

**WRITTEN TESTIMONY**  
**of**  
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**Before the**  
**United States House of Representatives**  
**Subcommittee on Telecommunications and the Internet**  
**Committee on Energy and Commerce**  
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Chairman Upton, Ranking Member Markey and Members of the Subcommittee, on behalf of CTIA-The Wireless Association®, I want to thank the House Subcommittee on Telecommunications and the Internet for focusing its attention on the important and timely issue of high-cost universal service reform. CTIA is grateful for the opportunity to present its views in this important area on behalf of the more than 200 million wireless consumers. As a significant net payer into the universal service system, the wireless industry is uniquely positioned to comment on proposals to reform the universal service system.

Over the last decade, wireless industry contributions to universal service have been steadily rising, while universal service distributions remain primarily directed to wireline carriers. Wireless carriers and their customers are responsible for about one-third of contributions to universal service. The wireless industry's payment into the federal universal service programs may exceed \$2.5 billion this year.

Meanwhile, the vast majority of universal service subsidies are directed to our competitors – wireline carriers. Wireless carriers receive only about 13% of universal

service support overall and less than 20% of high-cost universal service support. Since 1997, of the \$22 billion spent on high-cost universal service subsidies, \$20.9 billion has gone to incumbent wireline carriers and only \$1.1 billion has gone to wireless carriers and other competitors. So, to answer the Committee's threshold question, the universal service mechanisms are primarily subsidizing wireline carriers. This inequity exists even as consumers – the only intended beneficiaries of universal service – are demanding more and higher quality wireless services in high-cost areas.

The wireless industry shares Congress's commitment to the goals of universal service and its concerns about growth in the size of the universal service fund. Wireless carriers have strong incentives to ensure that the universal service fund is no larger than necessary, while ensuring that support is available to committed eligible telecommunications carriers (ETCs) on a non-discriminatory basis. Non-discrimination is a critical element of our universal service proposals. Consumers never benefit from regulations that distort the competitive market. Both incumbents and competitors should have the same opportunities to obtain universal service support.

Although we believe that a greater share high-cost universal service support clearly should be directed to deployment of more efficient wireless networks, the universal service reform debate must be more than about whether wireless or wireline carriers get the support. Policy-makers must address the more difficult question of how that support should be calculated. Otherwise, consumers will be faced with ever-increasing universal service costs. CTIA supports reforms that will ensure both

incumbents and competitors receive no more support than is necessary to achieve the goals of universal service. As I will discuss, any reforms to the high cost universal service mechanisms must demand more efficiency and accountability from fund recipients. In practice, that would mean less “per-line” support for both incumbents and competitors.

### **Lessons Learned from the Wireless Industry Experience.**

As Congress considers the important question of how to reform the universal service system, there are important lessons that can be learned from the incredible growth of the mobile wireless industry over the last decade. In December 1995, there were 34 million mobile wireless subscribers in the United States. As of December 2005, there were over 200 million mobile wireless subscribers. There are now more mobile wireless subscribers than wireline switched access lines.

Mobile wireless customers are in both rural and non-rural areas. According to the Bureau of Labor Statistics, the household wireless penetration rate in urban areas is 53.9%. The wireless household penetration rate in rural areas is not far behind – at 50.5%. The FCC has found that 97% of wireless customers live in counties with a choice of three or more wireless carriers and 87% of wireless customers live in counties with a choice of five or more wireless carriers.

Wireless carriers have been so successful, in part, because they have operated in an environment of regulatory constraint that rewards efficiency and innovation. The result has been lower monthly bills, cheaper minutes, and new and innovative service offerings. The average cost of wireless services has declined over time – even as wireless service offerings have expanded. In June 2002, before the Omnibus

Budget Reconciliation Act of 1993, the average wireless bill was \$68.51 per month. As of June 2005, the average wireless bill was less than \$50 per month. In fact, in 1992 dollars, the average wireless bill in 2005 was equal to \$35.57 – slightly more than half the earlier bill. For many customers, nationwide bucket of minute plans have made wireless the service of choice for making local and long-distance calls. In 1995, the average wireless customer had about 115 minutes of use per month. In 2005, the average wireless customer had almost 700 minutes of use per month. In 1995, there were 37 billion minutes of use on wireless networks. In 2005, there were approximately 1.5 trillion minutes of use on wireless networks.

Now, wireless carriers are in the midst of rolling out mobile broadband services. An alphabet soup of wireless broadband technologies is being deployed: Wi-Fi, Wi-Max, EV-DO, WCDMA, UMTS, to name just a few. Verizon Wireless has launched a broadband network based on evolution data only (“EV-DO”) technology available in 171 metropolitan markets covering more than 140 million people. Sprint Nextel began to roll out its EV-DO technology in mid-2005 and now offers wireless broadband services in 208 markets. In December, Cingular Wireless announced that subscribers could access its BroadbandConnect service through Cingular’s new 3G network. Alltel offers its Axxcess Broadband service, which provides data rates comparable to wireline broadband, in nine metropolitan areas. In addition to its extensive network of wireless hotspots, T-Mobile offers mobile Internet access through its GPRS service. Deployment is not limited to the nationwide wireless providers. U.S. Cellular, Alaska Communications Systems, Cellular South, Cellular

One of Amarillo, Dobson Cellular, First Cellular of Southern Illinois, Midwest Wireless, and many others are rolling out mobile wireless broadband services.

Although most of the wireless industry's growth has occurred without the benefit of universal service subsidies, universal service can and does play a critical role in improving access to wireless services in high-cost, rural areas. Deployment of wireless services in rural markets is more costly on a per-customer basis than serving a more densely populated area. As with wireline networks, factors such as lower population densities, topography, and geographic isolation make the average cost of providing mobile wireless services in rural areas significantly higher than in urban areas.

Wireless deployment in some rural areas has occurred because of wireless carrier access to universal service support. In a few short years, wireless ETCs have achieved a great deal. In many cases, wireless ETCs have used universal service dollars to bring service to rural and insular areas. For example, on the Pine Ridge Indian Reservation in South Dakota, Alltel has used universal service to increase telephone penetration rates from 27% to 92% in only five years. Cellular South serves 380,000 square miles of rural territory in Mississippi and is using high-cost support to significantly expand its network capacity. Centennial Wireless has brought mobile wireless services to communities, such as Shaw and Blackhawk, Louisiana, that previously had no telephone service at all, wireline or wireless. These are areas where the incumbent carrier – the “carrier of last resort” – was unwilling or unable to serve all customers. The public safety benefits of wireless deployment to these and other customers became obvious in the wake of Hurricanes Katrina and Rita when

wireless services were often available long before wireline services. We are proud of this track record. But, we believe the best is yet to come.

**Market-Based Universal Service Reform.**

As I mentioned before, efficiency and innovation have been hallmarks of the wireless industry. Universal service distribution policies should replicate those values as much as possible. Policy-makers should not repeat the mistakes of the past by supporting universal service policies that distort the competitive market or create incentives for both incumbents and competitors to develop business models premised on receipt of greater and greater subsidies. If the experience of the wireless industry can be any guide, simplified regulations that encourage and reward efficiency will best benefit consumers by ensuring that universal service is targeted only to where it is most needed and is no more than is necessary. To turn the tables on a popular wireline carrier analogy, instead of guaranteeing a “three-legged stool” of universal service, access charges, and end-user revenues in perpetuity, universal service laws and regulations should be designed to enable carriers serving high-cost areas to eventually stand on their own two feet and compete in the marketplace.

Unfortunately, the current high-cost universal service mechanisms are frozen in a time of guaranteed profits for monopoly providers of wireline services. Unlike the competitive market in which wireless carriers operate, the high-cost universal service mechanisms (and intercarrier compensation) actually reward incumbent carrier inefficiency. They also allow incumbent carriers to keep support even as they lose customers. Absurdly, the high-cost mechanisms subsidize incumbent carriers

based on what they spend (*i.e.*, their “actual” or “embedded” costs), not necessarily based on whether they actually serve customers located in a rural, high-cost area.

In practice, the FCC’s high-cost support mechanisms compound incentives for inefficiency inherent in actual cost support mechanisms. For example, the high-cost support mechanisms discourage carriers from taking advantage of economies of scale normally associated with combining operations. The high-cost universal service mechanisms also are designed to guarantee a prescribed level of profit for incumbent wireline carriers. Based on an estimated average cost of debt of only 5.46%, the average rural incumbent carrier earns a 15.06% return on equity from the universal service mechanisms. To make matters worse, many incumbent wireline carriers have reported to the FCC that they had profits far in excess of the prescribed rate-of-return. These elevated universal service profits do not translate to improved telecommunications services in high-cost areas. Instead, they simply enrich carriers, while increasing the overall size of the fund to the detriment of other carriers and consumers who end up paying higher universal service pass through charges.

Taken together, these problems result in a bloated fund that does not effectively target the appropriate levels of support to different high-cost areas. As a result, the high-cost support mechanisms do a poor job of ensuring that all Americans have access to high-quality, affordable telecommunications and information services. Moreover, the high-cost support mechanisms undermine the efficient development of competition as envisioned by the Congress in the Telecommunications Act.

At the FCC, CTIA has put forth market-oriented proposals to address these problems. CTIA has supported efforts to reduce demand for universal service, while

ensuring that support is available to both incumbent and competitive ETCs on a non-discriminatory basis. Specifically, CTIA has proposed combining the current five high-cost universal service mechanisms into one mechanism that calculates support based on the most efficient technology – whether wireline or wireless – in a small geographic area. Under this proposal, incumbent and competitive ETCs would receive the same level of “per-line” support based on the most efficient wireline or wireless technology for a given area. As in the competitive market, ETCs would only receive support to the extent that they win customers. More customers would equate to more support. At the same time, incumbents and competitors that lose customers would lose support (a novel concept under the current mechanisms).

Although CTIA has suggested that a cost model could be used to calculate support, CTIA is open to other market-driven proposals (such as reverse auctions) that would reward more efficient carriers that compete away the cost of universal service. CTIA also has proposed shorter term reforms within the context of the current mechanisms that would reduce support for carriers that do not need it and potentially increase support to those carriers with legitimate needs. For example, CTIA has supported:

- (1) Eliminating profit guarantees in high-cost mechanisms (We think carriers should get their profits from their own customers, not through the universal service mechanisms);
- (2) Requiring carriers to combine study areas in a given state (The current rules allow large, low-cost incumbents to appear small and high-cost by balkanizing their operations within a state); and

(3) Transitioning larger rural incumbent carriers to the non-rural high-cost mechanisms.

Increased accountability must be central to any universal service reforms. That's why CTIA has supported technology neutral "carrier of last resort" obligations for both incumbent and competitive ETCs. CTIA also has supported requirements that both incumbent and competitive ETCs achieve measurable results – for example, showing how universal service dollars have been used to improve service quality and coverage. We are open to other proposals and look forward to a continuing dialogue with this Committee and Congress on these important issues. Again, thank you for the opportunity to share the wireless industry's views on universal service reform. I welcome your questions.