High-Cost Universal Service Reform
Presentation to
Federal-State Joint Board on Universal Service

Paul W. Garnett
CTIA-The Wireless Association®
February 20, 2007

Source: FCC Local Competition Report, USAC Filings
Rural and National Wireless Penetration: Rural Equated with Fewer than 100 Pops per Square Mile

Source: Annual CMRS Competition Reports
Wireless Minutes of Use Have Consistently Climbed in Double-Digits Year-over-Year

Source: CTIA Semi-Annual Wireless Survey
The Growth of Wireless-only Households

- National Center for Health Statistics has been tracking the growth of wireless-only households over the past three years – including year-to-year trends, and the different distribution of such households across the country. As of Jan.-June 2006:

  - About 10.5% of households do not have a traditional landline telephone, but do have at least one wireless telephone. About 9.6% of all adults (21 million) and 8.6% of all children (>6 million) live in households with only wireless telephones.

  - Adults living in the South (11.4%) are more likely than adults living in the Northeast (7.2%), Midwest (10.2%), or West (7.8%) to be living in households with only wireless telephones.

  - Adults living in Metropolitan Statistical Areas (as defined by the Census Bureau) were more likely to live in wireless-only households than were adults living outside of Metropolitan Statistical Areas (10.3% vs. 7.0%).

Source: January-June 2006 National Health Interview Survey, NCHS
High-Speed Line Growth

• 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%.

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

- ILEC Support: $20,939,911,241; 94.7% of all High Cost Support
- Wireless ETC Support: $1,115,001,219; 5.0% of all High Cost Support
- Wireline CETC Support: $52,654,862; 0.3% of all High Cost Support

Source: USAC Data
Distribution of High Cost Support

Source: USAC Data
Key Elements of Any High-Cost Universal Service Mechanism

• Competitive- and Technological-Neutrality

• Efficiency
Universal Service Reverse Auctions

• CTIA supports competitively- and technology-neutral reverse auctions to determine high-cost universal service support.
  – As the success of the wireless industry demonstrates, auctions are a proven method for allocating a limited resource.
  – Universal service auctions have worked well in other countries and can work in the United States.
  – If properly designed, reverse auctions can serve as a market-oriented means to place disciplines on the size of the universal service fund while still achieving important universal service goals.

• CTIA also continues to support other reforms to better target support and encourage and reward efficiency.

• Key elements to CTIA’s support for reverse auctions:
  – The pool of eligible bidders must be maximized.
  – Wireless and wireline ETCs should compete in the same auction.
  – “Winner Gets More” auctions.*

* Only one “winner”, but “losers” eligible for some lesser amount of per-line support.
Reverse Auctions – A Measured Transition

• The transition to reverse auctions should occur in stages:
  – Short Term (Implement between now and January ‘08):
    • Mandatory disaggregation (≥ 2 zones);
    • 6-month deadline for consideration of ETC petitions; and
    • Upgrade antiquated model to improve accuracy.
  – Medium Term (Implement January ‘09):
    • Transition ILECs with ≥ 50,000 access lines in a state (and their competitors) to model-based support,* and
    • Perform reverse auction pilots.
  – Long Term (Implement January ‘11):
    • Transition remaining ILECs (and their competitors) to a single model-based support mechanism;
    • Eliminate 54.305 transfer rule; and
    • If pilots successful, rollout reverse auctions nationally.

* In the alternative, incumbent LECs should be limited to one study area per state (i.e., study areas combined).