WRITTEN TESTIMONY

of

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Good morning. On behalf of CTIA-The Wireless Association, I want to thank the United States Senate Committee on Commerce, Science, and Transportation for focusing its attention on the important and timely issue of 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. My comments are focused on reforming the universal service contribution system, but I also will briefly discuss the issue of how best to address legitimate concerns about the distribution side of the universal service equation.

As a significant and growing net payer into the universal service system, the wireless industry is uniquely positioned to comment on proposals to reform the universal service system. Wireless carriers are responsible for approximately 34% of contributions to universal service, while receiving only approximately 12% of payments. Wireless carriers have strong incentives to ensure that universal service contributions are collected from as wide a base of contributors as possible, while ensuring that both incumbent and competitive eligible telecommunications carriers (ETCs) receive no more support than is necessary to achieve the goals of universal service. As I will explain below, it is the wireless industry's strong interest in a sustainable system that assesses universal service contributions in an equitable and nondiscriminatory manner from as wide a base as possible that has led CTIA to support the FCC's adoption of a numbers- and capacity-based universal service contribution system at the FCC.

The wireless industry's share of contribution obligations has grown significantly over the last decade. In 1997, wireless carriers were responsible for only 3.3% of contributions. Wireless carriers are now responsible for approximately 34% of contributions to universal service. Wireless carriers are quickly becoming the largest group of contributors to the federal universal service programs.

It is safe to say that this growth in universal service contributions has matched the meteoric rise in the 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, as compared to approximately 178 million 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.

Corresponding with this growth, consumers have received lower monthly bills, cheaper minutes, and new and innovative services. The average cost of wireless services has declined over time – while 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 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 2004, the wireless industry crossed the one trillion minutes of use threshold.

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 Axcess 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.

The growth of these new and innovative services, while providing obvious benefits to consumers, place the current revenues based contribution system in a precarious situation. As you know, contributions under the current system are premised on distinctions between "interstate" and "intrastate," and "telecommunications" and "non-telecommunications." The distinction between intrastate and interstate has always been difficult for wireless carriers, which provide a service that is inherently mobile. For that reason, the Federal Communications Commission created an interim safe harbor that now allows wireless carriers to assume that 28.5% of the telecommunications services are interstate for purposes of calculating universal service contribution obligations. Many wireless carriers nonetheless perform traffic studies to estimate what percent of their telecommunications revenues is interstate. This distinction has become an issue for wireline carriers that now increasingly offer Voice over Internet Protocol (VoIP) services that provide customers with mobility – the ability to make and receive calls wherever in the world they have access to a broadband connection. Unlimited long-distance plans offered by wireline carriers also are making it harder to unbundle the revenues associated with the interstate calls that support the USF.

The distinction between "telecommunications" and "non-telecommunications" also is a challenge. Communications providers increasingly are self defining themselves out of universal service contribution obligations. Often, the Federal Communications Commission only discovers that contributions are not being paid until well after the fact when a carrier is either uncovered by a competitor or turns themselves in. Prepaid calling cards are the most recent and infamous example of telecommunications carriers calling themselves information service providers to avoid universal service contribution obligations. Commonsense dictates that prepaid calling card providers, who add prompts at the beginning of each call, are no different from any other provider of long-distance services, but these carriers have exploited a lack of clarity in the rules to avoid paying their fair share into the universal service fund. The prepaid calling card example has cost the universal service fund several hundred million dollars in lost universal service contributions over the last few years. These contribution costs just end up getting shifted to wireless carriers and others that are playing by the rules. Incidentally, wireless carriers can and do pay USF on their prepaid services. Without a doubt, there are many other examples of carriers wrongfully avoiding contribution obligations.

The growth of broadband services also is placing the revenue-based system under threat. As you are well aware, the United States Supreme Court, in the Brand X decision, recently upheld the FCC's determination that cable modem providers are information service providers. The FCC also recently expanded that declaration, concluding that DSL providers also were information service providers – not subject to mandatory universal service contributions under the Act. Although the FCC continues to collect universal service contributions from DSL providers, it acknowledged that those contributions could end, depending on the outcome of the FCC’s universal service contribution methodology proceeding. Meanwhile, several other petitions are pending before the FCC seeking declarations that a variety of other services are information services, that potentially would be exempt from mandatory universal service contribution obligations. The wireless industry also is fast deploying its own broadband Internet access services that should be treated no differently than cable modem or DSL services for contribution purposes. To add further complexity to this picture, wireless carriers will soon be marketing converged devices that will allow consumers to seamlessly transition from traditional cellular or PCS connectivity to VoIP Wi-Fi connectivity, whichever provides the best user experience.

Taken together, these changes are placing the universal service contribution system at risk. The interstate telecommunications revenue base used to assess universal service contributions has been stagnant or in decline over the last few years -- even as revenues overall for the industry have continued to increase. This can only mean that carriers and customers are migrating from traditional services clearly within the universal service contribution base to services that are not subject to contribution obligations. And, the rate of this migration will only increase over time. CTIA does not believe that this problem can simply be addressed by expanding the scope of revenues subject to contribution obligations -- for example expanding the base of contributors to include all "communications service providers." Because a revenue-based system will always rely on definitional distinctions (this time as between "communications" and "non-communications"), it will always be vulnerable to mischief.

That brings us to the question of what mechanism will best adapt to these changes over time? Considering all the alternatives, CTIA, on behalf of its wireless carrier members, now believes that a numbers- and capacity-based contribution system will best adapt to the evolving multi-dimensional communications market in which we now operate. Working extensively with our carrier members, CTIA has developed a detailed proposal for the FCC to transition from the current revenue-based system to a numbers- and capacity-based system.

In identifying the best system, CTIA tried as much as possible to adhere to the following core principles: (1) All providers of interstate telecommunications should contribute on an equitable and nondiscriminatory basis; (2) No individual consumer group should bear an unreasonable and unfair share of contribution obligations; (3) Opportunities for telecommunications providers to avoid contribution obligations should be minimized; and (4) Administrative burdens and/or costs for contributors (and by extension consumers) should be minimized. Weighing all of these factors, CTIA has developed a numbers- and capacity-based contribution system that is fair to both contributors and consumers. Numbers and connections are easily understood by consumers. Assessing numbers and connections also avoids the problem of definitional arbitrage so endemic in the current revenue-based system.

Under CTIA's proposal, all switched connections would be assessed based on working telephone numbers and non-switched connections would be assessed based on capacity units. CTIA has designed its proposal to ensure that no consumers will be disadvantaged as a result of the transition to a numbers- and capacity-based system. Importantly, CTIA is not asking for special treatment under any universal service contribution system. Wireless carriers would pay more over time under a revenue-based system and they will continue to pay more under a numbers- and capacity-based system. No segment of the industry will add more numbers over the next few years than wireless carriers. Under CTIA's proposal all providers of interstate telecommunications will continue to contribute on an equitable and nondiscriminatory basis.

The CTIA proposal does include certain safe harbor provisions for certain broadly-defined residential consumer groups. The needs of residential customers – the primary beneficiaries of universal service – must be central to any changes. Under CTIA's proposal, there would be no contribution obligations associated with Lifeline and Link-Up customer numbers. Moreover, residential broadband services associated with a number would not be separately assessed – so that a residential customer with a DSL connection would not be assessed for both its number and its broadband connection. In addition, CTIA's proposal would reduce assessments for wireless "family plan" numbers and prepaid customer numbers by 50%. The universal service contribution for the typical wireless "family plan" would more than quadruple if it were subject to the full numbers-based assessment. Under our proposal, the amount of that increase would still be significant, but more manageable. We believe these provisions are necessary to ensure that residential customers – especially those that are low-income or low average revenue per unit – are not unfairly impacted by the transition to a new system.

Some customers may pay slightly more or less under CTIA's numbers- and capacity-based contribution system, but the typical residential customer would pay about the same. Considering a wide range of assumptions, CTIA concludes that under the revenue-based system, the average residential customer pays no more than $3.00 per month in federal universal service contribution costs. Under CTIA's proposal, the average residential customers would pay no more than $3.01 per month in federal universal service contribution costs in 2006. Overall, under the revenue-based system, residential customers are responsible for no more than 55.2% of the universal service contribution base. Under CTIA's proposal, residential customers would be responsible for no more than 55.9% of the universal service contribution base in 2006. These amounts will increase over time, but would also increase under the revenue-based system as the size of the fund grows and as residential customers purchase a wider variety of services. This analysis shows that the typical business customer also would pay about the same under CTIA's proposal.

When comparing CTIA's proposal against others, the devil really is in the details. For example, assessing numbers without a capacity-based component for non-switched connections would result in a significant and wholly unfair shift of contribution obligations to residential and small business customers. Likewise, some parties have proposed capacity tiers and multipliers for non-switched connections that would shift contribution obligations down from large business users to residential and small business customers. Other proposals seek preferential treatment for certain categories of large business customers that are neither low average revenue nor low-income. Most recently, carriers and customers that inefficiently use numbers have asked for preferential treatment -- essentially asking the FCC to validate bad business models and buying decisions. These proposals are patently unfair and should be rejected.

In short, CTIA believes that it has developed a contribution methodology proposal for FCC adoption that is fair to both contributors and consumers. CTIA's proposal balances the equities that are necessary to ensure a sustainable contribution base. CTIA believes that its proposed numbers- and capacity-based contribution methodology will adapt overtime as the industry continues to evolve. Importantly, CTIA's proposal is not self-serving. As I stated previously, wireless carriers have and will continue to pay more over time than under the revenue-based system.

Let me briefly discuss the distribution side of the universal service equation. As Congress considers reforms to the universal service system, wireless carriers must be recognized for the benefits they can and will bring to rural consumers. The wireless industry shares Congress's concerns about growth in the size of the universal service fund. At the FCC, CTIA has supported proposals to ensure that universal service support is used only for its intended purposes. CTIA supports stringent guidelines adopted by the FCC requiring both incumbent and competitive ETCs to use high-cost universal service support to provide supported services to requesting customers throughout a designated service area (in essence, a "carrier of last resort" obligation). However, CTIA strongly opposes any anti-competitive proposals to discriminate against wireless carriers. We also are opposed to proposals that would unfairly give incumbents and competitors unequal high-cost universal service support. Giving less per-line support to one set of competitors puts policy-makers, not consumers, in the position of deciding which provider wins and loses in the competitive telecommunications marketplace.

I have heard the argument that universal service should not be used to create artificial competition in areas that could not sustain the incumbent wireline carrier without universal service funding. But, universal service also should not be used to create artificial barriers to competition under claims that competition in some areas of the country is not economically feasible. As the experience of the wireless industry has demonstrated, there can be little question that competition is good for consumers – whether located in rural or non-rural areas – by spurring innovation and efficiency. Limiting universal service support to one incumbent wireline carrier in a particular area will discourage more efficient and innovative competitors from entering that area and providing rural customers with the same choices and innovative services that benefit customers in more densely populated markets.

Universal service can and does play a critical role in improving access to wireless services in high-cost, rural areas. 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 primarily because of wireless carrier access to universal service support.

For example, Centennial Wireless has used universal service support to bring mobile wireless services to communities, such as Shaw and Blackhawk, Louisiana, that previously had no telephone service at all, wireline or wireless. 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. Wireless carriers, such as Cellular South, RCC, Sprint, Midwest Wireless, US Cellular, and others have achieved similar results. In many instances, wireless carriers have achieved in a matter of years what it took incumbents decades to achieve. We are proud of that track record. But, we believe the best is yet to come.

Efficiency and innovation have been hallmarks of the wireless industry. We believe universal service distribution policies should replicate those values as much as possible. CTIA has long supported market-driven efforts to curb demand for universal service subsidies. Under CTIA's proposals, <u>both</u> incumbents and competitors would receive less support. We are open to a variety of proposals that will ensure that both incumbents and competitors receive no more support than is necessary to achieve important universal service goals.

We look forward to a continuing and open dialogue with the Members on these important issues. As strong as our opinions appear, we are open to other ideas for furthering the goals of universal service in the evolving communications marketplace. Again, thank you for the opportunity to share the wireless industry's views on universal service reform and I welcome your questions.