A National Broadband Plan
Federal Universal Service Reform

GN Docket No. 09-51

WC Docket No. 05-337

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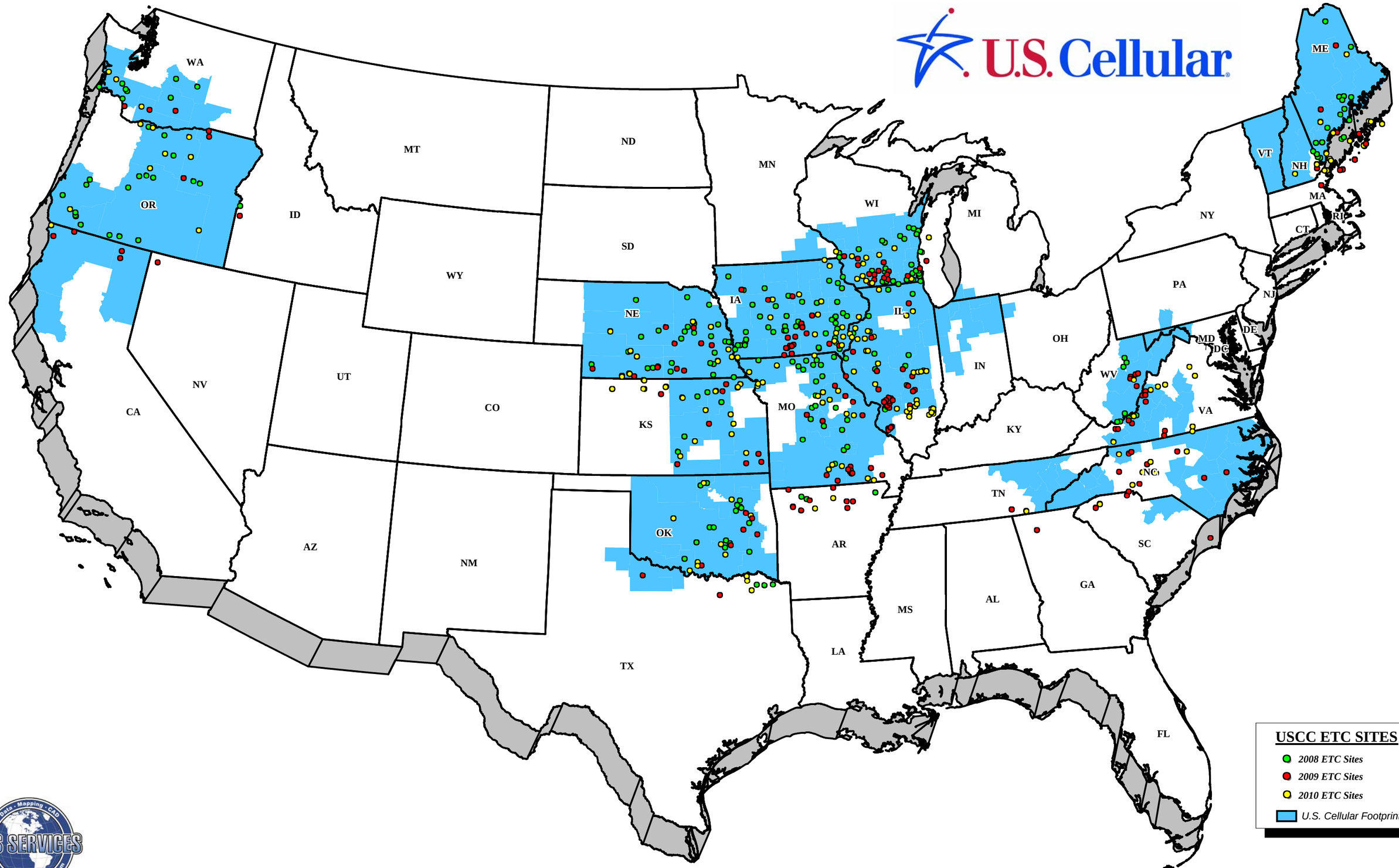
Wireless Carriers Are Making Significant Incremental Investments in Rural Areas With High-Cost Support

- U.S. Cellular is using support to build, operate, maintain, and upgrade new towers that would not otherwise be built without support.

- Investments in towers and backhaul form the majority of capital needed to deploy broadband – such investments can be leveraged when upgrading to 4G technologies.

- The existing program is driving significant incremental investment in rural states that is benefitting rural citizens by increasing competition and substitution of wireless services, ultimately lowering consumer costs.

U.S. Cellular National ETC Sites Map



Key Universal Service Reform Goals

- Ensure that high-cost support is sufficient for consumers in rural areas to receive access to high-quality broadband services and prices that are reasonably comparable to that which is available in urban areas. (47 U.S.C. § 254(b)(3)).

- Develop competitively and technologically neutral and market-based mechanisms that encourage efficient entry.

- Reject “command and control” mechanisms that discourage new entrants and restrict choices for rural citizens.

Broadband Support Mechanisms Must Be Competitively Neutral

- New 4G mobile wireless platforms such as LTE, Wi-Max can provide rural consumers with reliable and substitutable broadband services.

- Consumers overwhelmingly desire access to mobile wireless services that provide critical health and safety applications unavailable through fixed platforms.

- Setting aside broadband support for any class of carrier would lock out new technologies.

- Grant programs can build facilities for access, but universal service mechanisms must go farther – to promote reasonably comparable services at reasonably comparable prices.

Support Must Be Efficient and Targeted to Areas that Need Investment

- Support is for high-cost areas, not necessarily high-cost carriers.
- Use ARRA broadband mapping project to identify high-cost areas.
- Target support to such high-cost areas so that support does not go to areas where competition exists without subsidies.
- Provide an efficient level of support to identified high-cost areas so that contributors are treated fairly.
- Transition away from embedded costs. Consider providing support using models.
- Avoid government selection of a single provider, an option which was rejected by the Hundt/Kennard administrations.

Reverse Auction Challenges

- Limiting entry distorts the marketplace by erecting a barrier to entry. Recreates problem 1996 Act solved.
- Competition occurs periodically (at the auction), rather than every day in the marketplace.
- Will require creation of “251-type” obligations for dominant carriers to open networks and limit anti-competitive conduct.
- Largest carriers have an incentive to bid near-zero to drive out competitors and reduce large carrier contributions.
- Newcomers must be able to access support mechanisms on a level playing field with other market participants.

Reverse Auction Challenges (cont'd)

- Auction winner, having bid for the lowest level of support and operating with limited competition, has no incentive to deliver high-quality service.

- Patently unfair to limit auctions to wireless:
  - Wireless consumers contribute the biggest share of USF.
  - Consumers want ***high-quality*** wireless platforms.
  - Auctions for wireless limit choice, and growth.
  - Wireline voice on embedded costs – "the more you spend, the more you get."

- Auction "term" will exacerbate stranded facilities problem, i.e., plant may not be depreciated.

Problems With Using Determine Reverse Auctions To Universal Service Subsidies For Wireless Carriers

William P. Rogerson,
Professor of Economics, Northwestern University

- Reverse auctions present competition *for* the market. Once a winner is declared, there is reduced competition *within* the market, which benefits contributors.

- The current “consumer choice” model encourages competition within the market, which benefits rural consumers.

- Auctions will require the government to regulate service quality, prices, coverage, and the timing of when advanced services are introduced

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- Defining areas to be auctioned will be highly controversial.
- Regulation of single auction winner likely to be significant and ineffective.
- Rural consumers would return to pre-1996 era status: Served by a regulated and subsidized dominant carrier.

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- Two suggested improvements to current methodology could be effective in driving down costs while retaining the benefits of competition for rural consumers:

  1. Use a forward-looking proxy cost model for wireless services to determine subsidies for wireless carriers.

  2. More accurately target support to highest-cost areas.

Most of NCTA's Goals Can be Quickly Accomplished Within the Program's Existing Framework

- NCTA properly identifies support flowing to areas that would otherwise support competition as a problem that must be resolved

- NCTA would remove support when an unsubsidized competitor serves 75% of the pops in a study area – however the last 25% of pops are typically the most expensive to serve.

- NCTA has not explained how remote consumers would receive reasonably comparable services if all support to a study area were discontinued.

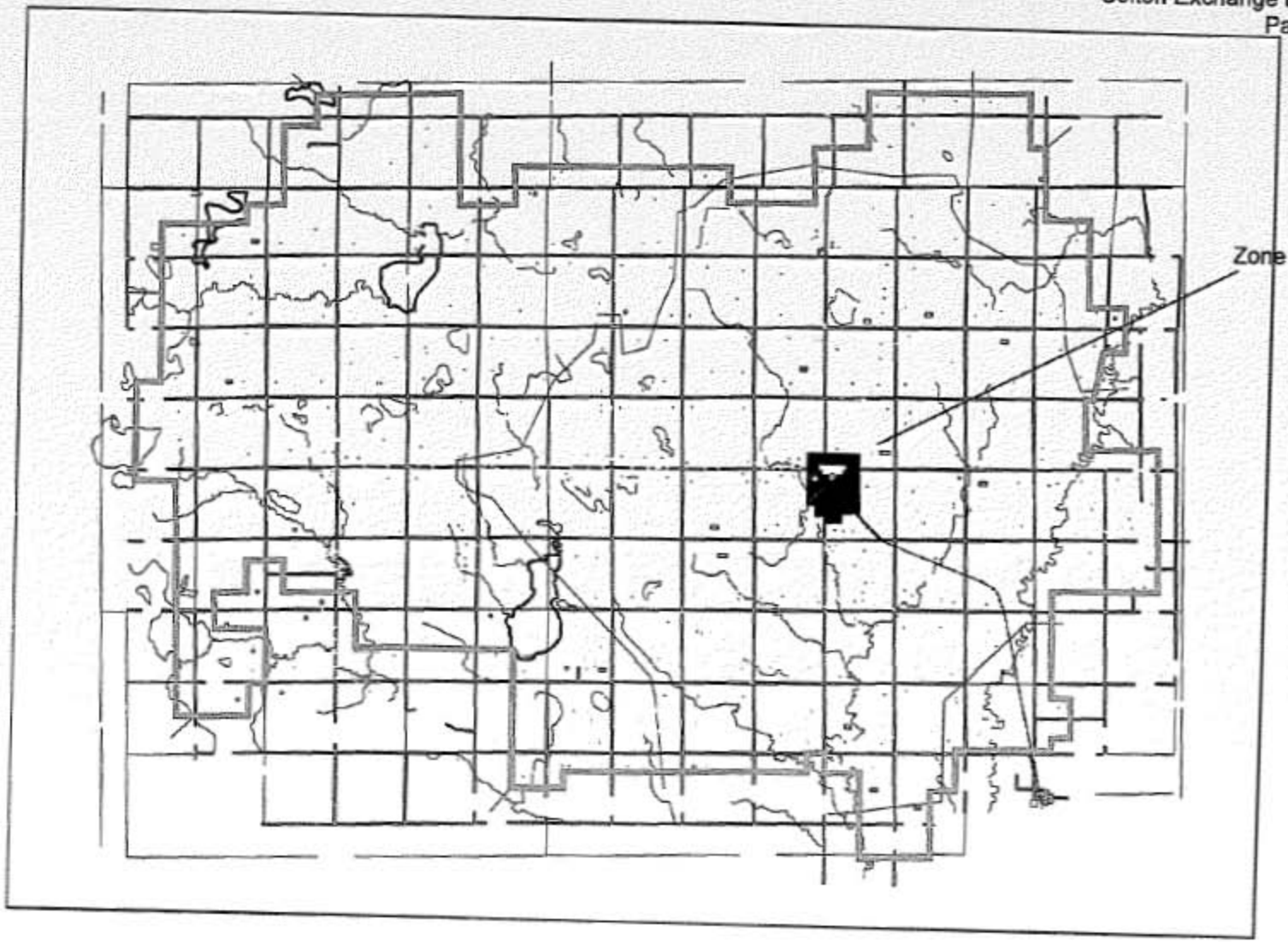
Most of NCTA's Goals Can be Quickly Accomplished Within the Program's Existing Framework (cont'd)

- Using 47 C.F.R. §54.315 to more accurately target support to the wire center level would largely serve NCTA's general purpose, without commencing hundreds, if not thousands of cases.

- The following slides provide examples of ILEC disaggregation plans, accepted by the FCC, which re-target support to rural areas.

USF Disaggregation
Zone 1 = Entire Exchange less Town of Colton
Zone 2 = See page 2 of 9 for details

Sioux Valley Telephone Company
USAC No. 391677
Colton Exchange Boundary
Page 1 of 9



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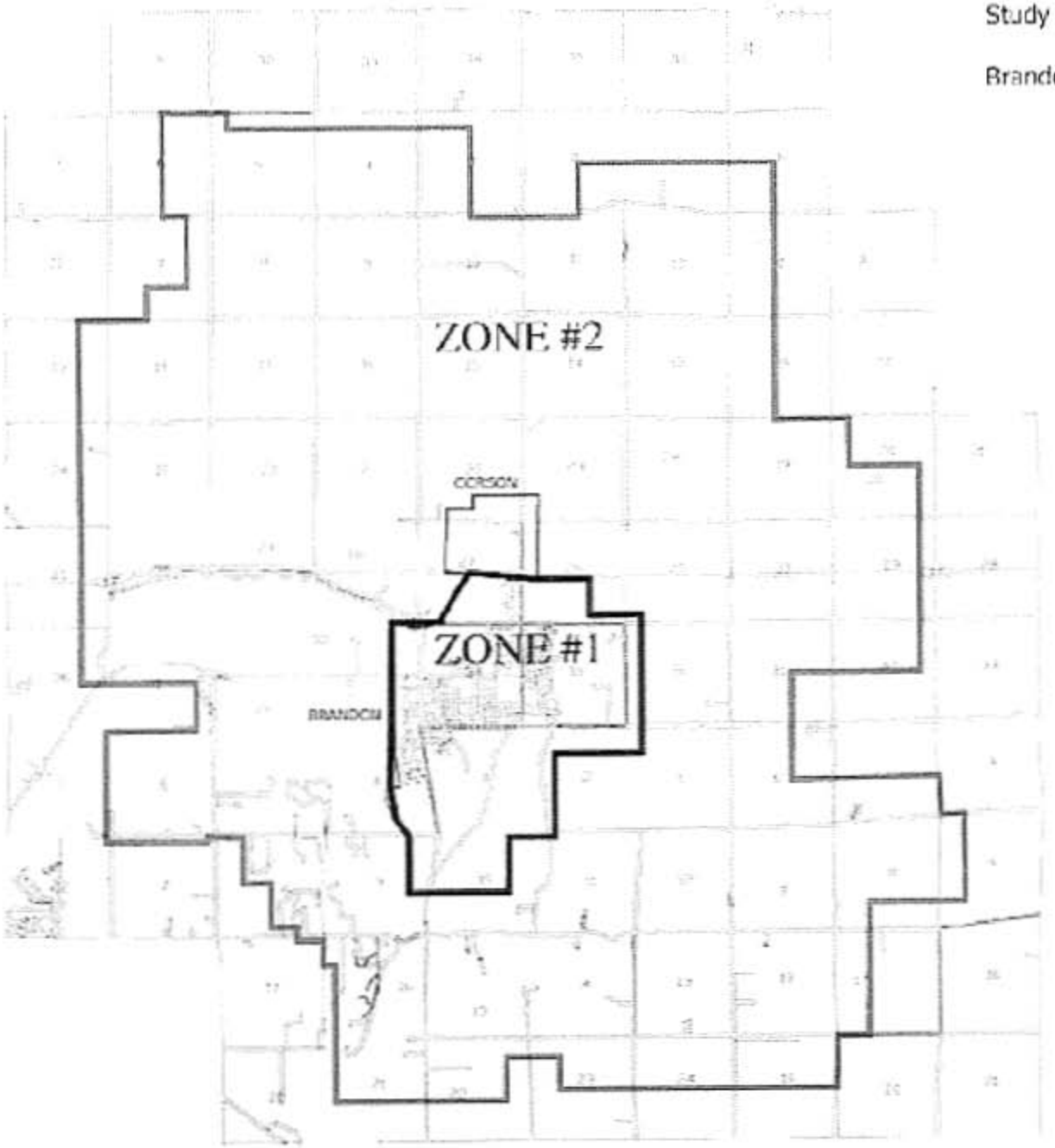
Miles

Splitrock Telecom Cooperative, Inc.
Study Area Code: 391657

Brandon Exchange