

Statement of

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Parent Company of Cellular South Licenses, Inc. (“Cellular South”),

on behalf of

The Wireless Independent Group

Senate Commerce Committee

Hearing on

Universal Service Fund Distributions

February 28, 2006

INTRODUCTION TO CELLULAR SOUTH AND THE WIRELESS INDEPENDENT GROUP

Chairman Stevens, Co-Chairman Inouye and members of the Committee, I am Carson Hughes, Chief Executive Officer of Telapex, Inc., the parent company of Cellular South. I am pleased to be here today to discuss issues involving the Universal Service Fund.

I am testifying on behalf of a coalition of independent wireless carriers called the Wireless Independent Group (“WIG”). Members of the coalition include Cellular South, Chinook Wireless, Midwest Wireless, and Rural Cellular Corporation.

WIG members serve approximately 1.7 million consumers, the overwhelming majority of whom use their phones in rural communities in Alabama, Arkansas, Iowa, Florida, Kansas, Maine, Massachusetts, Minnesota, Mississippi, Montana, New Hampshire, New York, North Dakota, Oregon, South Dakota, Tennessee, Vermont, Washington and Wisconsin.

We applaud the Committee for your willingness to explore the difficult issues surrounding universal service fund distributions. Like all of you, WIG members are committed to the long-term sustainability of the fund. We have seen first hand how universal service support helps the lives of those living in rural and underserved communities. As a company that has participated in the universal service program for well over four years, I hope our experience can shed light on the immense benefits and services that are enjoyed by the rural communities we serve because of our access to these funds.

Let me provide you with a brief description of how universal service support has helped rural Mississippi consumers enjoy the benefits of advanced telecommunications services. In 1988, Cellular South began offering service on the Mississippi Gulf Coast. By 1992, we expanded out to 8 other Rural Service Areas (“RSAs”) covering most of the state. We were the first to provide analog cellular service to many parts of rural Mississippi. By 1999 we had become the first to offer near statewide DIGITAL wireless communications to Mississippi. By the end of 2001, we had expanded our service into parts of 4 other southeastern states.

In 2002, primarily because of universal service support, we became the first wireless company to offer a more efficient, next generation digital service, providing consumers with unlimited voice and text messaging products at a flat rate throughout our entire service footprint. Many of these areas are designated as high cost areas and would not have received these services without USF support.

Cellular South customers average 1300 minutes of use per month, nearly double the industry average of 700 minutes per month. This high usage phenomenon is a direct result of our ability to deploy universal service support to construct and improve wireless infrastructure in the high cost areas of the state. But, more importantly, this data point reflects the NEED and DEMAND for mobile communications in rural areas. Rural businesses and consumers deserve the same benefits that urban areas have with mobility. The Future of Broadband is mobility.

The health and safety benefits of a modern wireless communication infrastructure to rural America may be the most important benefit. There is no more powerful safety tool than a cell phone, provided there is a signal available to place an emergency call. Cellular South was

recently commended by the Mississippi state legislature for our "exemplary" efforts during the aftermath of Hurricane Katrina. While wireline networks and even some other wireless providers on the Mississippi Gulf Coast took months to recover from Katrina, Cellular South's wireless network returned to full capacity throughout Mississippi less than two weeks after the hurricane's landfall.

There is no doubt in our mind that universal service support, prudently deployed in recent years, was key to developing a robust network that provided much needed coverage, redundancy, and ancillary back up facilities that enabled our employees to respond effectively. We are proud of our employees and thankful to the Congress for its foresight in authorizing wireless carriers to draw universal service funds to improve their networks.

Congress recognized in the Telecommunications Act of 1996 ("1996 Act") that the future of rural America depends largely on deployment of modern telecommunications infrastructure that allows consumers to have choices in advanced services that are similar to those available in urban areas. By permitting wireless carriers access to universal service funding to construct network infrastructure in areas that would not otherwise support the investment, Congress has opened the door to rural consumers having the health, safety, and economic development opportunities available through wireless service that are critical to bridge the technology gap between urban and rural America. We urge Congress that in any subsequent reform of the 1996 Act, Congress will keep the door open for rural consumers to continue to enjoy the wireless services of today and the advanced telecommunication services we can only dream of for tomorrow.

This testimony will examine the benefits rural consumers enjoy from the current USF distribution system while dispelling some of the outstanding myths concerning the USF high-cost fund. This document will also make policy recommendations about universal service we believe will best benefit rural communities.

OVERVIEW

- 1. Under the current system, rural wireless consumers who contribute to the fund are not seeing the degree of benefits that they need and deserve.**
 - Wireless consumers now contribute roughly **\$2.5 BILLION per year** to the federal universal service system or **34% of the total fund**.
 - Wireless carriers that are designated as Competitive Eligible Telecommunications Carriers (“CETCs”) have drawn just over **\$1 BILLION IN THE AGGREGATE SINCE 1996**, and in 2005 they drew roughly 10% of the total fund (\$700 Million).
 - Incumbent Local Exchange Carriers (“ILECs”) draw roughly **\$3 BILLION per year**, or roughly **50% of the total fund**, to maintain networks that are not growing in number of customers served.
 - In the aggregate, we believe that consumers nationwide have spent roughly **\$19 BILLION** since 1996 to finance wireline networks. In areas where wireless competitive ETCs have not been designated, rural wireless consumers see little benefit from the vast majority of the dollars they contribute.

Bottom line: Congress must make it a priority to provide federal high-cost support to fund wireless infrastructure development for rural consumers who desperately need and deserve high-quality wireless networks. The health, safety and economic development benefits that flow from investing in mobile wireless communications infrastructure are precisely what universal service should be funding in rural America

- 2. CETCs are demonstrating to the states that support is being used to build infrastructure in areas that would not otherwise see investment.**
 - Even with the advances that have been made in rural wireless coverage, anybody who uses a wireless phone while moving across rural America understands the huge difference in service availability and service quality compared to urban areas.
 - WIG members understand how important it is for consumers to have access to mobile wireless services.
 - WIG members have constructed new cell sites serving unserved and underserved communities in their ETC service areas that would not have been constructed without federal high-cost support authorized by Congress.
 - The vast majority of states now require CETCs to report how support is being used. These reports provide accountability that is not present for wireline carriers. Vermont, West Virginia, Mississippi and now Minnesota provide good examples of states that have gotten the reporting requirement right.

Bottom line: Wireless carriers are today providing written proof that the support is being used to drive infrastructure investment in rural areas that would

not otherwise receive such investments. We would be pleased to deliver to the committee on a confidential basis copies of reports of what Cellular South has done.

3. The current system of providing support necessitates wireless carriers to make efficient investments but allows wireline carriers to make inefficient investments.

- Wireless carriers can only get support after, (1) we build facilities, and (2) we get a customer.
- Wireless carriers are not guaranteed a return, so if we make a poor investment and only get a few customers, we bear the risk of such investment. .
- Support to wireless carriers in all areas is currently capped by the number of available customers in a particular area.
- In states like Mississippi and Washington, where support has been targeted to rural areas, the system works properly: Several wireless carriers are fighting for a limited pool of support dollars in rural areas, but receive no support for serving urban areas.
- I am advised that wireline carriers operate on a “cost-plus” system that pays more as they spend more and thus can cause extreme inefficiencies. I am also advised that in many states and at the federal level, wireline carriers only report what has been spent, not whether it is needed to provide service.

Bottom line: Wireless carriers are concerned that ALL carriers be accountable. Moreover, consumers should only fund efficient investments.

4. Rural Consumers are increasingly demanding (and certainly deserve) high quality advanced wireless services, including data and broadband, enjoyed in the urban areas and they need access throughout the area where they live, work and play.

- In 2006, businesses will spend more on wireless services than on wireline according to a study released in January by In-Stat. It is estimated that the demand for wireless data will grow an average of 18% per year, through 2009.

Bottom line: Congress should consider policies that guarantee rural communities an opportunity to keep pace with urban areas in the technology race.

TESTIMONY

Recently, the Consumer Electronics Association released a study showing that 17% of consumers who purchased their wireless phone within the past 90 days are relying solely on their wireless phones for voice service.¹ This is a significant jump from earlier reports that wireless substitution was roughly 9%. We believe that wireless is the future for voice and data communications throughout the nation and that sound universal service policy that has “jump started” infrastructure development of advanced wireless networks in rural areas must be continued.

There is no sound public interest reason to deny rural consumers the technology they need to compete with our nation’s urban areas. In reality, I can’t think of anything that will widen the gap between rural and urban areas, and accelerate the brain drain out of rural areas more than attempting to control growth of the fund by limiting wireless carrier access to universal service funds. Urban areas of our nation benefit from the availability of advanced wireless and wireline telecommunication systems in the rural areas since it allows businesses to extend their reach. Universal service, in part, has helped wireline carriers deploy a ubiquitous outstanding network in rural America over many decades. The public now requires a similarly ubiquitous outstanding wireless network.

It is a simple fact that wireless carriers cannot effectively compete in high-cost areas if only the wireline carrier receives support. Wireless carriers need universal service support to construct networks in areas that would not otherwise receive the level of investment needed to deliver high-quality advanced services. Every time we construct a new cell site in an underserved area, consumers in roughly 144 square miles of land area have access to 911, E-911, and all of the service offerings that mobile wireless can provide.

Universal service must grow with the reality that consumers are best served by competition. The best thing Congress can do is insist that the FCC adopt rules for distributing federal universal service support that are competitively and technologically neutral. In short, universal service rules must not disadvantage any class of carrier or technology. In addition, the FCC must develop mechanisms for verifying that carriers are using support for building and maintaining networks.

Unfortunately, we cannot support a portion of Senate Bill 2256 proffered by Senator Burns, but we do applaud the inclusion of broadband as a supported service. Today, we are seeing the proliferation of uses for mobile broadband services and rural consumers need these tools to compete with their counterparts in urban areas.

¹ “The Wireless Purchasing Study: Measuring Satisfaction and Loyalty”, Steve Koenig, Senior Manager, CEA.

We are concerned however about anti-competitive proposals that would stall or prevent expansion of advanced wireless services in rural areas by requiring carriers to build out an entire high cost area before they receive ETC designation. Such a requirement turns the whole theory of universal support on its ear, ignoring the economic reality that without support, expansion by wireless into many rural areas would be impossible. Had this requirement been imposed upon wireline companies in years gone by, we would no doubt be looking at large areas of the country that would not be enjoying the benefits of the modern telecommunication systems that now exist.

Wireline carriers spent decades building out their networks, all the while receiving some form of universal service support to assist in their construction efforts. Wireless is no different in this regard – we cannot build an entire network before receiving any support. The current system which only provides support when we get a customer naturally requires us to build first, but properly provides support incrementally, as we grow. Moreover, disaggregating, or targeting support to high-cost areas prevents competitors from receiving support when constructing network facilities in urban areas.

We are also concerned about the proposal in S. 2256 that would eliminate the “identical support” rule. After much careful consideration, the FCC rejected this proposal years ago, and for good reason. Paying each ETC on its own costs would require a larger USF and would not control growth of the fund as some would suggest. Wireless ETCs under the present system receive the same “per-line” support as the landline carriers, but nowhere near the same amount of total support because wireless ETCs are paid only after they construct facilities and gain a customer.

For example, under the current system, supporting three ETCs that serve the same area does not triple the burden on the fund because, in our experience, customers do not carry three wireless phones. In effect, support is capped in an area by the number of people living there and all wireless competitors must fight for a fixed amount of customers and support. Each carrier is paid the same “per line” support on a “per line” basis, rather than each wireless ETC being paid on its own costs to construct an entire network. We support this because it requires efficiency on the part of the wireless company and it does not place regulators in the position of selecting which company should be selected to build a network and which company should be left out.

We are also concerned about a provision that would allow rate regulation by states. This provision is anti-competitive and bad for rural communities because it would eliminate the ability of a wireless provider to lower rates if it so chose. We note that many states are moving away for most rate regulations of wireline carriers today.

We are of the opinion that the better course is to permit consumers to choose the service they value most and focus on making each carrier accountable for the funds they get – to drive the infrastructure needed to provide benefits and eventually minimize the amount of support needed to serve rural consumers.

In order to clear the record, we review below several myths that have been proffered to date, and our response to each.

MYTH: WIRELESS CARRIERS THAT ARE CETCs ARE RESPONSIBLE FOR “BALLOONING” OR “EXPLODING” THE HIGH-COST FUND.

FACT: A close examination of the facts about the high-cost fund shows nothing could be further from the truth.

We have heard that universal service and in particular, the “high-cost fund” is going bankrupt because of the increase in the number of CETCs. More alarming perhaps is the allegation that soon there will be no money left in the fund to sustain telephone services in rural areas, again as a result of CETC designations.

The most recent figures available to me show the high-cost fund provided \$3.4 billion in 2004. Of the roughly \$3.4 billion in federal high-cost support distributed in 2004, wireless CETCs received approximately \$333 million, or around 10 percent of the total.² Final figures for support provided in 2005 are not yet available, however I am advised that an good estimate of the amount of support to CETCs to be approximately \$700 million. Without a doubt, support to new entrants has risen significantly on a percentage basis, notably because it began at zero.

Since 1999, support to ILECs, which operate mature networks that typically are not growing, has gone from approximately \$1.7 billion per year to approximately \$3.15 billion per year, a total increase of roughly \$1.4 billion per year.³ Of that increase, roughly \$620 million per year represents a real dollar increase in funding. The rest represents support that the FCC has transferred from carrier rates into the universal service program.

The following two tables illustrate ILEC and CETC draws:

² Source: Universal Service Administrative Company Annual Report, 2004. Available at http://www.universalservice.org/_res/documents/about/pdf/2004-annual-report.pdf

³ See *id.*

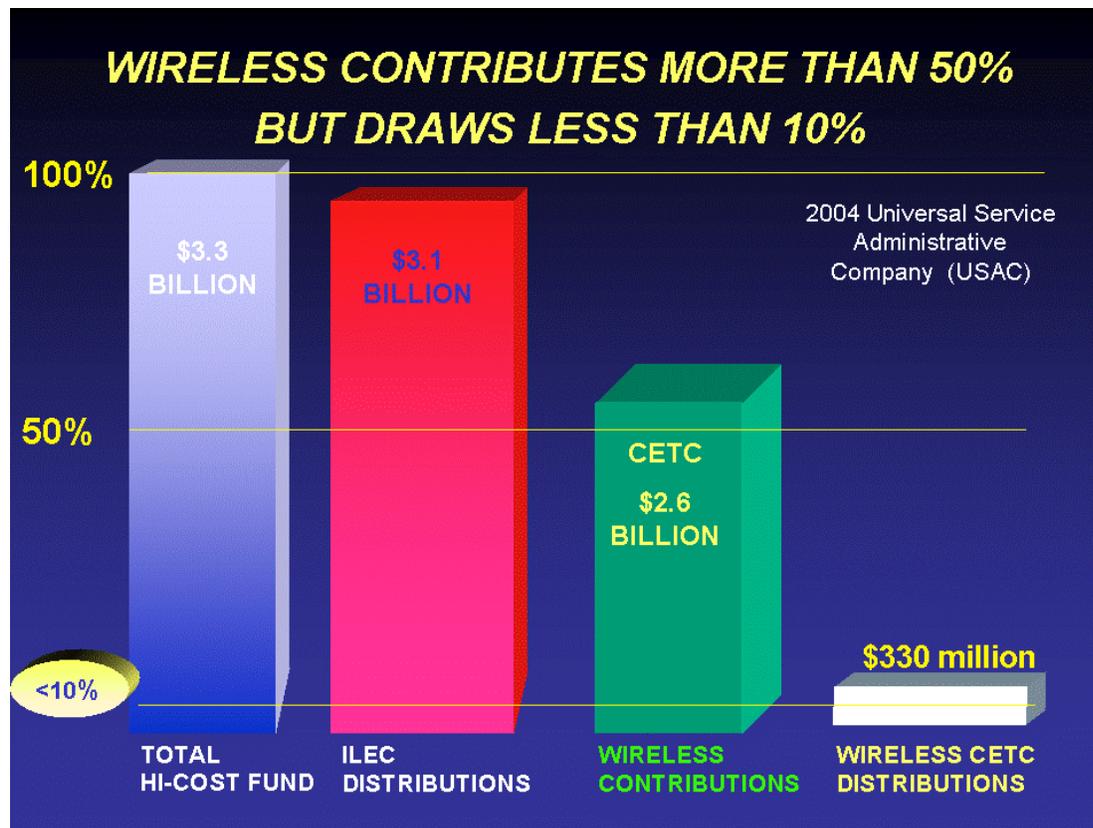


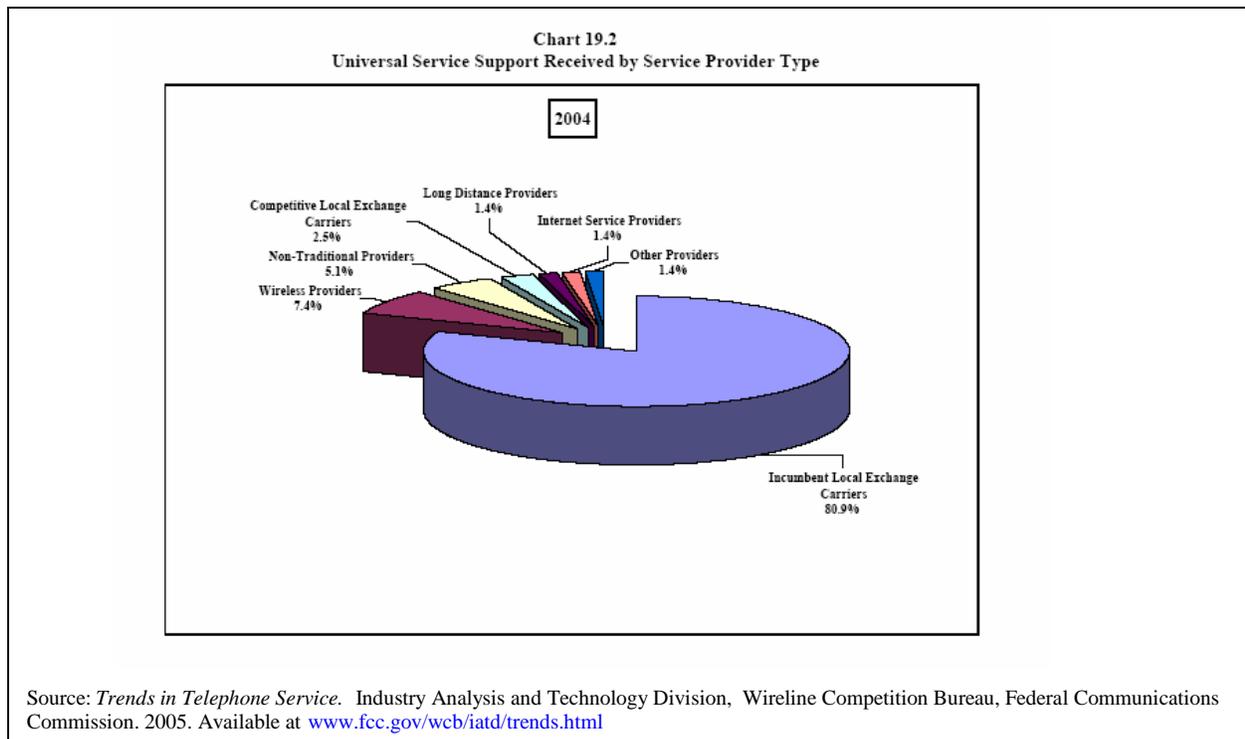
Table 19.5
High-Cost Support Received by ILECs and CETCs
(In Millions of Dollars)

	ILECs	CETCs	Total	Percent CETCs
1996	\$1,188	\$0	\$1,188	0.0 %
1997	1,263	0	1,263	0.0
1998	1,690	0	1,690	0.0
1999	1,717	1	1,718	0.0
2000	2,233	1	2,235	0.1
2001	2,575	17	2,592	0.7
2002	2,889	46	2,935	1.6
2003	3,142	131	3,273	4.0
2004	3,155	333	3,488	9.5

Notes: ILECs is an abbreviation for incumbent local exchange carriers. CETCs is an abbreviation for competitive eligible telecommunications carriers. CETCs include both wireless and wireline carriers.

Source: National Exchange Carrier Association (1996-1997).
Universal Service Administrative Company (1998-2004).

While CETCs have collected a total of approximately \$529 million in high cost support through



2004, ILECs have received roughly \$19 billion in federal universal service support during the same time period. In many states, rural ILECs receive substantial support from state universal service programs as well.

Funding to new competitors has increased – it is a predictable outcome of sensible universal service policy. Congress must continue to permit competitive entry into rural areas and get beyond short-run “growing pains” in order to achieve the maximum benefits to rural consumers. By continuing to provide appropriate incentives for new telecommunications providers to invest in high-cost areas, rural customers will receive increased quality and quantity of services at lower prices.

MYTH: WIRELESS CARRIERS DON'T PAY THEIR FAIR SHARE INTO THE HIGH COST FUND.

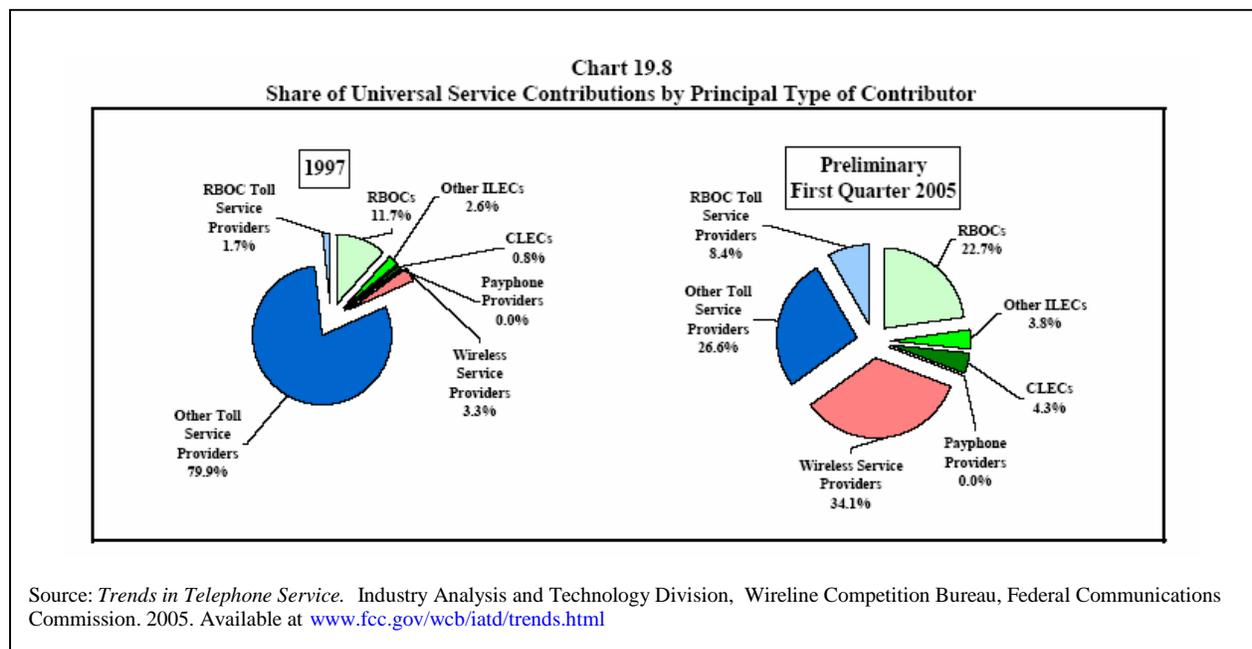
FACT: WIRELESS CONSUMERS, who draw just over 10% of the total fund (approximately \$330 million) now contribute over 34% of the total fund, or roughly \$2.6 BILLION per year.

RURAL WIRELINE carriers, who draw 50% of the total fund (approx. \$3 Billion) contribute only 3.8% of the total fund.

Rural wireless consumers are entitled to receive service quality and service choices that are reasonably comparable to those that are available in urban areas – *as promised by Section 254 of the 1996 Act*.

With over 200 million wireless consumers, each of whom pays in roughly \$1.00 per month, wireless now contributes roughly \$2.5 billion each year and that number is rising steadily. Yet, wireless CETCs only draw approximately 10% of those funds to assist with deploying and expanding wireless service in rural areas.

While the large wireline carriers such as Verizon, BellSouth, and AT&T contribute 22.7% of the total funding, other ILECs, which include rural wireline carriers, contribute only 3.8%. The table below illustrates each class of carriers’ contributions to universal service:



We can think of no better use for federal high-cost support than the investment in new infrastructure by carriers willing to demonstrate that support is being properly invested, to provide rural consumers with high-quality service and service choices that are comparable to those in urban areas. **Any legislation must accelerate wireless infrastructure development in rural areas – not impede it.**

MYTH: SUPPORTING WIRELINE AND WIRELESS CARRIERS ON THEIR OWN SEPARATE COSTS WILL CURB FUND GROWTH

FACT: Supporting each class of carrier on its own costs will retard or prevent competitive entry, will be extraordinarily expensive to implement, will require regulators to pick winners, and will ultimately cost the fund more than the current system.

While supporting carriers on their own costs is a catchy mantra, the FCC rejected it after years of rulemaking proceedings. The FCC's files contain testimony of reputable economists who have also rejected this approach.

Under the bill's proposal to fund each carrier on its own costs, wireless competitors, in the short term, are going to draw substantially more from the universal service fund than they do today. A "build it and we'll pay for it" approach was fine when simply connecting houses to the network was the goal, but if the goal of providing rural consumers with modern technology is to be realized, we have to find ways also to support efficient providers of services.

We think the better approach is the one the FCC selected. Pay competitors only the same "per line" support as the incumbent, and only pay after they first build facilities and get a customer. Under the balancing act of this mechanism, support to all competitive carriers is capped by the number of available customers and competitors must fight for customers and support dollars. My discussion on disaggregation below explains how newcomers can be encouraged to invest in high cost areas while at the same time incumbents can be protected.

We also note the administrative costs of paying each carrier on its own costs. As new technologies such as satellite, Wi-Max, and unlicensed spectrum providers line up to enter rural areas, presumably the FCC would have to develop a cost model for each to determine the appropriate level of support. The cost of doing so would be enormous and would not deliver the benefits that the current system does.

MYTH: YOU CAN CONTROL GROWTH IN THE FUND BY LIMITING THE NUMBER OF COMPETITORS IN A SERVICE AREA

FACT: Limiting the number of carriers in a service area robs rural communities of the benefits of competition.

Multiple carriers in a service area competing for customer results in cheaper, higher quality voice and broadband services.

Policies that limit the number of carriers who may receive USF support in a given area are contrary to the goal of allowing Americans to receive wireless voice and broadband services in rural areas. The universal service program already has protections in place to cap growth and expenditures in a service area:

- The current distribution system caps the amount of federal support available to wireless carriers serving an area, while NOT capping support to rural incumbent landline carriers.
- The amount of funds available in any high-cost area is capped by the number of customers. In other words, wireless competitors can only receive support if they are successful in getting a customer. When more than one wireless competitor is designated in an area, they must fight for consumer revenue and support.
- Moreover, since the FCC's rules prohibit support to be paid when a customer is served via resale, wireless CETCs must first construct facilities in high-cost areas before getting any support.

The current system, when combined with disaggregation of support, discussed below, are key elements in achieving the dual goals of advancing universal service and promoting competition in rural areas.

MYTH: WIRELESS PROVIDERS "CREAM SKIM" AREAS WHERE IT IS FINANCIALLY BENEFICIAL TO OPERATE

FACT: Current high-cost fund regulations prevent cream skimming.

We have heard this concern expressed in many forms. The most common is the "pole in the tent" analogy, that is, if wireless carriers are allowed to skim off the most lucrative customers, who represent the tent pole, then incumbent wireline carriers could go out of business having to serve the remaining low-margin customers, and the tent will collapse.

My personal experience teaches that a wireless carrier, indeed any newcomer, is going to chase the cream – the high-end customers, the low-cost areas, and the most lucrative markets *irrespective whether they are designated as ETCs*. In fact, without ETC designation, a

newcomer is free, in fact encouraged by the economics, to do just that without any obligation to extend service to low margin or high-cost areas. The only reasonable conclusion that can be drawn is that cream skimming can only be minimized by placing newcomers on a level playing field with incumbents and adopting rules to stop newcomers from getting universal service support in those areas that are low-cost for incumbents, such as population centers in rural areas.

Fortunately, the FCC set up rules five years ago to protect ILECs from financed competition in their most lucrative areas. Wireline carriers participated in and approved of such rules, which permit them to redirect support outward to their highest-cost areas and remove it from their “cream” areas. That process, known as disaggregation, is working in many areas.

We recommend Congress consider Washington state as an example of how to reform USF.

In Washington, all rural ILECs have targeted or “disaggregated” universal service funds to the highest-cost areas within the state. As a result, those designated in low-cost areas receive no support and those designated in high-cost areas receive a predictable amount of support. Targeting funds in this manner has kept growth in the fund down while delivering services where they are needed most.

In Washington, wireless competitors draw only 32% of the total support in the state, compared with 68% drawn by wireline carriers. Wireless carriers are drawing less despite the fact their networks require significant capital expenditures to serve throughout the state. They are only rewarded when they get a customer in high-cost areas, which means they have to build facilities in the outlying area in order to get their first dollar of support.

Disaggregation also solves the problem of defining service area boundaries for newcomers. When an area is disaggregated, regulators have more flexibility, because if a newcomer serves predominantly low-cost areas, it will receive a lesser amount of support. If it serves higher cost areas, it will receive higher levels commensurate with the type of area being served.

Finally, it is important to note that under the current system, when more than one wireless competitor is designated in an area, they must fight for consumer revenue and support and sparsely populated areas will not yield enough “per line” support to allow multiple carriers to construct facilities.

We urge Congress to recognize that the FCC has already developed very useful tools to permit wireline carriers to more accurately target support to high-cost areas so as to properly reward competitors willing to invest in areas that need it most, while protecting wireline carriers from subsidized competition in low-cost areas.

MYTH: WIRELESS CARRIERS ARE NOT USING FUNDS TO IMPROVE SERVICE TO RURAL AMERICA AND MORE OVERSIGHT IS REQUIRED.

<p>FACT: Wireless carriers are not only using support to improve their networks but in many, if not most states, they are much more accountable to than are wireline carriers.</p>

My experience at Cellular South is typical of other WIG members. When we first obtained CETC status, we knew that the spotlight would shine on us and that we would be expected to demonstrate that support is going to improve our networks in ways that would not otherwise have happened without support. We expected state commissions to examine our use of support, and we have been more than willing to provide reports as to our activities each year prior to the state recertification to the FCC each October 1.

Each state handles the process differently. Most require one annual report showing funds received over the past year, how they were used, along with a projection of support for the coming year and how such funds will be used. A few, like Mississippi, require quarterly reports, and Cellular South provides those regularly. Although the information in such reports as to how future support will be used is kept confidential, we are pleased to provide examples of what has been done with support.

Some examples of small communities in Mississippi that now have service include Pittsboro, Bassfield, Prentiss, Tylertown, Columbia, Byhalia, Houston, Bruce, Banner, Perkinsville, Gore Springs, Pyland, Sabougla, Slate Springs, Vardaman and Woodland. Many of these communities are very small and our service to them includes significant farm lands that permit the use of our devices in the truck and on the tractor. To anyone who understands the risks agricultural workers take on every day this new coverage is no small matter.

Another WIG member, Rural Cellular Corporation, has heard from the Maine Sheriffs Association that they depend on cellular phones to do their jobs properly and to protect both citizens and themselves. To cite just one example, when a sheriff gets a domestic disturbance call, he instructs the dispatcher to provide the phone number at the residence. He then calls while on his way to get a sense of the situation, for example whether there is alcohol or firearms involved. This gives him a better understanding as to what to expect when he knocks on that door.

Our experience is just a small portion of what other WIG members can report. To use the example of Rural Cellular Corporation in Maine, they have built new cell sites that would not have been constructed in towns such as China, Rumford, Bethel, Fort Kent, and Strong. If anyone gives the impression that wireless carriers are not using support in the manner it was intended, they have not looked at our company or the other WIG members that are CETCs.

In sum, wireless carriers are using support to drive infrastructure development in rural areas. Given that wireless consumers contribute so much to the fund, we share concerns that support be used properly, and urge Congress to look carefully at all carriers. As we understand it, over 400 ILECs report no costs and the accountability for fund use as “average schedule” companies is far more limited than that which exists for wireless carriers. We believe that none of the ILECs provide specific explanations as to how USF support is used for the benefit of consumers, as we in the wireless community are doing today. We urge the Congress to shine the same degree of light on all carriers who are stewards of the fund to ensure that consumers receive the benefits that they deserve.

BENEFITS OF USE TO RURAL AMERICA

High-Cost Support for Wireless Consumers Provides Vital Health and Safety Benefits to Rural Areas

In closing, I again note that in urban areas, it is taken for granted that one can complete a wireless call in an emergency. In a very short time, urban consumers' expectations for wireless have risen enormously, to the point where the failure to complete an important health or safety call is newsworthy.

In many rural areas, expectations are often very different. Consumers living in these areas understand that wireless phones work in larger towns and on major roads, but might not work as well in all rural terrain. Although wireless networks are improving, many rural consumers still see mobile phones more as ancillary communications tools, rather than devices that can be counted on to provide primary telephone service. An example of the changing expectations for rural coverage is the introduction of a well meaning bill recently introduced in our state legislature that would require wireless carriers to provide service statewide (federal license boundaries notwithstanding) and proposing hefty fines for failure to comply.

The best thing the FCC and Congress can do to promote the health and safety benefits of mobile wireless communications in rural America is to ensure that critical wireless infrastructure continues to be built out in rural areas. **The high-cost fund has provided the incentive to invest in better technologies and services that ultimately result in improved emergency communications.**

We can think of few achievable goals more important than driving investment into rural areas. Encouraging wireless carriers to become CETCs and ensuring that funds are spent on network construction is critical to delivering this vital benefit to rural America.

High-Cost Support in Rural Areas Drives Economic Development

As a rule, our nation's rural areas have long trailed cities in terms of economic development. **Use of high-cost support to improve infrastructure has a significant economic impact on small communities** and is a key to closing that gap. Today, many companies consider rural areas as more attractive places to locate and one of the major factors involved in selecting a community is the quality of its telecommunications infrastructure.

Wireless service is a very important factor in the equation. More and more companies and people today rely on wireless phones to improve efficiencies and manage their businesses. The examples we've cited above are just the tip of a much larger story. As economies around the world become more interdependent, our rural areas have to compete not only with American business, but with foreign business as well. Universal service funds, used properly to improve our infrastructure, will enable America to compete better on the world stage, with countries like Japan and South Korea, who today are far ahead of us in both broadband and mobile wireless service development. We can think of no better use for federal high-cost support than to provide the tools necessary for our rural areas to compete.

WIG POLICY RECOMMENDATIONS

Rural communities benefit the most from policies that encourage competition and improvements to existing telecommunications services. **Any policy that attempts to stall the entry of new providers in rural areas retards the development of needed wireless infrastructure and ultimately will widen the gap between rural and urban areas.** Consumers living in and traveling through rural areas deserve the same kinds of health, safety, and economic development benefits that flow from having access to advanced wireless and broadband telecommunications services such as are available in urban areas.

Therefore we urge Congress to include the following principles in any USF reform measure:

- Universal service should not guarantee a market outcome for any carrier or class of carrier.
- All federal and state universal service rules must be competitively neutral – that is – universal service rules must not disadvantage any class of carrier or technology.
- All carriers who receive universal service support must demonstrate that support is actually being invested as required by the Act and the FCC’s rules.
- Support should be distributed equitably among all technologies and carriers without continuing a historical preference for ILECs.
- Support should be targeted to the neediest of areas. If ILECs believe “cream skimming” is a problem, ILECs are currently permitted to “disaggregate” or target universal service support to the highest cost areas so that competitors do not receive funds in areas that are low-cost to ILECs. Thus, there is no need to require new competitors to serve throughout an ILEC study area.

Most important, wireless consumers pay into the fund and are thus entitled to the benefits that Congress intended to deliver when it passed the 1996 Act – to ensure that rural areas have choices in services that are comparable urban areas. Therefore, Congress and the FCC should continue to allow rural wireless carriers who have CETC status to receive high-cost support from the universal service fund in a competitively neutral fashion. Doing so will open rural markets to competition, rein in universal service fund growth and drive voice and broadband services to rural Americans.