



Summary – Statement of Richard Massey

Executive VP, Corporate Secretary and General Counsel – Alltel Wireless

March 1, 2007

- Alltel serves more than 11 million wireless customers in 35 states. We are one of the few major wireless operators to focus on serving rural and more sparsely populated areas. And we are now offering DSL-comparable broadband service (400-700 kbps) in many rural areas.
- For the past 11 years, this Committee has helped pave the way for rural Americans to have affordable, robust wireless service. Alltel commends S.101, the Universal Service for Americans Act (USA Act). The bill sets the right course by reaffirming the fundamental principle of competitive neutrality: promoting universal service without unfairly favoring one class of providers over another.
 - We also support the bill’s provisions to increase accountability and ensure that every dollar of high-cost support is used to benefit rural consumers.
- Consumers in rural areas and across the country increasingly demand mobile wireless service.
 - The overall number of wireless subscribers grew by 86% from 2001 to 2006. Wireless broadband service grew from about 400,000 lines in 2005 to over 11 million in 2006.
 - Rural consumers depend even more heavily on mobile communications than urban consumers, because they tend to spend more time on the road. Wireless penetration is rapidly increasing in rural areas across the country.
- The competitively neutral universal service program, developed under the 1996 Act, is critical to delivering affordable, high-quality wireless service to consumers in remote areas.
 - Less than 25% of universal service high-cost funds go to support the deployment of wireless service, even though wireless is what rural consumers most need and want.
 - America is getting a great return on its investment in wireless universal service – a tremendous “bang for your buck.”
- It’s true that the total high-cost fund is growing. But the solutions need to address the real problem. Support for rural wireless is not the problem – and anti-competitive proposals to reduce funding toward wireless consumers are not the answer.
 - The real problem is that the fund focuses on maintaining traditional voice-grade services while technological changes and increasing competition are transforming rural consumers’ telecommunications needs.
 - Some proposals, if implemented in a careful and competitively neutral manner, might help. For example, some form of “reverse auctions” might work if designed to set funding levels without harming market competition, post-auction.
 - Alltel has proposed a “pilot” reverse auction aimed at bringing broadband service to unserved and underserved areas. We also propose a per-line cap on universal service support for basic voice services, and targeting support more accurately to high-cost areas.
 - The Committee should be wary of proposals designed simply to reduce funding for rural wireless service. These could slow down the rate of wireless investment in rural areas and make it harder for rural consumers to access affordable, high-quality mobile service.



Statement of Richard Massey
Executive Vice President,
Corporate Secretary and General Counsel
Alltel Wireless

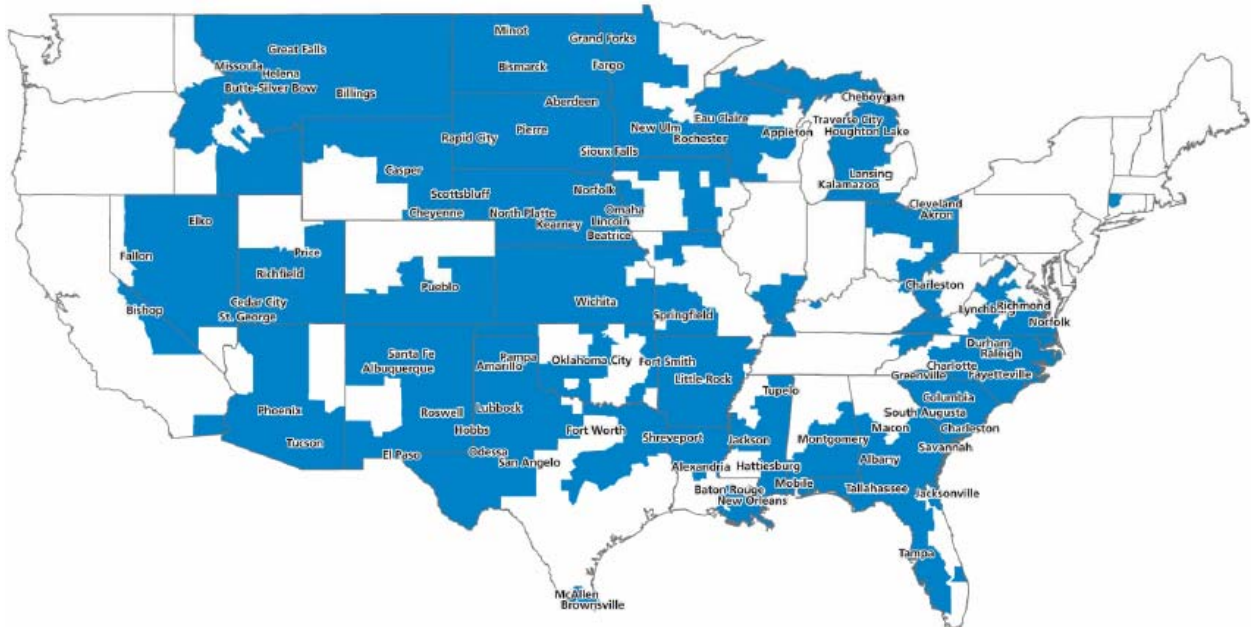
U.S. Senate, Committee on Commerce, Science & Transportation

“The Present and Future of the Universal Service Fund”

March 1, 2007

Alltel Corporation
One Allied Drive
Little Rock, AR 72202

On behalf of Alltel Corporation, I would like to thank the Committee for inviting me to speak to you today. Alltel is based in Little Rock, Arkansas, and serves more than 11 million wireless customers in 35 states. Alltel operates the nation's largest wireless network in terms of geographic area served, but our customer base is smaller than those of the larger carriers. This is because we are one of the few major wireless operators to focus on serving rural and more



sparsely populated areas. We provide leading-edge, digital mobile voice services. We are also rapidly deploying higher-speed, mobile broadband services. Our EV-DO based AccessSM Broadband service is now available in over 100 communities covering 44 million people – including numerous high-cost areas where we have been designated as an ETC. This broadband service offers speeds of 400-700 kbps – comparable to the throughput of many DSL services in the market today.

Alltel's roots go back some 60 years as a rural, independent telephone company. Although we are now exclusively in the wireless business – we spun off our wireline local telephone operations last year to the company now known as Windstream – we remain true to

our deep commitment to providing the best possible service to rural Americans. I know there are many other rural-focused wireless carriers across the country and I acknowledge their great efforts as well.

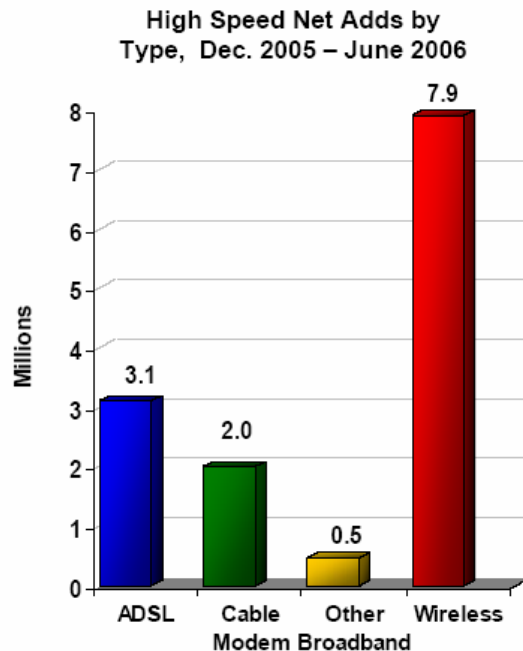
Mr. Chairman, Mr. Vice-Chairman, and members of the Committee, I would like to commend you for your work in this area. Members of this Committee, past and present, are largely responsible for the universal service provisions enacted in the Telecommunications Act of 1996 eleven years ago – and those provisions have been a great success in getting affordable telecommunications services, including wireless services, out to rural communities. The 1996 Act told the FCC and the industry: let’s preserve and advance universal service, and make sure that consumers in rural, insular, and high-cost areas have access to service that is comparable to services available in urban areas. The Act also said, let’s get these services out to people using a pro-competitive, de-regulatory policy framework and open all telecom markets to competition. These policies are working well. Today’s universal service system is bringing the most advanced services and technologies, including wireless, to consumers across America – not just in metropolitan areas.

Alltel looks forward to working with the entire Committee on universal service reform and I would also like to praise Senator Stevens and the other Members of this Committee for the introduction of S.101, the Universal Service for Americans Act (USA Act). This forward-looking bill sets the right course for universal service policy by reaffirming the fundamental principle of competitive neutrality. Rural consumers will benefit most from a system that promotes universal service without interfering with competition, and without unfairly favoring any class of providers or technologies over another. We also are enthusiastic about the bill’s strengthened eligibility guidelines and auditing provisions. These will increase the program’s

accountability and will ensure that every dollar of high-cost support is used to maintain and improve communications facilities serving rural consumers. The bill also wisely broadens the base of universal service contributors.

Consumers everywhere increasingly demand mobile, broadband, and other leading edge telecom and information services. Over the past five years, the number of mobile wireless subscribers has grown by 86%, from 118 million in June 2001 to 219 million in June 2006. There are now many more wireless phones in service than wireline. According to a survey conducted by the U.S. Department of Health and Human Services, over 10% of consumers are using wireless as their only phone service. And among consumers with more than one connection, a substantial proportion now use wireless as a primary means of communications. Without question, wireless communications is the “lifeline” of today’s consumers. Meanwhile, wireless broadband service has grown a whopping 2,750% – from about 400,000 lines in 2005 to over 11 million in 2006.

- In 1H06, total high-speed lines grew 26%, from 51.2 million to 64.6 million lines, and 59% of all adds were mobile wireless subscriptions.
- From June 2005 to June 2006:
 - ADSL's share of total broadband lines fell from 38% to 35%,
 - Cable modem's share fell from 56% to 44%.
 - Mobile wireless' share of total broadband lines rose from 1% to 17% of total broadband lines.
 - The share of "other" forms of broadband (including fixed wireless, satellite, fiber, and broadband over power line) remained at 4% of total broadband lines – although their total line count grew 39%.

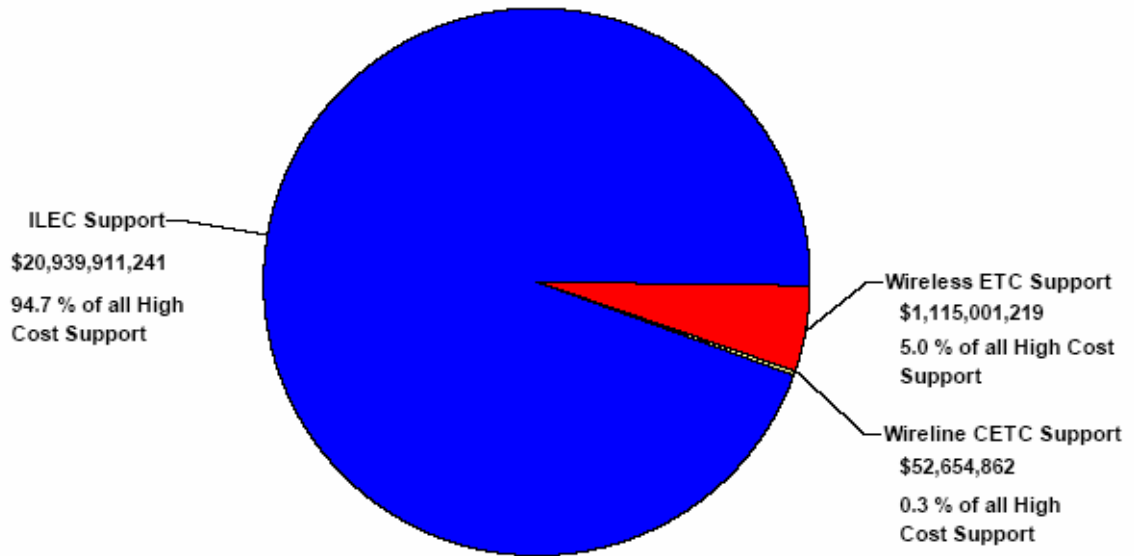


Sources: FCC Report on "High-Speed Services for Internet Access," Jan. 2007.

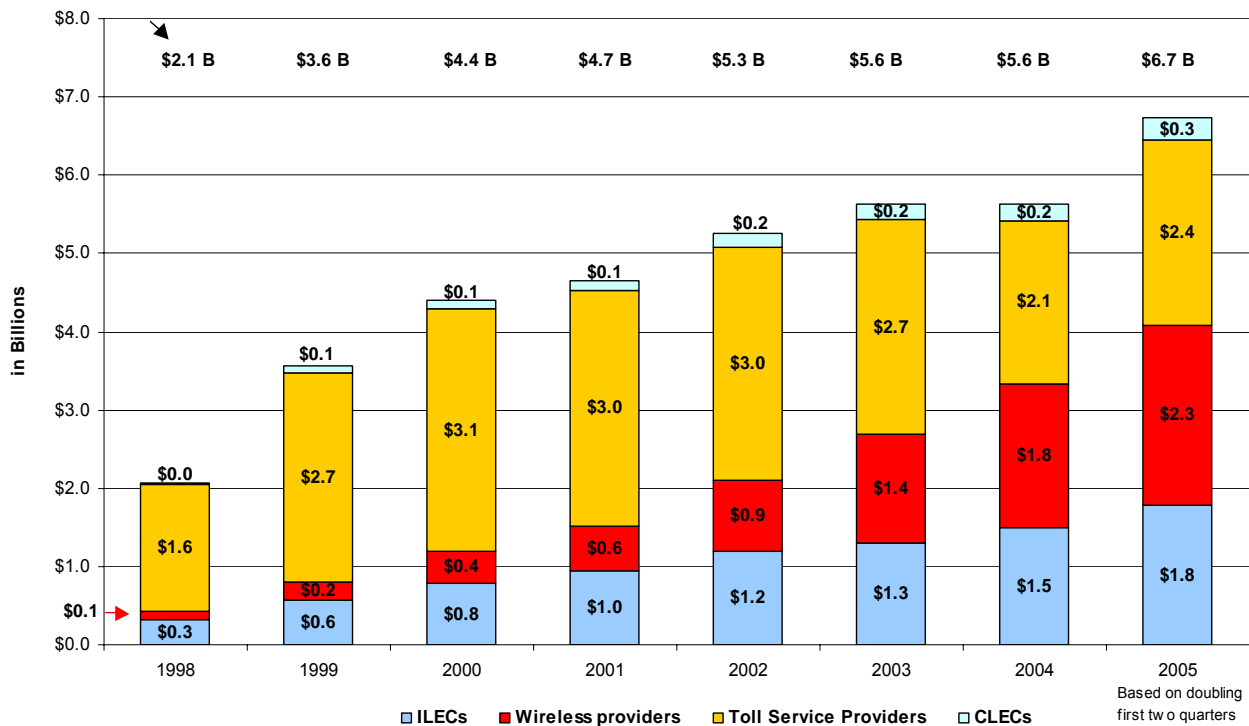
We are seeing these same trends in rural areas. Rural consumers increasingly want and need mobile wireless service. Many of you represent rural consumers and you therefore know that people in rural areas often spend more time than their urban counterparts on the road, and depend even more heavily on mobile communications, especially since desk jobs are increasingly moving out of rural areas and into city centers. For example, an entrepreneur may need to reach contacts when driving from one end of a large county to another for business; a parent may need access to telecommunications while driving children to and from relatively distant schools; and a farmer may need access to data on agricultural prices while working on a remote part of his or her property. Wireless broadband is often the only means of high-speed access in many high-cost areas and is playing a major role in bridging the "broadband divide." Alltel appreciates the emphasis this Committee places on the importance of high speed deployment across rural America.

A critical part of this story is the competitively neutral universal service high-cost fund program, which, thanks to this Committee's efforts, has enabled wireless carriers to serve the most remote parts of the country. Until just recently, only a negligible amount of universal service funding was going to support the deployment of wireless service to high-cost areas – even though wireless technology and networks are what consumers in those areas need and want. Of the \$25 billion spent on high-cost universal service since 1996, only about \$2 billion has gone to wireless carriers and other competitors. Even today, less than 25% of universal service high-cost funds go to support the deployment of wireless service, even though there are now more wireless subscribers. Wireless contributes more than twice the amount into the universal service fund than it receives out of the fund.

Wireless and Wireline Shares of Cumulative High Cost Support Drawn from the Federal Universal Service Fund: 1998 – 2005



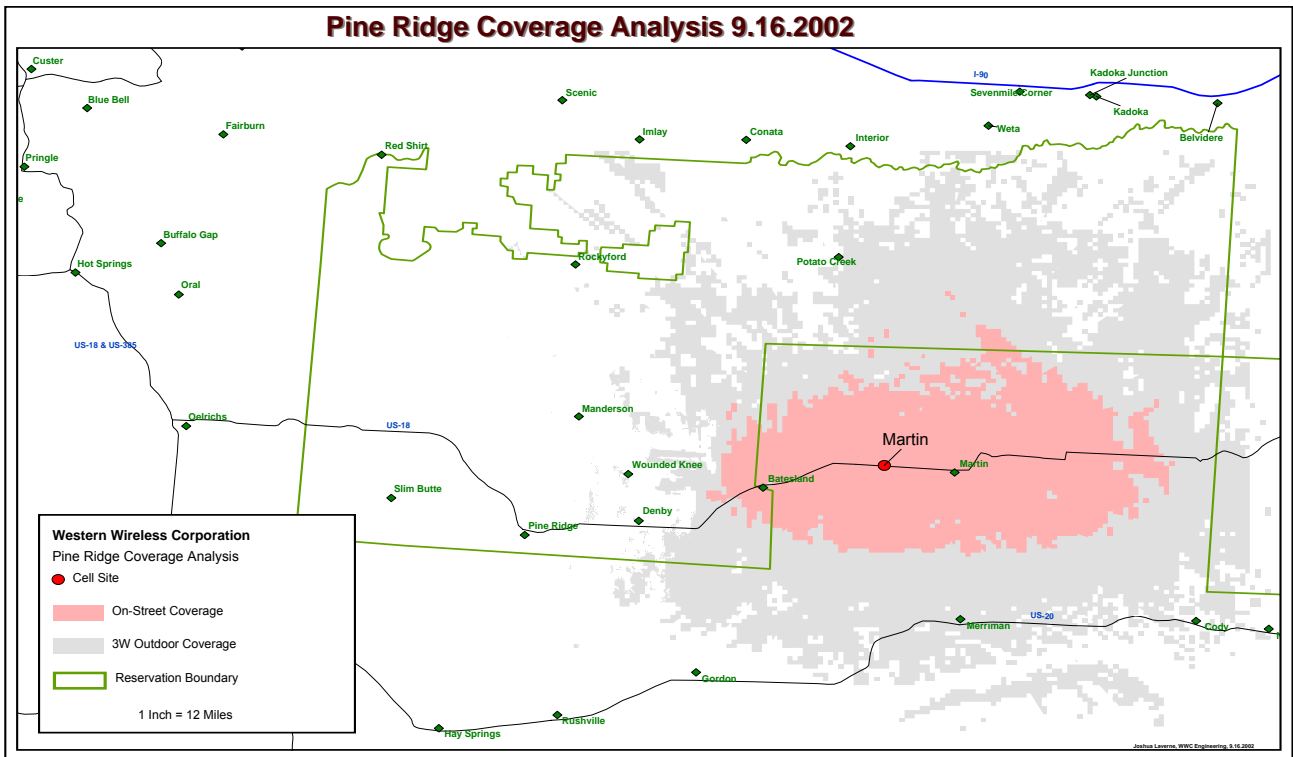
Wireless and Wireline Contributions to the Federal Universal Service Fund: 1998 – 2005*



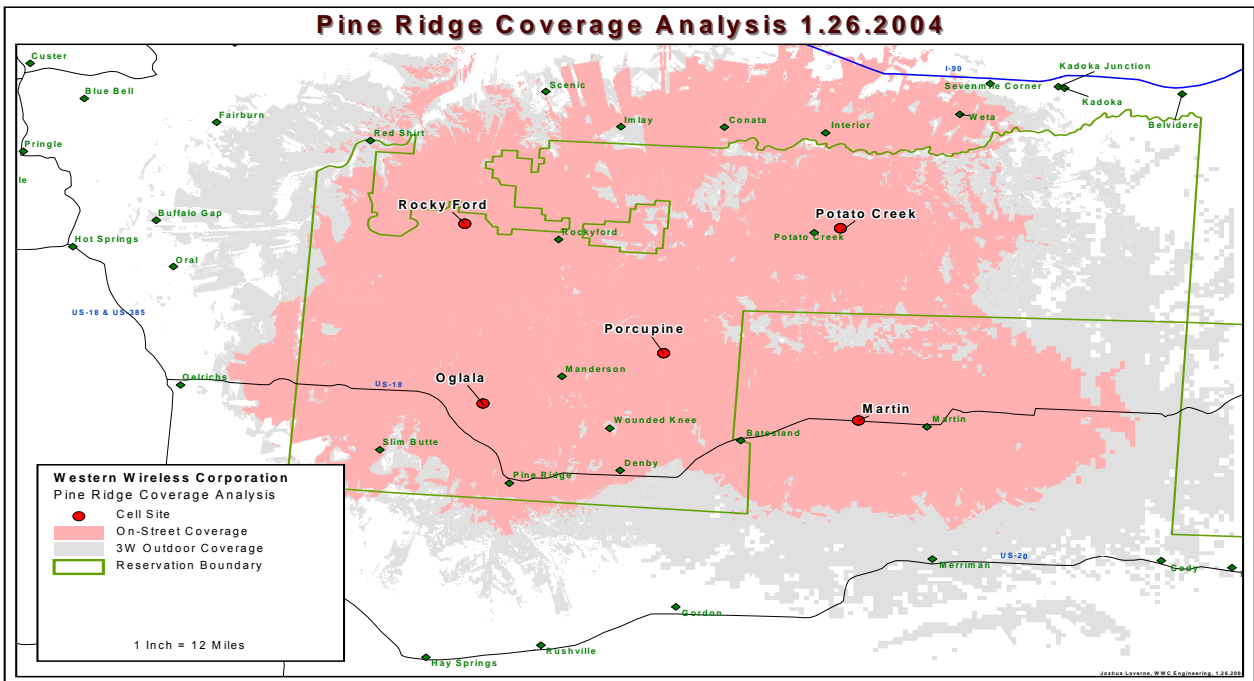
* It is anticipated that the increase in the wireless safe harbor together with declining toll revenue will result in wireless being the largest USF contributor in 2006.

America is getting a great return on its investment in wireless universal service. It's true that support for wireless has increased over the past few years. But that has come with a tremendous expansion of wireless service into rural areas. With universal service support, we are building facilities deep into rural areas, not just along major highways, and delivering service to consumers where they live and work. For example, on the Pine Ridge Reservation in South Dakota, the Tribe estimated that less than 30% of the population had telephone service prior to Alltel's entry into the market as a wireless universal service provider. Today more than 80% of the population on the Pine Ridge reservation has access to wireless telephone service. As Senator Thune knows well, the vast majority of these consumers are eligible for and are receiving a discounted Lifeline service of only \$1 per month. This is the true meaning of universal service.

Pine Ridge Coverage Analysis 9.16.2002

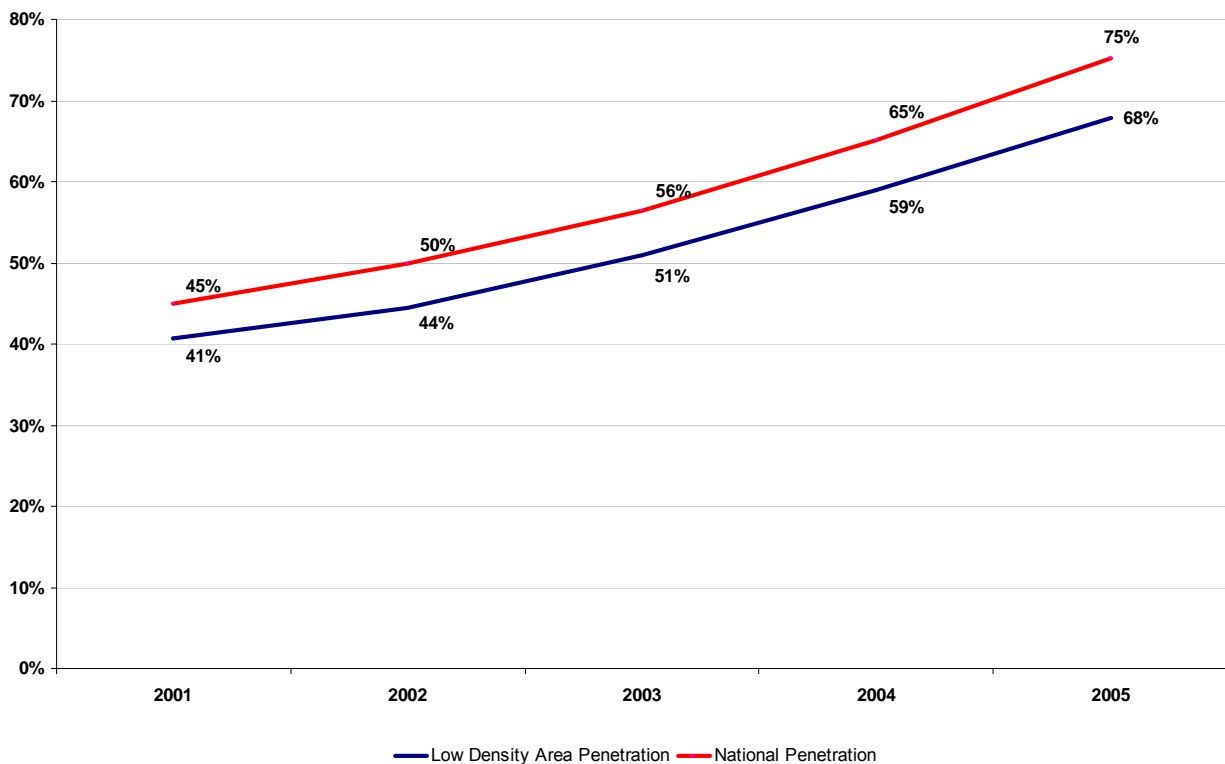


Pine Ridge Coverage Analysis 1.26.2004



Similar stories can be told across the country. In rural parts of Arkansas, Louisiana, Maine, North Dakota, West Virginia, and many other states, rural consumers are getting more and better wireless service at increasing broadband speeds as a direct result of high-cost universal service support to wireless companies. Wireless penetration rates went up from 41% in 2001 to 68% in 2005 in the most sparsely populated areas with fewer than 100 residents per square mile. This is a tremendous success story.

Rural and National Wireless Penetration: Rural Equated With Fewer than 100 Pops per Square Mile



Make no mistake – wireless carriers are receiving funds only when we step up and are held accountable to our commitment to serve the entire geographic area, including outlying areas as well as towns and cities. To obtain ETC (eligible telecommunications carrier) designation and

retain that status, we are required to make detailed annual demonstrations, to the FCC and to most state commissions, that we are spending the money to build and upgrade cell sites throughout our service areas, and to maintain and promote top-quality service to consumers in those areas. We are held accountable for every universal service dollar we spend. Alltel added numerous cell sites to its network last year, a significant percentage of which were the direct result of universal service support. Our capital budgeting process considers total funds available, including USF funds, when planning for new cell sites. Consequently, in each state where Alltel is an ETC, there are several cell sites built based upon anticipated universal service funding. Alltel expends 100% of the USF support on capital and operating expenditures within its ETC areas. And rural consumers increasingly are depending on wireless ETCs as their “carriers of last resort.” When we use our USF support to build out new cell sites, we charge the same amount to everyone who chooses to buy our service; a consumer doesn’t have to pay any more to get mobile service once the network is in place.

Simply put, with wireless high-cost universal service, you get a big “bang for your buck.” USF support for wireless in rural areas gives you a great return on your investment. So why do you hear complaints about growing high-cost support for wireless consumers? And why are many parties inundating the FCC and the Joint Board with proposals that would scale back support for new wireless networks and services in a major way? Alltel urges this Committee to monitor this situation closely as the Joint Board prepares to make its next set of recommendations. It’s true that the total high-cost fund is growing. But the solutions need to address the real problem. Support for rural wireless is not the problem – and anti-competitive proposals to reduce funding toward wireless consumers are not the answer.

As Verizon correctly noted a few weeks ago to the FCC, the real problem is that the existing universal service program is tailored to support traditional voice-grade services, while technological changes and increasing competition are transforming rural consumers' telecommunications needs. As a result, the amount of high-cost funding per line – to wireline as well as wireless – is growing rapidly without efficiently advancing the goals of universal service.

So what is the solution? How can we place reasonable limits on the growth of the fund, while ensuring that we spend the money wisely and effectively? How can we do this without harming rural consumers' access to competitive wireless and wireline services comparable to those available in urban areas?

I would like to discuss three policy recommendations that are now under serious consideration: (1) reverse auctions; (2) placing “caps” on fund growth; and (3) targeting funds more effectively. Alltel has submitted a proposal (*see attached*) for reforming how support is distributed from the universal service fund, including a reverse auction aimed at bringing broadband service to unserved and underserved areas, a per-line cap on universal service support for basic voice services, and an approach to identifying high-cost areas that targets universal service support to those areas and holds carriers accountable for all support received.

1. Reverse Auctions. The amount of universal service support could be determined through a competitive bidding process, rather than through an intrusive regulatory cost-accounting system. The lowest bid would determine the amount of USF support. Alltel congratulates FCC Chairman Kevin Martin for advancing this innovative idea, which is worthy of further development. As Chairman Inouye and Senator Stevens have correctly observed in the past, complicated questions arise in connection with auctions for services that are already being

provided by existing ETCs, and there could be serious unanticipated consequences. Alltel believes that it may be possible to resolve these issues, and ultimately competitively neutral auctions might be a viable way to set support levels.

Pending the resolution of these broader implementation questions, Alltel has proposed an initial “pilot” reverse auction program, which would focus on promoting broadband deployment in the most underserved rural markets. Service providers using all technologies would bid competitively in a single set of reverse auctions, and each participating ETC would have to make a commitment to provide substantial broadband service, as well as conventional services, throughout a community within a specified period of time. The lowest bid would determine the level of per-line universal service support needed for the auction winner to fulfill this commitment. But other carriers who make the same service commitments would have a chance to receive some support as well.

The key in this or any USF auction system is to make sure that the competitive bidding process does not displace competitive service for customers in the marketplace, post-auction. Reverse auctions should be used to set the amount of funding per line, not to pick a single “winner” as the exclusive provider of supported universal service. This would give all participating ETCs strong incentives to build facilities and get competitive services out to consumers in rural areas.

Alltel strongly opposes proposals to use reverse auctions to effectively scale down high-cost funding for one category of universal service providers – wireless carriers. For example, consumers would not benefit from the anti-competitive proposal to hold two separate auctions, the first for wireless only, and the second, presumably conducted many years later, only for

wireline service. This imbalanced type of auction process certainly would reduce support for wireless service in high-cost areas, by pushing down the level of support per line for a single auction winner, and preventing anyone other than the auction winner from providing supported wireless services even if it is willing and able to fulfill the obligations of an ETC. The result would be to dramatically slow the rate of wireless investment in rural areas and make it harder for rural consumers to access affordable, high-quality mobile service. But this approach would do nothing to target support to areas where it is most needed, or to promote deployment of next-generation networks in rural areas. This Committee should be wary of proposals like this.

2. Caps On Fund Growth. Another proposal under discussion is to place some kind of caps on the growth of the fund. A cap could be an effective tool in controlling the growth of the USF, provided that it can be structured in a way that helps rural consumers. In fact, Alltel has offered a detailed proposal to do just that.

Another version of a fund growth cap has been offered by West Virginia consumer advocate Billy Jack Gregg, who appeared on the first panel this morning. Under Mr. Gregg's proposal, the total funding disbursed to all eligible telecommunications carriers in a particular geographic area – wireless and wireline – would be allowed to grow only to the extent that population in the area grows, plus inflation. But the dollars would be targeted based on the number of consumers who choose to take service from each ETC – that is, based on the number of lines each ETC serves. If you serve more customers, then you get more support. If a new carrier comes in and makes the same ubiquitous service commitment, then it would get a fair share of the funding as well.

The idea behind both Alltel's proposal and Mr. Gregg's is, if the country needs to limit funding growth, then consumers should be the ones to decide where the dollars should flow by deciding what they want to buy, rather than having regulators make those decisions for them. This way, the competitor that attracts the most consumers – by providing the highest quality, most appealing, or lowest cost services – will get the support needed to serve those rural areas.

By contrast, some have suggested that separate caps should be imposed on wireless ETC fund growth and on wireline incumbent fund growth. Like the anti-competitive proposal for two separate auctions (wireless and wireline), this proposal would substantially reduce the amount of funds to support wireless investment in rural areas, but would fail to satisfy the fundamental principle of competitive neutrality. It might limit the overall growth of the fund, but how would it help rural consumers? It just continues sending the money where it has always gone, without doing anything to promote investment and new competitive services in high-cost areas. Again, we respectfully ask this Committee to be on guard for competitively biased proposals.

3. Target Funding. A third reform proposal is to target funds more effectively, so that they would go to carriers that serve consumers who actually live in high-cost areas, rather than simply giving the funds out based on the same formulas that have been used for decades. Alltel has offered a detailed proposal to target high-cost funding to geographically disaggregated areas, so that funding would flow to the highest-cost areas in each state, regardless of whether those areas were historically served by large or small incumbents, or by wireless or other competitive carriers. Embarq, to its credit, has offered another, similar proposal, with funding targeted to outlying portions of a study area or wire center, where costs are highest, rather than to town centers. Re-targeting funding more efficiently would enable the fund to support universal

service goals while also potentially reducing the overall size of the fund and – most importantly – without limiting rural consumers’ access to competitive service choices.

Unfortunately, the existing system focuses funding on carriers with high cost structures, rather than on consumers in high cost areas. Some propose to make this already problematic system even worse, by calculating support for wireless carriers based on so-called “actual costs.” This would target the most funds to companies that spend the most money and punish carriers for providing service more efficiently. It also does nothing to encourage carriers to get services out to consumers. And it would require a complicated and unnecessary regulatory cost accounting system for competitive wireless carriers. This system doesn’t work well today for wireline incumbents. Why would we want to extend it to wireless competitors?

In conclusion, I would like to thank this Committee once again for its commitment to policies that simultaneously promote universal service and advance competition. I also appreciate the efforts of the FCC, the Joint Board, and state commissions. Universal service support is making a real difference in increasing rural consumers’ access to wireless services that are vital for health, safety, and economic development. Wireless carriers like Alltel are helping bridge the geographic “broadband divide” and are enabling rural communities to fully participate in our global economy. Going forward, universal service funds should be targeted and spent more effectively – but without driving down investments in wireless networks in high-cost areas. Pro-universal service and pro-competitive rules and policies will continue to bring the benefits of wireless and wireline services to consumers across America.



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February 16, 2007

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Commissioner Ray Baum
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**RE: High Cost Universal Service Support, WC Docket No. 05-337
Federal-State Joint Board on Universal Service, CC Docket No. 96-45**

Dear Commissioner Tate and Commissioner Baum:

Consumers in many rural areas rely on high-cost universal service support that carriers use to make available affordable telecommunications services, such as wireless services. Since the entry of competitive eligible telecommunications carriers (“CETCs”) into the universal service market, rural areas have greatly benefited from the deployment of basic and advanced wireless universal services. The pro-competitive vision of the 1996 Act has become a reality in many rural areas, but there is more work to be done. As universal service reform measures are considered, such as imposing reasonable limitations on the growth of the universal service fund, they must be accomplished without compromising the pro-consumer principle of competitive neutrality. At the same time, universal service must continue to evolve to promote the development of new broadband networks and advanced services.

Alltel submits a set of concrete proposals to advance these goals. We propose the immediate adoption of a new “pilot” program of “reverse auctions” focused on promoting broadband service for consumers in the most underserved, high-cost areas. Pending

development of a broader transformation of the system in the longer term, we also recommend certain transitional reforms to the existing high-cost support system that can be implemented immediately, designed to (1) target funding more effectively to high cost areas; (2) impose reasonable limits on fund growth; and (3) ensure greater accountability for the use of funds.

To date the explicit universal service funding system has successfully brought consumers in rural America the benefits of access to robust wireless and wireline network infrastructure. Our nation's competitively-neutral universal service program spurs both wireless and wireline companies to expand their networks and introduce new services for consumers and businesses in rural areas.

At the same time, in rural areas as well as in the rest of the country, technological change and increasing competition are transforming consumers' telecommunications needs. Consumers increasingly demand higher-bandwidth services: across the country, purchases of broadband lines increased by 52% from 2005 to 2006, according to recent FCC reports, including an increase from fewer than 400,000 wireless broadband lines in 2005 to over 11 million in 2006. Use of traditional voice-grade wireline telephone lines declined by 3.2% over the same time period. Consumers also increasingly require mobility: mobile wireless service has grown by 50% during the three years ending in December 2005, and consumers now use more wireless than wireline lines. Rural consumers have the same interests in obtaining access to high-speed technologies and mobile services, and are demonstrating changes in demand that parallel those of consumers across the country. But due to the relatively high costs of deploying wireline and wireless networks in many rural areas, these services are being deployed less rapidly in rural areas than elsewhere.

The existing universal service system is not well adapted to this changing environment, and a consensus is emerging that the high-cost support rules need reform. The existing system is designed to support traditional voice-grade wireline services – for which demand is shrinking – and does not target funds effectively to promote development of advanced networks in the highest-cost areas. As a result, high-cost fund amounts per-line are growing in many areas, without efficiently advancing the goals of universal service.

The specific and concrete measures we propose – building on proposals offered by Joint Board member Billy Jack Gregg and a range of industry parties – will not only maintain the availability of existing services in the highest-cost areas, but also will target funding to promote new broadband services. They will establish greater accountability on the use of support funds and will set reasonable limits to the growth of the fund. Critically, these proposed measures also remain true to the Commission's core goal and statutory mandate of maintaining a level playing field for facilities-based, intermodal competition to serve rural consumers.

These policy changes will affect CETCs as much as ILECs. Alltel is not offering these proposals in an intent to benefit or harm any category of providers, but because they will promote the interests of consumers and advance the public interest.

Commissioner Deborah Taylor Tate
Commissioner Ray Baum
February 16, 2007
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We look forward to working with you on these important matters.

Respectfully submitted,

Gene DeJordy
Steve R. Mowery
Mark Rubin

cc: Joint Board members and staff

SUMMARY OF ALLTEL'S UNIVERSAL SERVICE REFORM PROPOSALS

- ***“Pilot” reverse auction system focused on broadband:***

Use reverse auctions to allocate funds (starting at about \$25 million) to bidders that commit to deploy basic and advanced services, including broadband services (*e.g.*, 400 Mbps) in selected unserved and underserved markets.

 - Bidders would offer the lowest amount of funding needed to deploy to specified proportions of the population in the Zip code within given benchmark dates.
 - All ETCs – not just the auction winner – could receive comparable per-line funding if they make the same service commitment.
- ***Reforms to the existing funding system:***
 - ***To limit fund growth:***

Allow per-line support in each study area to grow by no more than the inflation rate.
 - ***To target funds more effectively:***

Disburse high-cost funding to geographically disaggregated areas, whether served by “non-rural” carriers or large “rural” ILEC holding companies, as well as CETCs:

 - > For purposes of determining funding amounts, consolidate all “study areas” served by a single ILEC holding company in each state into a single study area.
 - > Apply the “non-rural” funding rules to such study areas if they have more than 50,000 lines.
 - > Revise the “high cost model” forward-looking support mechanism for “non-rural” carriers (including the consolidated study areas of ILEC holding companies formerly deemed “rural”) to provide support in the highest-cost wire centers nationwide, not just in 10 states.
 - > Require all rural ILEC study areas to be disaggregated for purposes of targeting support to the highest-cost portions of such study areas.
 - ***To ensure accountability:***

Broaden the FCC’s 2005 accountability and reporting requirements and apply them to all ETCs, including ILECs as well as FCC-designated CETCs.

 - > Require all ETCs (ILECs as well as CETCs) to document that they are using their funds to maintain and expand service availability for consumers in high-cost areas.
 - > Make USAC, rather than NECA (an RLEC-dominated advocacy group), responsible for collecting and processing cost data and determining support amounts.
- ***To protect competitive and technological neutrality:***

Retain the rule that all ETCs receive the same amount of support per line served.