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INTRODUCTION

Mr. Chairman, thank you for the opportunity to be here today to present testimony to the Subcommittee as a member company of the Rural Cellular Association ("RCA"), and on behalf of Cellular South, Inc. ("Cellular South").

RCA's nearly 100 carrier members provide commercial wireless services primarily in rural areas that cover roughly 83% of the nation's geography. Many RCA members are eligible to draw from the federal universal service program and are using support to build high-quality networks in some of the most remote areas of the country.

Cellular South is the nation's second largest privately-held wireless carrier by number of subscribers, serving all of Mississippi as well as portions of Florida, Alabama, Tennessee and Arkansas. We are typical of RCA's membership in that the area we serve is overwhelmingly

rural and we face enormous challenges in competing with the "Big Four" carriers who currently dominate the commercial mobile wireless industry in this country.

Today, citizens in thousands of places across the country such as Spray, Oregon; Groseclose and Floyd, Virginia; Caldwell, West Virginia; Garnavillo and Whittemore, Iowa; Tillery, North Carolina; Trempealeau, Wisconsin; Bunker Hill, Illinois; Bloomington Springs, Tennessee; Brush, Colorado; Highlandville, Missouri; Eustis, Nebraska; Grand Isle, Maine; and Ellisville, Mississippi, are receiving high-quality wireless service as a result of the universal service program. In Mississippi, we have used support to reach out to countless small towns and rural areas, providing high-quality service in places where other carriers have not chosen to.

Universal service reform is one of three critical reforms that Congress and the FCC must enact to ensure that rural consumers have access to high-quality wireless services. In addition to universal service reform, Congress and the FCC should make clear that a person has a right to expect that a modern telecommunications device will work on any compatible network throughout the United States. It is absolutely unacceptable for a citizen of the Commonwealth of Virginia to take a Blackberry to New York, only to find that the device cannot access the carrier's fast 3G network, but is forced to "step down" to a slower one. It is even worse when a citizen travels to a distant city, only to find that email and Internet access have been completely disabled, even though the phone shows "four bars" of available signal on a compatible network.

The other consumer issue is handset exclusivity. Rural citizens must be able to buy the latest devices to enable access to the rapidly expanding universe of applications that are

increasingly becoming a staple of economic development in urban areas. Congress and FCC must do away with handset exclusivity, which large carriers are using to limit consumer choice and literally drive smaller competitors out of the marketplace.

There are simple solutions to the latter two problems: require all carriers to enter into automatic data roaming agreements, just as automatic roaming for voice and SMS text services is required today, and ban handset exclusivity arrangements. The FCC has the power to fix these two problems and RCA urges Congress to help the agency to do it.

With respect to universal service, I must be clear about the importance of high-cost support to rural wireless carriers. The key to high-quality coverage is cell density. Without support, cell sites will be constructed only in places that afford a return on investment. In cities, there are enough customers to justify dense cell site construction that provides high-quality coverage. In many rural areas, dead zones remain because places that justify dense construction are spread out – leaving small towns and rural areas with poor service.

Accordingly, one of the most important things I want you to understand is that for many rural areas, ***universal service support is the difference between spotty coverage and high-quality service throughout a rural area.***

For anyone who would say that the work of building wireless facilities in rural areas is largely done, RCA members across the country can demonstrate to you the difference between a rural area that receives little or no support, and one that receives universal service support. What

many of our members have accomplished in a relatively short period of time is truly remarkable. RCA members who are using support will be pleased to host you in your districts to demonstrate how their networks have developed and the benefits that they are delivering to your constituents.

RCA supports the Chairman's initiative, as shown in the discussion draft, to provide rural citizens with access to high-quality mobile wireless broadband services, and to enable the delivery of thousands of data applications that drive economic development. Mobile wireless networks play an increasingly important role in the health and safety of rural citizens. For example, police and first responders depend on secure mobile wireless networks in disaster recovery, and law enforcement operations. In sum, rural citizens, who pay into the federal universal service fund, deserve access to high-quality mobile voice and broadband services that Congress intended for them to have.

1. The Contribution Methodology Must Be Reformed To Reflect The Accelerating Shift From Voice To Broadband Services.

Today the FCC collects support contributions from carriers through a mechanism based entirely on a percentage of revenues. Ten years ago, when voice minutes made up the vast majority of carrier revenues, this mechanism was fine. Today it is apparent that the days of per-minute voice dominating carrier revenues are behind us.

Wireline voice minutes have been declining with the introduction of wireless and cable competition, as well as from consumers choosing Voice Over Internet Protocol ("VoIP") service on their broadband connections. Now, wireless consumers are increasingly using VoIP services

that will reduce carrier revenues for voice services dramatically in the coming years.[1] As consumer preferences shift toward data functions, including VoIP, text messaging, email, and other means of communicating, the bulk of carrier revenues are going to come from IP services, with voice bits traversing networks in the same manner as any other data bits. Less efficient circuit switched voice revenues will continue to fall for many years, and will eventually be phased out. Following the transition, consumers may spend more overall than they do today on telecommunications services, but their dollars will be spent on data platforms, applications, and vertical services, with voice being one of many data applications.

The networks that deliver all of these new services, along with IP voice, are no less challenging to construct, operate and maintain in rural America. Thus, the contribution mechanism must adapt, so that a sufficient level of support can be generated to advance the core universal service goal that rural consumers must have access to affordable and high-quality advanced services that are reasonably comparable to those available in urban areas.

The FCC's assessment of interstate telecommunications services draws from a shrinking pool of consumer revenues. That has resulted in a contribution factor that has now risen to over 14% of a customer's interstate bill. Some carriers use the FCC's "safe harbor" which pegs interstate revenues at 37.1% of a consumer's bill. The safe harbor results in wireless consumers contributing about 5.27% of their total phone bill. Other carriers are measuring traffic and discovering that interstate usage is much lower than the safe harbor, which dramatically reduces contributions. For example, if a carrier measures only 20% of its traffic as interstate, the contribution factor applies to that amount, while the remaining 80% of the bill is deemed

[1] See, e.g., the cover story of *Forbes* Magazine, November 16, 2009, "The $10 Phone Bill."

intrastate and exempt from federal universal service support assessment. This results in a lower universal service charge for the consumer, and correspondingly, less support available in the system.

There are numerous reasons why the contribution factor has recently increased, including carriers' use of traffic studies to more accurately reflect interstate traffic. Two others are worth noting. In the short run, the drop in wireless expenditures over the past year is a byproduct of our difficult economy. Consumers are cutting the cord and shifting to lower priced wireless plans. The second, as noted above, the shift to VoIP and other platforms, will be dramatic in the coming years, as new broadband platforms and increasing throughput speeds provide consumers with less expensive options for voice communications.

The near-term solution is to do exactly what the discussion draft proposes – give the FCC broad flexibility to reform the contribution mechanism. Whether support is assessed on numbers or their equivalent, on revenues, or a combination thereof, as long as everyone who uses our nation's telecommunications network contributes fairly, the result will be satisfactory. What cannot be allowed to happen is for the FCC to be limited to assessing interstate revenues that are melting away, as the distinction between voice and data traffic vanishes in an all IP world. The current course is unsustainable in the long term.

We therefore commend the Chairman for providing the FCC with much needed flexibility, and believe this legislation will remove all uncertainty about the FCC's authority to

craft a fair and forward-looking contribution methodology that ensures that the fund is sustainable long into the future.

2. The FCC Must Be Given Clear Direction To Transition The High-Cost Fund Distribution Methodology To Support Broadband and Mobile Wireless Communications Networks.

It has been said that there are only two killer applications in the telecommunications world: broadband and mobility. I agree. It is now widely accepted that access to these two killer apps must be the central focus of our government's effort to see that modern, high-quality telecommunications infrastructure is available to all of our citizens, not just those living in urban areas.

These statements are anything but new. Yet, since 2001, the FCC has not released an order advancing rural consumer access to broadband and mobility. Between 2000 and 2008, the FCC has subsidized wireline voice service in the amount of approximately $26.3 billion, while funding mobile wireless voice services at approximately $4.6 billion, and broadband at zero.[2] Although universal service support is often invested in dual-purpose networks that can deliver broadband (such as wireless towers or buried fiber), explicit support for broadband is long overdue. Society is transitioning to broadband and mobile voice platforms at an accelerating pace and will soon leave the current mechanism behind. The universal service mechanism cannot continue to support fixed voice service at a rate of over $3 billion per year, indefinitely.

[2] Source: 2008 Federal-State Joint Board Monitoring Report, Table 3.2. http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-287688A5.pdf

We therefore commend the Chairman for explicitly designating broadband as a supported service and requiring all carriers to deliver broadband within a reasonable period of time, or forfeit access to federal universal service funding. We have had discussions concerning whether the FCC currently has sufficient legal authority to fund broadband. Although we believe that current law permits it, this legislation will prevent any substantial delays that could result from court challenges.

We also believe that the draft should specifically task the FCC with determining the correct amount of support that ***high-cost areas*** need in order for consumers to have access to reasonably comparable and affordable broadband and mobile services. As drafted, the bill would allow certain ***high-cost carriers*** to receive embedded high-cost support indefinitely, which in the long run insulates specific market participants from market forces, and is therefore not competitively neutral. Support is for consumers, not for carriers, and this shortcoming in the current mechanism, supporting high-cost carriers, should not be perpetuated.

RCA favors a broadband fund that would confer upon the agency the discretion to adjust these throughput requirements periodically to account for technological developments. We think a ten year period would be sufficient to fully transition the mechanism away from supporting fixed voice and toward support for fixed and mobile broadband.

We arrive at this recommendation by looking at the past six years, during which residential access lines have dropped by over 30%.[3] The trend toward mobile voice is accelerating. By 2020, roughly ten years after this bill is passed, the percentage of Americans

[3] Source: Bernstein estimates and analysis.

using a wire for their primary access to voice service will be much lower than it is today, yet many consumers will likely continue to have a wire in their homes, to deliver IP services including Internet access and entertainment. These revenue streams will be substantial, and wireline carriers will also continue to provide backhaul for the wireless voice and broadband services that consumers need. Accordingly, subsidies must flow toward enabling wireline carriers to deliver IP services, and away from narrowband voice.

RCA believes that Congress got it right when it declared in 1996 that rural consumers should have access to "advanced telecommunications and information services."[4] As the world evolves toward broadband and mobile services, so too should the fund's distribution mechanism. For our part, Cellular South is fully prepared to make the jump to a competitively neutral system that provides efficient levels of support to rural areas, accessible by all carriers willing to take the risk of investing in broadband and mobile platforms. And make no mistake – there must be business risk in order for carriers to have appropriate incentives to deliver high-quality service. A carrier that invests and gets a customer should get support and those that lose customers should lose support. The discussion draft moves us further in the proper direction.

3. All Contribution and Distribution Mechanisms Must Be Competitively Neutral.

It is absolutely critical that all universal service mechanisms be competitively neutral, that is, they must not favor or disfavor any technology or class of carrier. This principle allows entrepreneurs and incumbents alike to compete for both consumer revenues and universal service

[4] 47 U.S.C. §254(b)(3).

support. It puts consumers more in charge by increasing choices. Consumer choice increases service quality and lowers prices.

The 1996 Act intended to break down barriers to entry throughout the country, not just in urban areas, and opening universal service to competitors was a critical tool. Allowing competitors to access universal service support in high-cost areas in a competitively neutral fashion has driven enormous consumer benefits. Accordingly, we commend the Chairman for codifying the FCC's "core principle" set forth in its rules, that all universal service mechanisms must be competitively neutral.

4. The FCC Should Be Afforded Flexibility To Revamp Distribution Mechanisms, And A Given A Deadline For Action.

RCA is committed to supporting a transition of the federal universal service mechanism to broadband services, provided that consumers are empowered to choose the services that best suit their needs, and carriers are required to compete for customers. Today, the biggest carriers, AT&T, Verizon and Qwest, receive support based on a forward-looking cost model, which is over a decade old, an antiquity. Computing power and mapping software are light years ahead of where they were in 1997. We know of private companies who have used these new tools to develop much more accurate models of what it costs to build an efficient broadband or mobile wireless network.

While we know models for costs and support can be developed, we do not know whether using models is the best policy choice. We also note that the discussion draft would permit some

carriers to elect to receive support through the use of a forward-looking model. Since the discussion draft contemplates the use of models for some carriers, we support giving the FCC flexibility to consider the use of models as a means of distributing support on a competitively neutral basis to all carriers.

RCA does not support the indefinite use of the embedded cost methodology, and accordingly we believe the discussion draft should specifically require the FCC to examine alternatives that provide carriers with incentives to operate efficiently. The current embedded cost system provides an incentive to spend more in order to increase support levels, and it is not transparent with respect to whether expenditures are necessary.

In addition, over 400 wireline companies remain on what is known as an "average schedule" which means they receive support irrespective whether they make any investments. These mechanisms are contrary to the current administration's principle that scarce resources must be deployed efficiently. The FCC must develop policies that increase investment in new, efficient technologies that will reduce the need for subsidies in the long run.

Accordingly, RCA supports a provision requiring the FCC to revamp the distribution methodology within a time certain, that it be done on a competitively neutral basis, and that efficient mechanisms shall be favored over those that encourage inefficiencies.

5. Auctions For One Class Of Carrier Are Inconsistent With The Principle Of Competitive Neutrality And Would Artificially Limit Competition.

A. Competitive Neutrality.

The discussion draft would require the FCC to distribute support to wireless carriers through the use of an auction methodology. To be clear, contrary to the principle of competitive neutrality, only wireless carriers would be required to engage in the competitive bidding process. The discussion draft allows for the selection of up to two competitors and a term of up to ten years before an area is rebid. RCA opposes auctions for universal service support because they will greatly disserve rural citizens.

Requiring auctions for one class of carrier and artificially limiting competition appears to be inconsistent with the discussion draft's mandate that support mechanisms be competitively neutral. Auctions for one class of carrier, while another class remains on the embedded cost mechanism, appears to fail a reasonable competitive neutrality analysis. This is especially so when today the universal service funding provided on embedded costs to wireline carriers is overwhelmingly funded by wireless consumers, most of whom would prefer to see funding increased for the service they rely on and use most.

Accordingly, we question the policy of substantially increasing support to AT&T, Verizon and Qwest, continuing an embedded cost methodology for other wireline carriers, while funding to rural wireless carriers would be permanently capped, even if a higher level of support is needed to accelerate investment in much needed wireless broadband infrastructure. To be clear, RCA fully accepts the need to sustain the fund. We believe that funding in an area should

be fixed at the amount needed to deliver reasonably comparable high-quality services to consumers, with support only being awarded for getting a customer.

Under the current rules, when a wireless carrier takes a customer away from another wireless carrier, the winning carrier also captures the support for that customer, and the losing carrier relinquishes the support, but the fund does not grow. This is as it should be. But under the current rules, when a wireless carrier captures a customer from a ***wireline*** carrier, the wireline carrier does not lose any support, and the fund grows. In order to promote investment, increase service quality, and consumer choice, while sustaining the fund, we recommend the following:

1. Use the broadband map being developed through the stimulus bill to identify areas where investment is needed;

2. Identify the efficient cost of providing broadband and mobile wireless services in each area shown in the broadband map, using a forward-looking methodology, such as the use of cost models;

3. Once an efficient amount of support is fixed for each area, provide support to the carrier that wins the customer, with eligible ETCs being required to meet the obligations set forth in the discussion draft, including offering service throughout its service area, complying with carrier-of-last-resort obligations, and all service quality rules. Carriers that lose customers must also lose support; and

4. Encourage newcomers to enter if they can meet the required obligations and if they have a more efficient network or desirable service that consumers would choose. This would allow the market, rather than regulators, to determine the success or failure of new technological advancements and business models.

B. Specific Issues Inherent in Reverse Auctions.

There are a number of auction issues that must be overcome before competitive bidding can be a realistic option for policymakers. Chief among them is the likelihood that an auction will recreate the very problem the 1996 Act intended to solve – the problem of dominant carriers in rural areas erecting insurmountable barriers to entry by virtue of their having all the customers and all the support. In areas where a single winner emerges, the Commission will have to regulate rates, service quality, interconnection, and other terms in order to effectively create an "artificial marketplace." Even where two winners are selected, an artificial duopoly will present most of these same challenges. By dictating a specific number of providers in an area, regulators merely succeed in precluding new entry and reducing, if not eliminating, the benefits of competition for rural citizens.

Providing auction winners with an exclusive term is problematic because installed telephone plant is comprised of long-term assets that are generally fixed into the ground (e.g., concrete, tower, equipment building) and that have lengthy depreciation schedules. Dismantling a network at the end of a term is not practicable. If carriers are expected to bid at levels which would allow recovery of the cost of plant within the exclusive term, then the problem of "stranded investment" issue would be far worse than the existing wireline problem, as much wireline plant in service today is decades old and fully depreciated.

RCA is also wary of deep pockets wielded by the largest carriers, who have shown little desire to provide high-quality wireless service in many RCA member served areas. Some of

these carriers are walking away from high-cost support and actively seek to minimize their contributions to the fund. In an auction, these carriers will have an enormous incentive to drive support levels down to minimal levels, so that carriers who want to serve rural America are either driven out, or forced to bid lower than the appropriate level needed to provide high-quality service, while large carriers reduce their contributions.

We envision the largest carriers winning reverse auctions for next to nothing, and then providing service at absolute bare-minimum levels with the smallest area of coverage possible to satisfy regulators, but to the detriment of consumers. The lack of support to competitors will also reestablish the barrier to entry that the 1996 Act tore down. RCA members, who have invested in their networks over the years, would not receive the support needed to maintain and upgrade networks in remote areas, causing cell sites to be decommissioned, and harming consumers who would lose service coverage.

It is easy to see these harmful effects today, as a result of the "interim" CETC cap, which has significantly reduced universal service funding to many rural wireless carriers who are still in the process of constructing networks. For example, Carolina West Wireless ("Carolina West"), an RCA member operating in North Carolina, has canceled plans to build eight new cell sites in its licensed service area as a result of the significant USF High Cost support reductions. Due to the interim CETC cap, Carolina West has seen a 67% reduction in universal service support. As a result, twenty communities in western North Carolina served by Carolina West will continue to have limited or no cellular service. The harm that the CETC "interim" cap is causing to rural America is real and is getting worse as long as it remains in place.

In sum, targeting an efficient level of support to an area, and requiring all eligible carriers to offer service throughout the area, is a better means of ensuring that citizens have a fair opportunity to select newcomers capable of offering better or less expensive services. Support to a high-cost area should be limited to the amount of support needed to efficiently provide consumers with high-quality broadband and mobile wireless services. Finally, Congress should set these principles before the agency and require a proceeding to be concluded within a reasonable period of time.

6. Universal Service Provisions In The 1996 Act Have Delivered Lower Prices And Tremendous Benefits To Both Urban And Rural Citizens.

Often overlooked are the substantial benefits that the FCC's early work on implementing the 1996 Act has delivered to the American public. For example, in 1995, the cost of a wireless minute of service was approximately 43 cents, largely because of the high cost of transporting and terminating calls on other networks. Following the 1996 Act, the FCC adopted an explicit high-cost fund and also transferred significant levels of access subsidies out of carrier rates and into the Interstate Access Support (IAS) and Interstate Common Line Support (ICLS) funds, which were made available to all carriers on a competitively neutral basis.

As a result, access charges were reduced, enabling corresponding reductions in the price of all telecommunications services. By 2006, the cost of a wireless minute was only 6.7 cents, which enabled carriers to offer more minutes at lower prices and wider local calling areas. As shown in the chart below, even taking into account the increasing contribution factor, the amount

that consumers are paying in per minute is dramatically lower than it was when the 1996 Act was enacted, in large measure due to universal service reform. I believe the benefits of increased competition and lower retail pricing have more than offset universal service contributions needed to fund the high-cost mechanism.

Per-Minute Cost of Wireless Service
(Including USF Contributions)

(1995-2007)

Sources: FCC, *Trends in Telephone Service*, Table 19.17 (Feb. 2007); *Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993 – Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, WT Docket No. 06-17, *Twelfth Report*, FCC 08-28 (rel. Feb. 4, 2008), at para. 201 (Table 14)

YEAR	(A) AVERAGE REVENUE PER VOICE MINUTE ($) 1/	(B) CONTRIBUTION FACTOR (%) 2/	(C) PER MINUTE COST OF CONTRIBUTION FACTOR ($) 3/	TOTAL COST PER MINUTE ($) (A) + (C)
1995	0.4300			
1996	0.3800			
1997	0.3700			
1998	0.2900	3.1625	0.0092	0.2992
1999	0.2200	3.0143	0.0066	0.2266
2000	0.1800	5.6980	0.0103	0.1903
2001	0.1200	6.8445	0.0082	0.1282
2002	0.1100	7.1625	0.0079	0.1179
2003	0.1000	8.7701	0.0088	0.1088
2004	0.0800	8.8000	0.0079	0.0879
2005	0.0600	10.5500	0.0074	0.0674
2006	0.0600	10.1750	0.0071	0.0671
2007	NA	10.9250		

1/ Data covers the last six months of each year.
2/ The listed number for years 1998-2007 is an average of the four quarterly contribution factors.
3/ Calculated by multiplying the average revenue per minute (A) by the contribution factor (B)

Our point here is simple. In the midst of valid concerns about the size of the contribution factor, if you add universal service contributions to the cost of a minute of service, all citizens, urban and rural, are enjoying significantly lower prices than they would have if the Commission had allowed access charges to remain artificially high.

CONCLUSION

Reforming universal service requires well-crafted legislation and a determined agency, willing to faithfully implement Congressional directives. RCA welcomes the discussion draft as it represents a substantial and persistent effort by the Chairman to move forward. RCA and our members hope for the opportunity to work with the Chairman and Subcommittee members to develop final legislation that continues to drive infrastructure investment in rural America, promote entry by newcomers who offer new technologies and efficient delivery mechanisms, and focuses universal service support on consumers.

Thank you again for the opportunity to participate in this proceeding.