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AUG 26 2011

Federal Communications Commission
Office of the Secretary

August 26, 2011

BY HAND DELIVERY

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: **REDACTED – FOR PUBLIC INSPECTION**; WC Docket Nos. 11-42, 03-109 and CC Docket No. 96-45; Comments of the Link Up for America Coalition

Dear Ms. Dortch:

The Link Up for America Coalition ("Coalition"), through its attorneys, hereby submits one original and five copies of its comments on the Public Notice in the above-referenced dockets.[1]

In addition, pursuant to the Protective Order, the Coalition submits one copy of the Confidential version of its comments and two copies of the Redacted Confidential version of its comments. Further, the Coalition is delivering two copies of the Confidential version of its comments to Kimberly Scardino, Telecommunications Access Policy Division, Wireline Competition Bureau, Federal Communications Commission, 445 12th Street, SW, Room 5-A465, Washington, D.C. 20554.

[1] *See Further Inquiry Into Four Issues in the Universal Service Lifeline / Link Up Reform and Modernization Proceeding*, Public Notice, DA 11-1346 (rel. Aug. 5, 2011) ("Link Up Public Notice").

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Please contact the undersigned with any questions.

Respectfully submitted,

John J. Heitmann

John J. Heitmann

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REDACTED—FOR PUBLIC INSPECTION

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

In the Matter of	
Lifeline and Link Up Reform and Modernization	WC Docket No. 11-42
Federal-State Joint Board on Universal Service	CC Docket No. 96-45
Lifeline and Link Up	WC Docket No. 03-109

COMMENTS OF THE LINK UP FOR AMERICA COALITION

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August 26, 2011

SUMMARY

The Link Up program was created in 1987 to address the barriers faced by low income consumers when trying to obtain telephone service and further advance the Commission's longstanding universal service goals. The Commission repeatedly has recognized that the Link Up program has been successful in expanding telephone service penetration for low income consumers, however, the nationwide Lifeline participation rate remains at only 36 percent. Now more than ever, the program remains necessary to retain or improve current penetration rates.

The Coalition opposes the proposed elimination or severe limitation of the vital Link Up program. This hazardous proposal has been based on claimed reductions in carrier costs to initiate service. Link Up goes beyond mere cost reimbursement and instead was created and continues to serve as a carrier revenue replacement mechanism. Notably, however, there is no evidence that carrier costs to activate new customers have materially declined. The Commission's statistics and the Coalition's experience both show essentially that charges remain steady and initiation costs remain significant.

Another dangerous proposal recommends, based on a claim that a few wireless carriers do not charge an activation fee, drastically changing Link Up to only reimburse costs for initiation of service involving physical installation of facilities. The well-established general industry practice is to charge new customers an activation fee. Further, carriers that do not charge activation fees are likely to replace those forgone revenues with higher per minute top-up rates charged to consumers, resulting in a higher cost to consumers over time. Those same carriers also are likely to avoid outreach costs, by relying on the Internet instead of supporting "grass roots" outreach and customer care provided in-market and in-person. Such community-

based outreach efforts are more effective at reaching those that need Lifeline and Link Up most, but they involve substantial costs, which Link Up helps to defray.

Finally, at the very least, if the Commission is going to consider eliminating, limiting or drastically reconstituting the "critical" Link Up universal service program, it should issue a further notice of proposed rulemaking and develop a more complete record on the potential impact of such proposals on low income consumers, penetration rates, affected state policies and the competitive market for present day Lifeline/Link Up eligible customers.

REDACTED—FOR PUBLIC INSPECTION

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Lifeline and Link Up	)	WC Docket No. 03-109

COMMENTS OF THE LINK UP FOR AMERICA COALITION

The Link Up for America Coalition ("Coalition"), by and through its attorneys, submits these comments in response to the Federal Communications Commission's ("Commission's") August 5, 2011 Public Notice in the above-captioned docket.[1] The Commission repeatedly has recognized that the Link Up program has been successful in expanding telephone service penetration for low income consumers. Now more than ever, the program remains necessary going forward to retain or improve current penetration rates. The Coalition opposes the proposed elimination or severe limitation of the vital Link Up program, which has been based on claimed reductions in carrier costs to initiate service. Link Up goes beyond mere cost reimbursement and instead was created and continues to serve as a carrier revenue replacement mechanism. Notably, however, there is no evidence that carrier costs to

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1 *See Further Inquiry Into Four Issues in the Universal Service Lifeline / Link Up Reform and Modernization Proceeding*, Public Notice, DA 11-1346 (rel. Aug. 5, 2011) ("Link Up Public Notice").

activate new customers have materially declined. Although a few wireless carriers may not charge activation fees, that is not the general industry practice. Further, carriers that do not charge activation fees are likely to replace those forgone revenues with higher per minute top-up rates charged to consumers. Those same carriers also are likely to avoid outreach costs, by relying on the Internet instead of supporting "grass roots" outreach and customer care provided in-market and in-person. At the very least, if the Commission is going to consider eliminating, limiting or drastically reconstituting this "critical" universal service program, it should issue a further notice of proposed rulemaking and develop a more complete record on the potential impact of such proposals on low income consumers, penetration rates, and the competitive market for present day Lifeline/Link Up eligible customers.

Coalition members are U.S. owned and based carriers that provide prepaid wireless services primarily to low income consumers.[2] Many of them have been designated as competitive eligible telecommunications carriers ("ETCs"). These competitive carriers rely on Link Up subsidies in order to provide low cost wireless service to more than 900,000 low income consumers and engage in truly local outreach efforts on behalf of the Link Up program.

I. LINK UP IS AN IMPORTANT UNIVERSAL SERVICE PROGRAM THAT REMAINS NECESSARY TO MAINTAIN AND EXPAND TELEPHONE SERVICE PENETRATION RATES AMONG LOW INCOME CONSUMERS

The Link Up program was created to complement the Lifeline program and advance the Commission's universal service mission specifically with respect to low income consumers. The program was designed as a revenue replacement mechanism to offset some of

[2] The Coalition's members are: Assist Wireless, LLC, Global Connections of America, Inc., Image Access, Inc. d/b/a NewPhone, Midwestern Telecommunications, Inc., Ready Wireless, Tag Mobile, LLC, and Telrite Corporation.

the charges generally assessed by carriers to initiate telecommunications service. It was not designed to advantage particular service providers or types of providers, but rather to operate on a competitively neutral basis. Despite its success – or perhaps due to its success – Link Up remains necessary to maintain subscribership penetration at 90 percent for low income consumers, and hopefully increase it as the Commission looks to ensure not only that low income consumers can make critical voice connections but also broadband connections.

A. Precedent Shows that Link Up Was Established as a Competitively Neutral Revenue Replacement Program to Support Low Income Consumers

The Link Up program was created in 1987 to address the barriers faced by low income consumers when trying to obtain telephone service and further advance the Commission's longstanding universal service goals. In particular, the Federal-State Joint Board ("Joint Board") identified the high, non-recurring charges associated with commencing service as a barrier for low income consumers.[3] Specifically, in its 1987 Recommended Decision and Order, the Joint Board noted that

> we believe that more can be done to directly address the problem of high non-recurring charges for low income households that are not presently on the network, thereby not only preserving, but also increasing, universal telephone service. Toward this end . . . we are recommending an additional lifeline assistance program to *offset the charges assessed for commencing telephone service.*[4]

The Joint Board recommended a two-part program whereby local exchange carriers ("LECs") could seek reimbursement for the lesser of one-half or $30.00 of the telephone

3 *See MTS and WATS Market Structure Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Recommended Decision and Order, 2 FCC Rcd 2324, 2332, ¶ 68 (1987) ("1987 Joint Board Recommended Decision").

4 *Id.* (emphasis added).

service installation charges assessed on qualifying low income consumers.[5] Where a LEC offered consumers a deferred payment plan for service commencement charges and did not charge interest, the Commission would provide federal assistance to the LEC to cover interest costs on an amount up to $200.[6] The Commission adopted the Joint Board's recommendations, thereby establishing the Link Up program, in a 1987 Report and Order.[7]

The Commission later clarified that the Link Up program should be implemented in a competitively neutral manner. In the 1997 USF Order, the Commission endorsed a Joint Board recommendation and held that "we adopt the principle of '*competitive neutrality*' and conclude that universal service support mechanisms and rules *should not unfairly advantage one provider, nor favor one technology*."[8] Business plans and services differ, but universal service programs should not operate to the advantage of particular providers or types of providers.

In 2000, the Commission issued an order amending the Link Up program for use on tribal lands by increasing the level of funding available and by expanding Link Up to "apply to reduce facilities-based charges associated with the *extension of lines or construction of facilities* needed to initiate service to a qualifying low-income individual on tribal lands."[9] In the same order, the Commission explained that

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5 *Id.*, ¶ 69.

6 *Id.*

7 *See MTS and WATS Market Structure Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Report and Order, 2 FCC Rcd 2953, 2958 ¶ 35 (1987) ("1987 Link Up Report and Order").

8 *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776, ¶ 364 (1997) ("1997 USF Order") (emphasis added).

9 *Federal-State Joint Board on Universal Service; Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas*, 15 FCC Rcd 12208, ¶¶ 59-61 (2000) ("2000 Link Up Order") (emphasis added).

> "[e]xpanded Link Up support would be available for qualifying consumers on tribal lands to offset charges for facilities that are necessary to enable a *non-wireline* eligible telecommunications carrier to provide service to the demarcation point…and that [t]o the extent that a non-wireline carrier can isolate costs associated with the portion of the *handset* that receives wireless signals, we conclude that those costs would be covered as costs on the network side of the network interface device."[10]

Therefore, as discussed further below, Link Up support was designed to offset charges related to costs beyond facilities construction, including at least part of the cost of wireless handsets.

In considering reforms and modernization of Link Up, the Commission should adhere to the core principles which have guided the program since its inception. Link Up must remain a competitively and technologically neutral program to replace initiation fees forgone by wireline and wireless service providers in bringing telephone service to low income consumers. The program should not advantage certain providers or business plans at the expense of substantial numbers of low income consumers that rely on the Link Up subsidy to initiate telephone service. In short, because some wireless ETCs do not rely on Link Up does not mean that the fund is not well-served by wireless ETCs that do rely on Link Up funding. Indeed, large numbers of low income customers enrolled in Link Up supported wireless service plans demonstrates that the subsidy is working as intended.

B. Available Statistics Indicate that the Link Up Program Remains Necessary to Increase Telephone Service Penetration Among Low Income Consumers

Although the Link Up program generally has been successful, it remains necessary to keep low income consumers connected. Just a few months ago, in its 2011 Lifeline/Link Up NPRM, the Commission stated that "*Lifeline and Link Up are a critical part of*

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[10] 2000 Link Up Order, ¶ 61 (emphasis added).

the Commission's universal service mission, ensuring that we implement Congress's directive to ensure the availability of basic communications services to all Americans, including low-income consumers."[11] The Commission further noted that, although the Lifeline and Link Up programs have been beneficial, low income consumers still lag the general population in terms of telephone subscribership levels: "As of March 2009, 90% of low-income households subscribed to telephone service in their home, compared to a national average of 96 percent."[12] The 2010 Joint Board Recommended Decision identified an even more troubling statistic: "In 2009, the nationwide Lifeline participation rate was 36 percent and, in some states, less than 10 percent of eligible consumers participated in the program."[13] The Commission more recently identified an even lower 33 percent participation rate.[14] There remains work to be done. So much so that instead of focusing in on whether it should eliminate Link Up or limit the subsidy amount, the goals of the fund might better be served by seeking additional comment on ways to increase Link Up participation in association with wireless Lifeline programs (as well as other federal support programs) and how Link Up might be expanded and subsidy amounts set in order to support wired and wireless broadband.

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11 *Lifeline and Link Up Reform and Modernization; Federal-State Joint Board on Universal Service; Lifeline and Link Up*, Notice of Proposed Rulemaking, 26 FCC Rcd 2770, ¶ 1 (rel. Mar. 4, 2011) ("2011 Lifeline/Link Up NPRM") (emphasis added).

12 *Id.*, n.18.

13 2010 Joint Board Recommended Decision, ¶ 59.

14 *See* 2011 Lifeline/Link Up NPRM, ¶ 25.

II. THE SUCCESSFUL LINK UP PROGRAM SHOULD NOT BE ELIMINATED NOR SHOULD THE CONSUMER BENEFIT BE REDUCED

In the Public Notice, the Commission seeks comment on whether Link Up support should be eliminated.[15] Alternatively, the Commission asks whether Link Up should be limited to "initiations that involve the physical installation of facilities by the provider at the consumer's residence."[16] Such drastic changes to the vital Link Up program are premised on statements from one commenter that the cost of initiating service has fallen and the fact that a few wireless carriers reportedly do not charge activation fees.[17]

First, Link Up was designed as a carrier revenue replacement mechanism that goes beyond the reimbursement of physical installation costs. Regardless, the costs of initiating service have not materially declined. Further, wireless carriers generally charge an activation fee. The few wireless carriers that do not charge activation fees operate under a different business plan that recovers revenues and costs from consumers in a different manner, which may be more costly to the low income consumer. Therefore, it is essential to the low income communications consumer community that the Link Up program not be eliminated or reconstituted as a limited cost recovery mechanism possibly available only to incumbents and other wireline providers.

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15 *See* Link Up Public Notice, ¶ 3.

16 *Id.*

17 *Id.*

A. Any Claimed Reduction in Customer Initiation Costs Likely Is Based on a Too Narrow View of Those Costs and Ignores the Fact that Link Up Was Created as a Revenue Replacement Mechanism, and Not as a Cost Reimbursement Program

The Link Up program was designed to offset initiation charges that would be assessed on low income consumers to begin receiving telephone service. It was not designed to merely reimburse a carrier's costs for physical installation of facilities. Coalition members and other carriers have designed their business plans based on this fact. As a result, low income consumers have seen innovative wireless Lifeline service plans supported by community-based outreach in markets where Link Up is available. The Commission also has benefited from the revenue replacement approach in place as it has been able to administer the program without incurring or imposing the costs associated with cost-based reimbursement requests.

Contrary to the position of the Indiana Utility Regulatory Commission, Link Up is not now nor should it be in the future limited to the costs of installing network plant. The initial Joint Board recommendations regarding the Link Up program did not limit eligible service initiation charges to only physical connections and, in fact, appeared to primarily encompass *other* charges associated with the commencement of telephone service. When referring to the barriers faced by low income consumers associated with the installation of telephone service in its 1987 Recommended Decision, the Joint Board noted that these barriers included installation charges and connection charges.[18] The Joint Board also described the charges associated with commencement of service as including "charges incurred in connecting a subscriber to the network. In most cases, *such charges cover the administrative costs of opening an account and*

[18] *See* 1987 Recommended Decision, ¶ 68, n.112.

the costs of turning the switch at the central office."[19] Accordingly, it is clear that the Joint Board (and the Commission after adopting the Joint Board's recommendation) did not intend to limit service installation charges to only those charges associated with the physical connection of the ETC's network and the consumer's residence.

The Commission's rules governing Link Up provide further guidance regarding the purpose of the program.[20] Section 54.413(a) specifies that ETCs "may receive universal support reimbursement for the *revenue they forgo in reducing their customary charge for commencing telecommunications service* and for providing a deferred schedule for payment of charges assessed for commencing service for which the consumer does not pay interest, in conformity with § 54.411."[21] Therefore, the Commission must acknowledge that the Link Up program was designed to reimburse carriers for the revenue they forgo in initiating service to low income consumers, and not just to reimburse carriers for limited initiation costs. The Indiana Commission and other commenters have provided no record evidence to support or reasoned basis for a change.

To be sure, the Commission's view of the purpose of Link Up funds includes administrative costs (*e.g.*, account set-up, verification, certification, recordkeeping, etc.) and connection costs (*e.g.,* facilities installation, systems and switch set-up, and certain equipment, including, to an extent, the cost of wireless handsets). Coalition members and other ETCs reasonably rely on the Link Up revenue replacement when building business models to serve low income consumers. The $30.00 subsidy replaces lost initiation charge revenues that in many

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19 *Id.*, ¶ 69, n.115 (emphasis added).

20 *See* 47 C.F.R. §§ 54.411 – 54.418.

21 47 C.F.R. § 54.413(a) (emphasis added).

cases were designed to cover service initiation and connection, as well as other activities discussed further below like outreach and distribution to build a market and provide Lifeline and Link Up service in a community. Because Link Up was designed as a revenue replacement subsidy, ETCs have been free to develop business plans that factor the subsidy amount into broader models for acquiring and serving low income customers successfully.

B. There Is No Evidence That Customer Initiation Costs Have Substantially Declined Since Link Up Was Established

Sprint proposes the elimination of Link Up funding based on its assertion that automation has reduced the cost of initiating service.[22] Sprint does not support this assertion, but instead refers to a tentative and unsupported statement in the 2011 Lifeline/Link Up NPRM that "service initiation in virtually all instances for both wireless and wireline providers is done remotely via software, with the actual costs of installation *likely* to be significantly lower than several decades ago."[23] An unsupported assertion that relies on another unsupported statement remains unsupported and cannot serve as the basis for changing the Commission's rules.

Notably, the Commission's statistics tell a different story. Indeed, average costs to initiate service have not materially declined since the Link Up subsidy cap was set. The Joint Board established the $30.00 Link Up cap based on national average charges of $45.17 (for rotary service) and $46.51 (for touch tone service) for "connecting a subscriber to the network."[24] The Joint Board noted that such charges "in most cases …cover the administrative

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22 *See* Comments of Sprint Nextel Corporation, WC Docket No. 11-42, at p. 9 (filed Apr. 21, 2011).

23 2011 Lifeline/Link Up NPRM, 26 FCC Rcd at 2796, ¶ 77.

24 1987 Joint Board Recommended Decision, n.115 (emphasis added).

costs of opening an account and the costs of turning the switch at the central office."[25] The national average for such connection charges, as reported by the Commission in its most recent Trends in Telephone Service Report released in September, 2010, remains essentially the same (*i.e.*, $43.22).[26]

Similarly, it is not clear that carrier costs have declined. While truck rolls may not be as prevalent as they once were, today's costs for commencing service are different. Instead of truck rolls, ETCs have to recover costs of distribution and outreach. Back in 1987, the Bells did not have to worry much about outreach; they were the phone company. Instead of loops and network interface devices, wireless ETCs have to recover costs of increasingly more sophisticated handsets. While it is the Coalition's position that Link Up should neither be eliminated or drastically limited, and that any transition from the current revenue replacement model would need to be gradual, the Coalition has included a declaration as an exhibit to these comments demonstrating that initiation charges remain at $60.00 and, to the extent relevant, activation, connection and other start-up costs per customer remain substantial.[27]

In short, the premise presented for eliminating or limiting the Link Up program is faulty. Elimination of the subsidy in the face of materially unchanged charges (and total costs) would merely result in carriers attempting to pass the charges on to consumers and an inevitable reduction in low income consumer telephone penetration rates.[28] Indeed, it is not hard to fathom the detrimental impact of adding another $30.00 or monthly costs to a low income consumer's

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25 *Id.*

26 *Trends in Telephone Service, Industry Analysis and Technology Division, Wireline Competition Bureau,* at 13-1 and Table 13.1 (Sept. 2010).

27 *See* Declaration of Frank Del Col – Tag Mobile, included as Exhibit 1.

28 Carriers may attempt to pass the charges on to consumers as part of higher top up rates similarly to TracFone. *See infra* Section II.C.

burden. For many, that amount would be 30 percent of their entire "discretionary" spending budget. Eliminating or drastically reducing the Link Up subsidy to focus on particular carrier costs also would not be competitively or technology neutral. Indeed, it would operate to the detriment of carriers such as the Coalition members whose business models and costs are tied more to community-based outreach efforts than to extending physical installation of facilities.

C. TracFone's Business Model With Respect to Customer Initiation Differs From the Industry Generally and That of the Coalition Members

The Commission seeks comment in the Link Up Public Notice regarding whether the Link Up program should be changed to only reimburse costs for initiation of service involving physical installation of facilities.[29] This inquiry is based on a proposal from the Indiana Utility Regulatory Commission that, in turn, is based on an assertion that TracFone, Virgin Mobile and i-wireless do not charge activation fees.[30] The practices of those carriers are not consistent with standard wireless industry practice. Nexus Communications, Inc. conducted an industry survey and confirmed that the general wireless industry practice is to charge activation fees to initiate service to new customers.[31] AT&T charges a $36.00 activation fee for new wireless accounts.[32] Verizon Wireless charges a $35.00 activation fee for most lines.[33] All

29 *See* Link Up Public Notice, ¶ 3.

30 *Id.*

31 *See* Comments of Nexus Communications, Inc., WC Docket No. 11-42, at pp. 16-17 (filed Apr. 21, 2011).

32 *See* AT&T Mobility website, *available at* http://www.att.com/esupport/article.jsp?sid=52268&cv=820&title=How+much+is+the+Activation+Fee+for+a+new+AT%26T+wireless+account%3F#fbid=sZXS1ta5Boz (viewed Aug. 25, 2011).

33 *See* Verizon Wireless website, *available at* http://www.verizonwireless.com/b2c/store/controller?item=familyShare&action=viewPlanDisplay&typeId=2&catId=323&planId=23737&numLines=2&perLineCost=9.99 (viewed Aug. 25, 2011).

Consistent with industry practice, Coalition members charge customers an activation fee, but recover part of that fee from the Link Up program for service to those low income consumers that qualify.

TracFone's Safelink Wireless Lifeline supported service operates under a different business model than that of Coalition members and other community-based service providers. TracFone is a national service provider that focuses primarily on low income households with Internet access. TracFone is able to saturate its target market within six months of entry primarily through advertising on TV and driving potential subscribers to the Internet.[34] TracFone's advertising is supported by a limited outreach program that distributes service activation forms through Best Buy and Wal-Mart, but that still must be mailed in by consumers.[35] The vast majority, if not all, of its sales are over the Internet or through the mail.[36] However, there are limits to the potential success of such outreach because the reach of TracFone's big box store application distribution method is limited and only a small minority of the Lifeline and Link Up prospective market has regular Internet access. As the Commission has advised, "the Internet should not be relied on as the sole or primary means of Lifeline/Link Up outreach."[37] TracFone does not generally have sales people or actual phones to sell in the communities.[38]

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34 *See* Declaration of Brian Lisle – Telrite Corporation, included as Exhibit 2. *See also* Figure 3 below.

35 *See id.*

36 *See id.*

37 *Lifeline and Link-Up*, Report and Order and Further Notice of Proposed Rulemaking, 19 FCC Rcd 8302, 8327, ¶ 46 (2004) ("2004 Link Up Order").

38 *See* Declaration of Brian Lisle – Telrite Corporation, Exhibit 2.

In stark contrast, Coalition members have sales agents in the communities with phones to provide to customers.[39] They assist customers with questions in person and help them activate their new phones.[40] Pictured below are Coalition member Life Wireless (Telrite) employees conducting outreach in Jonesboro, Arkansas and Charleston, West Virginia.

Figure 1. Life Wireless Outreach in Jonesboro, Arkansas

Figure 2. Life Wireless Outreach in Charleston, West Virginia

39 *See id.*

40 *See id.*

In addition, pictured in Figure 3 below are the Tag Mobile store locations in Pennsylvania. Tag Mobile has employees selling phones and conducting outreach to low income consumers in these locations – not merely application forms to be sent in by mail.

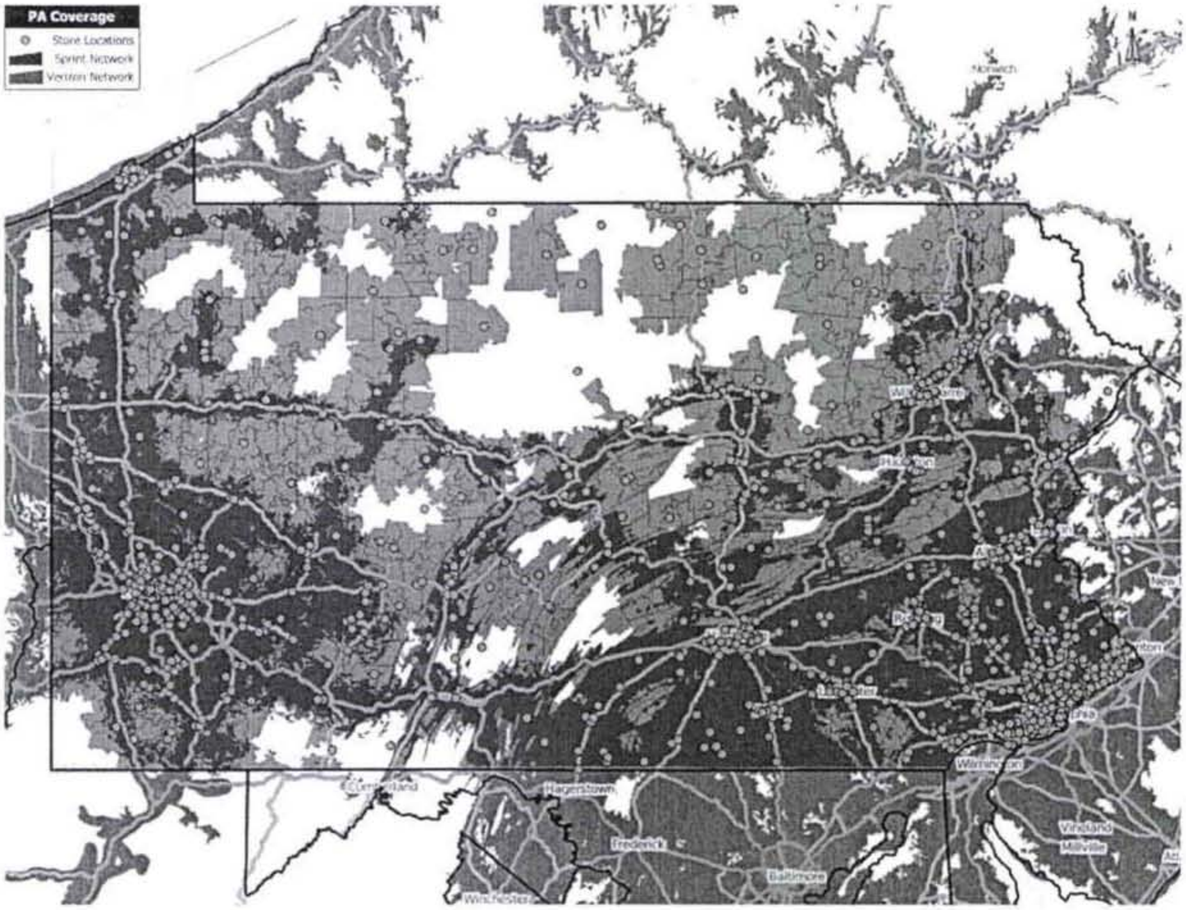

Figure 3. Tag Mobile Store Locations In Pennsylvania

There are, however, substantial costs involved with such in-person, community-based outreach. For example, a Coalition member, NewPhone, has begun to market its Lifeline and Link Up supported wireless phone service in small towns in less populated areas of Louisiana.[41] NewPhone's marketing includes sending sales and outreach employees to the

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[41] *See* Declaration of Jim Dry – NewPhone, included as Exhibit 3.

area.[42] Consumers in these areas are often suspicious of the service and the Lifeline/Link Up program in general.[43] They tend not to believe it is real or legal.[44] Usually, after spending some time explaining the purpose of the program and the services offered, the consumers see the advantages and sign up for the service.[45] The total sales per event are smaller in such sparsely populated areas and there are significant costs involved in traveling between these areas.

TracFone likely does not charge an activation fee in part because the lower up-front costs allow it to quickly add certain new customers in a community (*e.g.*, those with access to the Internet but not a phone); however, those lost revenues likely are recovered quickly with higher top-up per minute fees over the course of the customer relationship. Coalition members charge an activation fee that is often offset by Link Up funds. However, because of lower top-up per minute rates, the cost to the consumer over the life of the service relationship is generally lower.

TracFone and Coalition members offer similar plans that include a set number of included/no-charge minutes per month for customers eligible for the Lifeline and Link Up programs. After the included/no-charge minutes are used up, however, TracFone charges $0.20 per minute in large blocks of minutes for additional usage.[46] Coalition member rates vary by provider and the number of minutes, but the per minute rates are generally between half and a

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42 *See id.*

43 *See id.*

44 *See id.*

45 *See id.*

46 *See* Safelink Wireless Terms and Conditions, Section 7, included as Exhibit 4. Safelink Wireless offers 50 minutes for $9.99, 100 minutes for $19.99, 125 minutes for $24.99, 150 minutes for $29.99 and 200 minutes for $39.99. The price per minute drops very slightly if a customer purchases 450 minutes (*i.e.*, to $0.18 per minute).

quarter of TracFone's (*i.e.*, $0.10 - $0.04, as opposed to $0.20).[47] Even where a Coalition member charges a customer an activation fee of $30.00 (with the other $30.00 offset by Link Up) and TracFone does not, at half the per minute rate, the activation fee will be made up after 300 additional minutes or less. The Commission's statistics show that the average wireless customer uses 708 minutes per month,[48] which means the 300 minutes would be made up well within a month. After that time, the customer pays TracFone twice as much per minute or more. TracFone does not charge an activation fee in order to entice new customers to sign up, however, TracFone charges the customer more over the life of the service relationship (after about 300 minutes of use or less, especially if Coalition members waive the remaining $30.00 activation fee, as some states require). Low income consumers are better off paying the Link Up subsidized activation fee in order to keep the per minute rates down over time.

There is more for the Commission to be wary of when considering regulatory change requested by TracFone that would hobble its competitors and harm low income consumers presently reliant on Link Up. Figure 4 below shows that in TracFone's ten largest markets it has an average growth rate of 163 percent per month, for each of its first six full months in the market. On average, TracFone's line count then essentially levels off for the duration of its stay in that market, which is on average an additional two years. It would appear that either the vast majority of its marketing dollars are moved away from a market after six months, or that TracFone's target market (low income homes with Internet access) has been

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47 For example, Life Wireless offers 252 minutes for $25.00 (or $0.099 per minute) and MTI offers 180 minutes for $10.00 (or $0.055 per minute). Tag Mobile offers 100 minutes for $7.00 (or $0.07 per minute) and 500 minutes for $20.00 (or $0.04 per minute).

48 *See Trends in Telephone Service, Industry Analysis and Technology Division, Wireline Competition Bureau* at Table 11-3 (Sept. 2010).

saturated. TracFone's average monthly growth rate from month seven through month thirty averages 1 percent. TracFone's current estimated average market penetration in each of these "mature" markets is 20 percent after 30 months, or about two-thirds of what the Coalition estimates to be low income households with Internet access in the home (30 percent). The overall Lifeline penetration rate in TracFone's top ten markets is an estimated 37 to 44 percent. This evidences TracFone's inability to reach the majority of the market (defined as low income households without Internet access) in each of its top ten states.

TracFone Top 10 Markets	2011-04 Line Ct	2011-05 Line Ct	2011-06 Line Ct	Total Line Count Since Inception	Mo. Growth Rate M1-6	Mo. Growth Rate M7 to Current	Months in Operation	Mo Growth Count M12 to Current	Est. of Total Eligible Households	Est. TracFone Take-Rate
FL	442,120	443,504	447,736	12,453,292	83%	1%	34	3,980	1,959,807	23%
NY	304,621	304,590	302,518	8,299,525	194%	0%	29	-64,960	2,698,400	11%
OH	365,891	372,665	379,621	6,563,139	100%	2%	23	68,713	1,106,971	34%
MI	238,972	236,892	234,548	6,401,218	170%	0%	28	-56,150	1,218,069	19%
GA	265,950	268,117	270,302	6,265,544	410%	2%	30	17,564	1,063,429	25%
NC	203,352	202,390	201,531	5,129,463	69%	0%	28	-26,885	1,046,617	19%
TN	158,662	158,558	158,375	4,622,172	258%	2%	35	-3,803	820,241	19%
PA	227,223	231,164	231,164	4,220,115	92%	4%	29	51,642	1,209,086	19%
MA	175,948	180,386	184,537	3,780,513	191%	3%	30	41,145	659,771	28%
VA	114,050	114,625	114,872	3,380,133	59%	0%	33	-13,790	543,141	21%
Total	2,496,789	2,512,891	2,525,204	61,115,114				970	12,325,533	20%
Average	249,679	251,289	252,520	6,111,511	163%	1%	30	0.04%		

Figure 4. TracFone Subscribership Growth Over Time

This Figure confirms what many smaller wireline and wireless ETCs have found – that Linkup reimbursement is required to reach the majority of the eligible market, which is currently largely unserved. This market has long been the base for smaller prepaid telecommunications service providers, and it simply costs more to reach.

Further, because Coalition members are "on the ground" in their respective communities, they are able to assist during times of crises such as natural disasters. For example, in the aftermath of the recent tornado in Joplin, Missouri, Tag Mobile handed out wireless phones and gave away included/no-charge minutes so that victims could contact loved ones.[49] Tag Mobile's goal was to give away 5,000 phones and victims were provided with the same included/no-charge minutes per month that are provided under the Lifeline program.[50] In addition, Telrite's Life Wireless brand sent SMS text messages to its customers in the area with a free upgrade to the Life Wireless unlimited talk and text plan.[51] Many other Coalition members work through shelters, soup kitchens and other local charity centers. Beyond outreach and more competitive rates, community-based wireless carriers, such as the Coalition members, are in a unique position to assist their communities in times of need.

III. ELIMINATING OR MAKING DRASTIC CHANGES TO LINK UP SUCH AS CHANGING IT TO A LIMITED COST REIMBURSEMENT PROGRAM WOULD REQUIRE A MORE FULLY DEVELOPED RECORD AND CAREFUL CONSIDERATION BY THE COMMISSION

Since 1987, the Link Up program has contributed greatly to increasing telephone service penetration among low income Americans. Along with Lifeline, Link Up is a "critical" component of the Commission's universal service mission. If the Commission intends to eliminate Link Up, or dramatically redefine the Link Up program by converting it to a cost reimbursement mechanism only for physical installations, or reduce the current subsidy cap amount, it should issue a further notice of proposed rulemaking on the matter and collect a more robust record to be carefully considered free from current timing pressures. A three-week comment period on two questions based on faulty premises in a public notice will not suffice to build an adequate record.

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49 *See* Jessica Brown, *Free Phones for Tornado Victims*, Four States Homepage.com, included as Exhibit 5.

50 *Id.*

51 *See* Declaration of Brian Lisle – Telrite Corporation, Exhibit 2.