high cost support mechanisms of the Federal Universal Service Fund. As dollars are saved from implementation of the prudent steps outlined above, they should be redirected to higher priorities. Scarce high cost universal service dollars can be more effective and better targeted by (1) providing more support to high cost wire centers within large study areas, and (2) beginning the transition to project-based support to build out mobile service in areas lacking wireless coverage. USTelecom's proposal to increase the efficiency and effectiveness of high cost universal service funding is reasonable and doable. It should be promptly adopted.

Respectfully submitted,

UNITED STATES TELECOM ASSOCIATION



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