Universal Service and Intercarrier Compensation Reform for a Mobile and Broadband World

Presentation to

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September 29, 2008

Overview

- Intercarrier compensation and universal service reform must be solely about consumers, *i.e.*, policies that:
  - Avoid marketplace distortions;
  - Encourage and reward efficiency;
  - Minimize administrative complexity; and
  - Require accountability.
- CTIA supports adoption of a numbers-based universal service contribution mechanism that addresses the concerns of wireless prepaid and family plan customers.
- CTIA supports dedicated high-cost funding for deployment and maintenance of advanced mobile wireless services.
  - CTIA also supports other changes to the universal service system so that it better reflects consumer demand and reduces waste.
- CTIA supports unification of the intercarrier compensation system as a transition to a bill-and-keep system.

THE U.S. WIRELESS INDUSTRY

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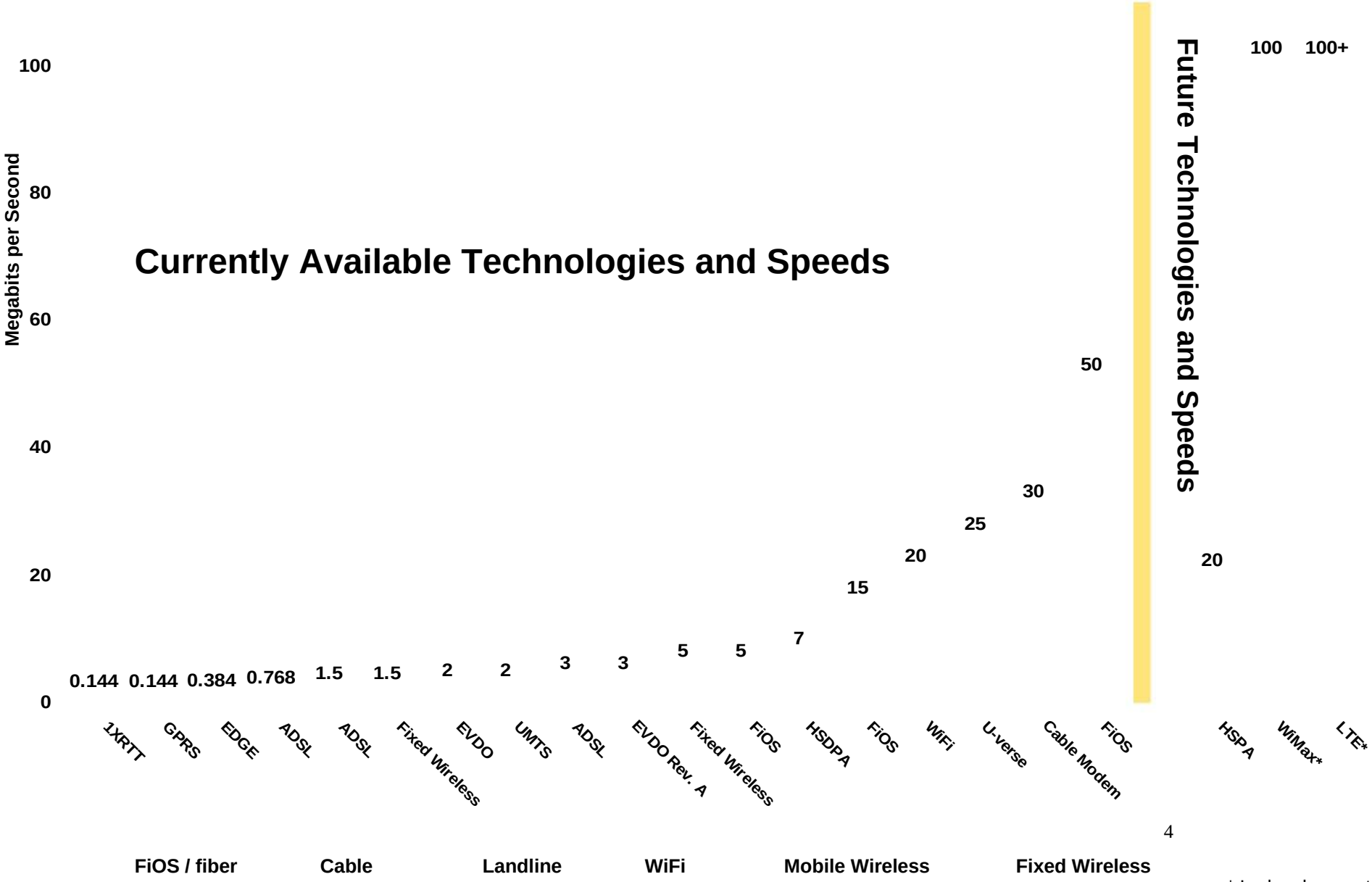
- As of June 2008, there were an estimated 263 million wireless subscribers nationwide.
- Wireless minutes of use reached 2.1 trillion for 2007.
- The average wireless customer has approximately 823 minutes of use per month.
- At least 64 million mobile wireless subscribers have 3G capable mobile wireless broadband devices.
  - 211 million mobile wireless subscribers have devices capable of accessing the Internet.

Maximum Theoretical Download Speeds



* In development

Universal Service Contribution Methodology Reform

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- CTIA supports the joint numbers-based contributions proposal filed on September 11, 2008, by AT&T and Verizon.
- That proposal ensures that individual consumer groups do not bear an unreasonable and unfair share of contribution obligations. Namely:
  - Low-Income: No assessment for Lifeline customer numbers;
  - Prepaid Wireless Numbers: May be assessed on a per-minute-of-usage basis, as proposed by Tracfone;
  - Wireless "Family" Plans: Non-primary numbers assessed at 50% of the per-telephone number charge. Primary numbers associated with these plans assessed at the full charge.
- The numbers-based proposal addresses:
  - The need for a sustainable and predictable universal service contribution base; AND
  - The legitimate concerns of low volume and/or low average revenue per unit customers.
- The typical residential customer will pay about the same under the proposed numbers-based contribution system (and may be better off).

High-Cost Universal Service Reform

- The FCC should establish universal service mechanisms that enable consumers to rely on mobile wireless, wireline, or both technologies.
  - That means mechanisms that do not distort consumer choice.
- CTIA supports the Joint Board's proposal to dedicate a portion of universal service funding specifically to support advanced wireless networks.
- Support should be available both for the deployment and maintenance of advanced mobile wireless services.
  - The FCC should immediately make additional support available for build-out of 3G mobile wireless broadband networks in unserved areas. CTIA proposes that support for wireless build-out be provided through a grant and auctions-based mechanism (with auctions only being utilized if competing applications are submitted for a particular area and propose to utilize the same technology platform). There should be two providers selected for additional interim support in each geographic area – one to deploy each of the predominant 3G technology platforms (GSM/HSDPA and CDMA/EvDO).
  - The FCC should establish a Mobile Task Force to develop a support mechanism for the operation and maintenance of advanced wireless service in areas uneconomic to serve absent support. Any mechanism must demand accountability and encourage and reward efficiency.

U.S. Ubiquitous Third Generation Mobility Study

- CostQuest Associates identified and estimated the initial investments necessary to deploy a third generation mobile broadband network in unserved and underserved areas in the United States.
  - The study does not account for the considerable costs of operating and maintaining networks in high-cost rural areas.
- Summary of Findings:
  - Approximately 23.2 million U.S. residents currently do not have access to 3G mobile broadband services at their primary place of residence.
  - Approximately 42% of road miles in the U.S. do not have access to 3G mobile broadband service.
  - Approximately $22 billion in initial investment is needed to build out infrastructure to facilitate ubiquitous mobile broadband service.
  - In order to achieve full 3G mobile broadband coverage, approximately 16,000 new towers will need to be constructed and 55,000 existing towers will need to be augmented with 3G technologies.

High-Cost Universal Service Reform (cont'd)

- While long-term reforms are pursued, CTIA supports interim steps to rationalize the current system and reduce waste:
  - Require ILECs with multiple study areas in a given state to combine those study areas before support is calculated;
  - Treat ILECs with more than 50,000 access lines in a state (irrespective of how many study areas they currently comprise) as "non-rural" and provide support for them based on the more-efficient "non-rural" support mechanism;
  - Reduce the per-line support that is available to ILECs by eliminating support for corporate operations expenses and supporting a more reasonable rate-of-return; and
  - Then, cap the per-line amount of support available to all ILECs. This will reverse a disturbing trend of giving ILECs more USF to serve fewer customers.

  These steps would save the American consumers hundreds of millions of dollars annually and these savings could, in part or whole, be redirected to urgently needed deployment of advanced wireless and broadband networks in unserved areas.

- Eventually, all ILECs should be transitioned to a single high-cost support mechanism that determines support based on efficient costs.

High-Cost Universal Service Reform (cont'd)

- The FCC should reject proposals designed to discriminate against wireless customers.
  - A wireless support mechanism should rely upon wireless benchmarks. There is no basis for using wireline cost benchmarks solely as an excuse to provide less support to wireless ETCs.
  - The FCC may not, consistent with the Act, limit wireless carriers to support for network build out costs, while continuing to provide support to ILECs for their ongoing maintenance and operations costs.
  - Transitional mechanisms should also be equitable.
- A single-connection-per-household limitation for wireless ETCs would amount to a prohibited primary line restriction. It also would be inconsistent with the fundamental, personal nature of wireless technology.
- In light of the CETC cap, there is no further utility in debating whether wireless carriers should or should not receive "access replacement" universal service support. Instead, the FCC should focus on developing a mechanism for wireless carriers that provides sufficient and predictable support for their ongoing operations.

Intercarrier Compensation Reform

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- The FCC should adopt lasting reforms that accommodate a highly-competitive, multidimensional telecommunications marketplace.
- The FCC should be wary of creating (legally suspect) “access replacement” universal service that will only exacerbate marketplace distortions and undermine broadband deployment.
  - ILECs should be permitted to defray access revenue reductions exclusively through increased end-user rates (including through increases to unusually low local rates).
  - In the alternative, ILECs should be precluded from additional “access replacement” support until their end-user rates are deregulated at the state and federal levels and they demonstrate that they cannot charge “affordable” rates without additional support.
    - Any benchmarking should account for all of an ILEC’s revenue sources.
- CTIA supports unification of the intercarrier compensation system as a transition to a bill-and-keep system.
  - As a first step, the Commission should establish a uniform termination rate no higher than $0.0007 per minute.