

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

Presentation to

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Universal Service and Intercarrier Compensation – Overview

- Reform Should Focus On Consumers And Reflect Market Reality.
 - USF should focus on the services that consumers demand, namely mobility and broadband.
 - There are currently 285 million wireless subscribers, and contributions from wireless providers have grown to 43% of the total USF contribution base.
 - Reform should avoid marketplace distortions; encourage efficiency; minimize administrative complexity; and require accountability.
- CTIA Supports High-Cost Funding For Deployment And Ongoing Operation Of Advanced Mobile Wireless Services.
 - CTIA also supports other competitively- and technologically-neutral changes to the universal service system so that it better reflects consumer demand and reduces inefficient spending.
- CTIA Supports Adoption Of A Numbers- And Connections-based Contribution Mechanism That Addresses The Concerns Of Wireless Prepaid And Family Plan Customers.
- CTIA Supports Unification Of The Intercarrier Compensation System As A Transition To A Bill-And-Keep System.

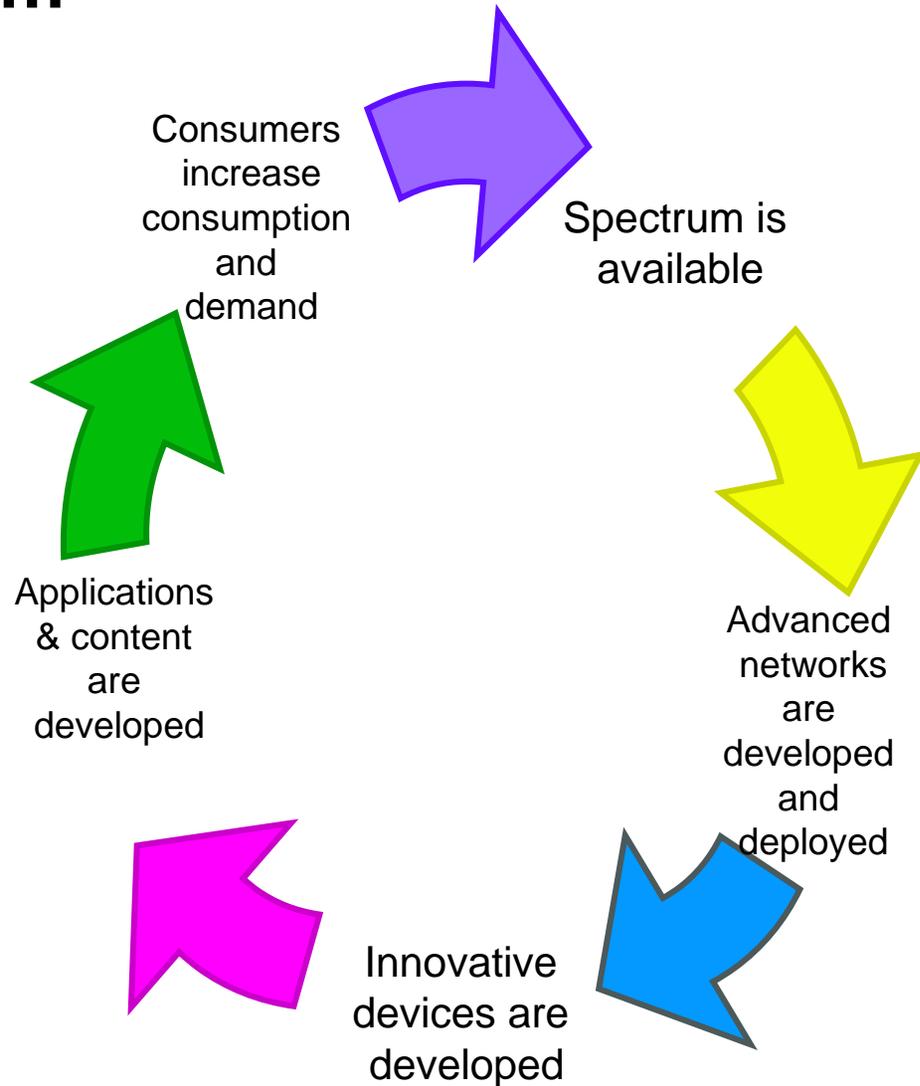
The U.S. Wireless Industry – Overview

- United States Wireless Ecosystem Leads The World By Virtually Any Measure.
 - U.S. Consumers Pay Less for their Wireless Service
 - Lowest revenue per minute of OECD countries. Average revenue per minute is nearly 65% lower than the average European country.
 - U.S. Consumers Rely Heavily on Wireless Service
 - Most minutes of use (MOUs) of OECD countries – 830 MOUs per month in Q1 2009.
 - ~3x MOUs of the highest ranked European country (France).
 - ~3x MOUs of the highest ranked Asian country (Korea).
 - U.S. Consumers Are Embracing Innovative Mobile Internet Services
 - More mobile Internet users than any other country.
 - Largest number of diverse handsets.
 - U.S. Has Lowest Market Concentration (HHI) of OECD countries
 - >95% of the U.S. population can choose from at least 3 competing carriers.

The Evolving U.S. Wireless Ecosystem

- **Carriers**
 - Four nationwide providers; multiple regional providers and new entrants.
 - Over 100 licensees in total.
- **Infrastructure Suppliers**
 - Leading the world in deployment of 3rd & 4th Generation mobile broadband networks through companies such as Alcatel-Lucent, Avaya, Cisco, Ericsson, Motorola, Nokia Siemens Networks, and Qualcomm.
- **Device Manufacturers**
 - 630 different handsets/devices manufactured by 32 companies for U.S. market.
 - Some of most advanced handsets launched first in U.S. – Apple iPhone, 3G, and 3GS; Apple iPad; Google G1, MyTouch and Nexus One; Blackberry Storm, Bold, Pearl, Tour and Curve 8900; Samsung Instinct; Palm Pre and Pixi.
- **Operating System Providers**
 - At least 11 different wireless operating systems developed by companies such as Microsoft, Google, Apple, Nokia, RIM, Sun Microsystems, and Palm.
- **Applications Developers and Online Stores**
 - In past 20 months, wireless ecosystem has launched more than 170,000 applications for consumers, creating new jobs and opportunities for developers.

“Virtuous Cycle” of the Wireless Ecosystem



High-Cost Universal Service Reform

- The FCC Should Establish Universal Service Mechanisms That Enable Consumers To Rely On Mobile Wireless, Wireline, Or Both Technologies.
 - Mechanisms should not distort consumer choice.
 - Mechanisms should be competitively- and technologically-neutral.
- CTIA Supports Dedicated Universal Service Funding Specifically To Support Advanced Wireless Networks.
 - The FCC should make support available for build-out, operation, and maintenance of 3G mobile wireless broadband networks in areas uneconomic to serve absent support.
 - CTIA proposed a “winner takes more” approach to auction-based mechanisms.
 - At minimum, 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).
 - Any mechanism must demand accountability and encourage and reward efficiency.
- The FCC Should Reject Proposals Designed To Discriminate Against Wireless Customers.
 - The FCC may not 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 be equitable.
 - A single-connection-per-household limitation for wireless ETCs would amount to a prohibited primary line restriction.

High-Cost Universal Service Reform (cont'd)

- While Long-Term Reforms Are Developed And Implemented, The FCC Should Take Interim Steps To Rationalize The Current System And Reduce Inefficient Spending.
 - FCC should require rate-of-return carriers to move to incentive regulation.
 - 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.
 - 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.
 - These steps would save 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.

Universal Service Contribution Methodology Reform

- CTIA Supports Adoption Of A Numbers- And Connections-Based Universal Service Contribution Mechanism.
 - Reform should provide for a sustainable and predictable universal service contribution base, while minimizing administrative complexity.
 - Reform should address low income consumers, family plans, and prepaid consumers.
- CTIA Supports The Numbers- And Connections-Based Contributions Proposal Filed Jointly By AT&T And Verizon.
 - This proposal ensures that individual consumer groups do not bear an unreasonable and unfair share of contribution obligations.
 - Low-Income: No assessment for Lifeline customer numbers.
 - Prepaid Wireless Numbers: May be assessed on a per-minute-of-use 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 Typical Residential Customer Will Pay About The Same Under The Proposed Contribution System (And May Be Better Off).

Intercarrier Compensation Reform

- The FCC Should Adopt Reforms That Accommodate And Foster A Highly Competitive, Multi-Dimensional Telecommunications Marketplace.
- 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.
- 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 they demonstrate that they cannot charge “affordable” rates without additional support.
 - Any benchmarking should account for all of an ILEC’s revenue sources.