High Cost Universal Service Reform for a Mobile and Broadband World

Presentation to

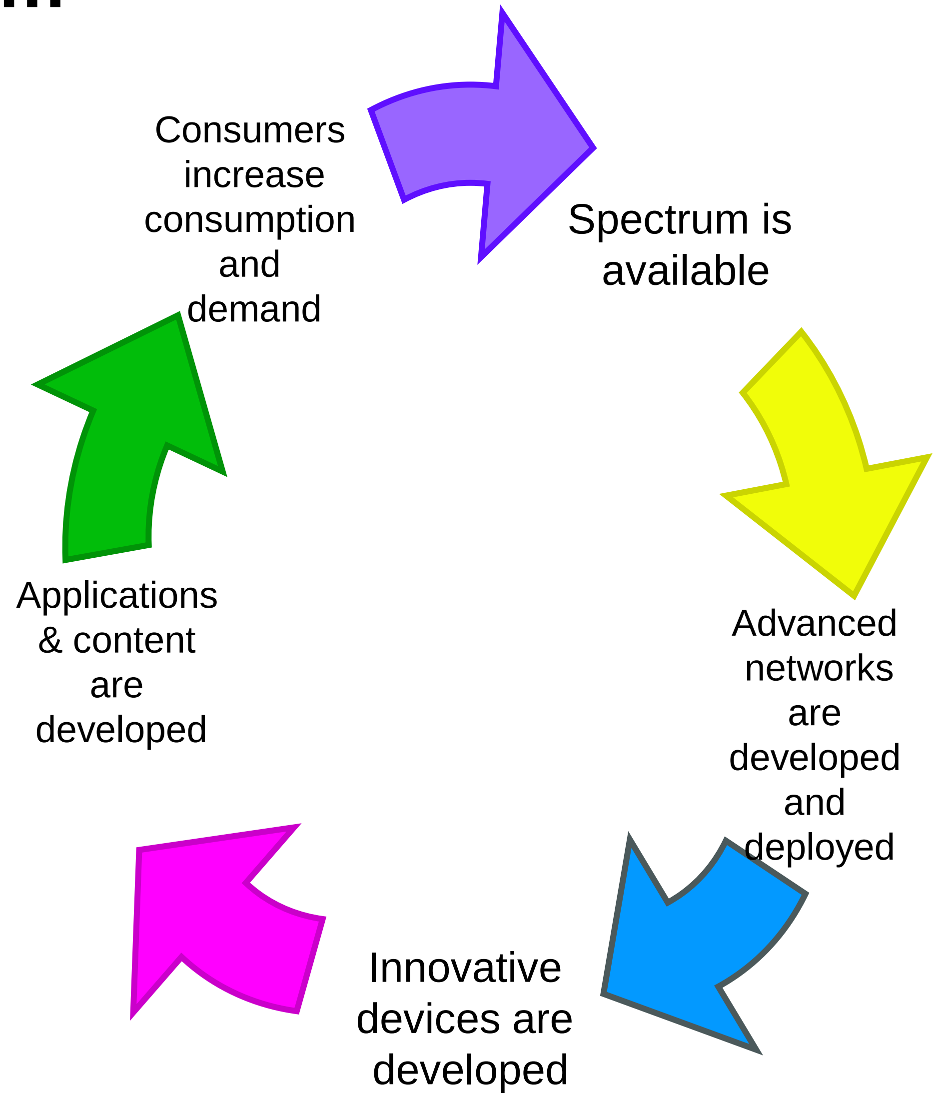
Wireless Telecommunications Bureau

Sept. 23, 2010

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. There are more than 103 million unique 3G wireless subscribers as of the end of 2009.
    - Mobile data traffic is expected to experience a 40-fold increase by 2014.
  - U.S. Has Lowest Market Concentration (HHI) of OECD countries
    - >95% of the U.S. population can choose from at least 3 competing facilities-based carriers.

“Virtuous Cycle” of the Wireless Ecosystem



High Cost Universal Service Reform – Ensuring Access to Mobile Broadband Services

- Congress and FCC Have Set out Broad Goals for Mobile Broadband Services that Should Guide USF Reform.
  - Section 254(b)(3): Consumers in all regions of the country should have access to reasonably comparable services at reasonably comparable prices.
  - 1 of 6 Overarching Goals of the NBP: “The United States should [have] … the fastest and most extensive wireless networks of any nation.”
- Reform Should Focus On Consumers.
  - USF should focus on the services that consumers demand, namely mobility and broadband. There are currently more than 285 million wireless subscribers.
  - The FCC should establish universal service mechanisms that enable consumers to rely on mobile wireless, wireline, or both technologies.
- Reform Should Reflect Market Reality.
  - Mechanisms should not distort consumer choice.
  - Mechanisms should be competitively- and technologically-neutral.
  - Contributions from wireless providers have grown to 43% of the total USF contribution base.

High-Cost Universal Service Reform

- CTIA Supports High-Cost Funding For Deployment And Ongoing Operation Of Advanced Mobile Wireless Services.
  - 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 has proposed a “winner takes more” approach to auction-based mechanisms.
- Short-Term Proposals in the NPRM May Undermine Overarching Goals of the NBP.
  - Eliminating support for wireless providers in advance of developing alternative support mechanisms threatens U.S. mobile broadband leadership and the ability to ensure reasonable comparability of services.
  - Proposals may adversely impact wireless deployment in rural areas and undermine the FCC’s long-standing commitment to competitive neutrality.
- CTIA Proposed Modest Changes to the FCC’s NPRM.
  - Refrain from implementing reductions to CETC support until alternate mechanisms are in place;
  - Phase out legacy high-cost support on the same timeline for all participants;
  - Adopt long-term reforms that are competitively neutral and ensure sufficient support (including on-going support) for the unique attributes and functionalities of mobile broadband services.

High-Cost Universal Service Reform

- New USF Mechanisms Should Avoid Marketplace Distortions; Encourage Efficiency; Minimize Administrative Complexity; And Require Accountability.
  - Current approaches to ILEC funding create incentives for inefficiency, inhibit broadband deployment by reducing providers' incentives to adopt innovative technologies, and are no longer sustainable in today's marketplace.
  - CTIA supports adoption of the NPRM's common sense proposals for reform of legacy ILEC funding:
    - Rate-of-Return regulation deters innovation, ignores efficiency, and does not reflect competitive market.
    - Capping ILEC support is consistent with treatment for wireless providers and reflects scare limited public resources.
    - Converting ICLS to a frozen per-line amount will limit growth in the fund and better reflect development of competitive market.
  - The FCC Should Reject Red Herring Arguments about Carrier of Last Resort Obligations.
- Additional, Interim Steps to Rationalize the Current System and Reduce Inefficient Spending.
  - 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.