

**WRITTEN STATEMENT OF DENNIS MILLER ON BEHALF OF
MIDWEST WIRELESS AND THE RURAL CELLULAR ASSOCIATION**

**HOUSE RURAL CAUCUS TELECOMMUNICATIONS TASK FORCE BRIEFING ON
THE FUTURE OF TELECOMMUNICATIONS POLICY AND THE UNIVERSAL
SERVICE FUND IN RURAL AMERICA**

FEBRUARY 2, 2005

MYTHS AND REALITIES ABOUT THE UNIVERSAL SERVICE FUND

I am Dennis Miller, CEO of Midwest Wireless, a wireless service provider serving rural Minnesota. I am also a Board Member of Rural Cellular Association (RCA), the trade association for approximately 100 of the nation's smallest rural wireless providers. I am also Chairman of CTIA's Small Operators Subcommittee.

Based in Mankato, Minnesota and owned by a group of independent telephone companies, Midwest Wireless serves approximately 400,000 wireless customers throughout Southern Minnesota, Wisconsin and Iowa and employs 587 people. The Midwest Wireless service area is heavily rural and sparsely populated, with no major metropolitan centers.

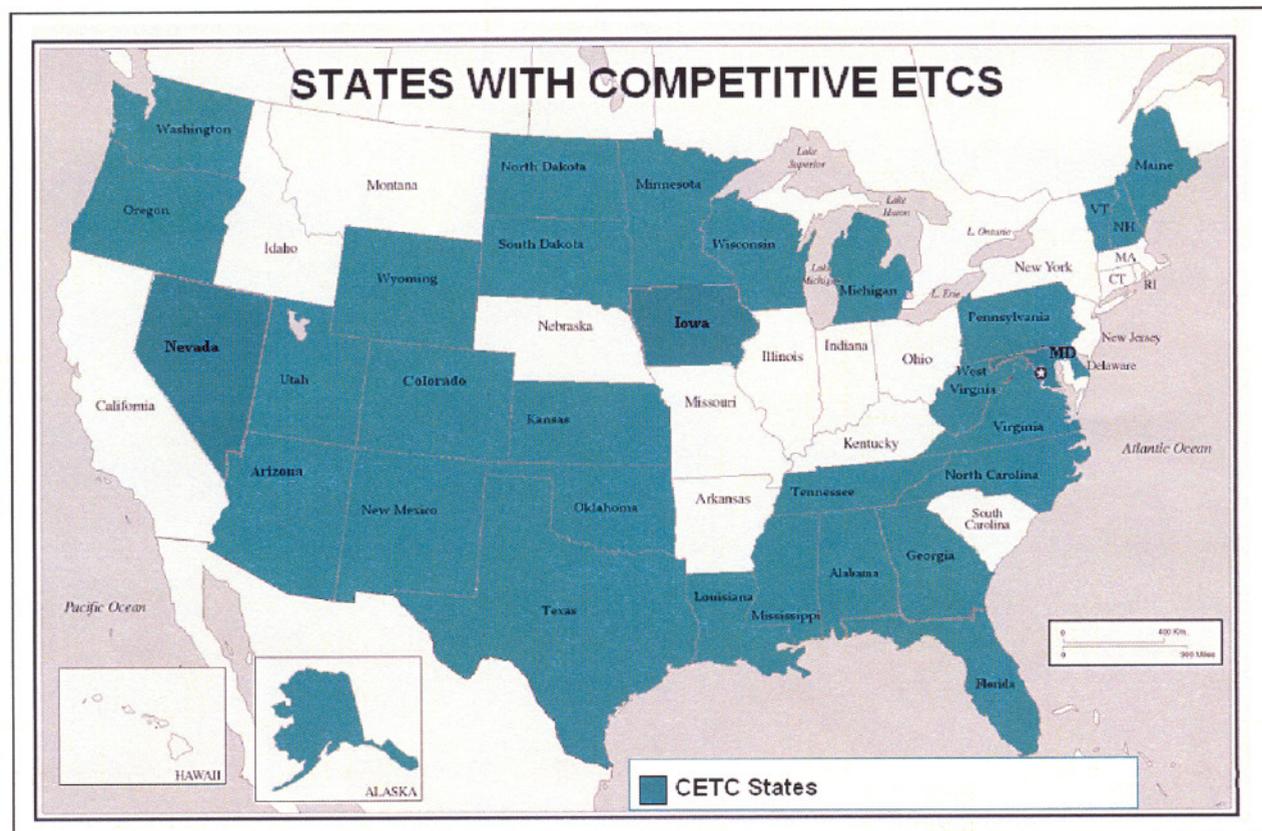
As a member of RCA, we welcome the opportunity to examine the current USF system and explore ways in which it can be improved. In particular, Midwest Wireless's ability to participate in the USF high-cost program has brought overwhelming benefits to the rural residents we serve. This document will highlight some of those benefits, dispel some of the outstanding myths concerning the USF high-cost fund and make policy recommendations about universal service we believe will best benefit rural communities.

MYTH: CETCS ARE RESPONSIBLE FOR “BALLOONING” OR “EXPLODING” THE HIGH-COST FUND.

There are allegations that universal service and in particular, the “high-cost fund” is going bankrupt because of the increase in the number of “competitive eligible telecommunications carriers (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.

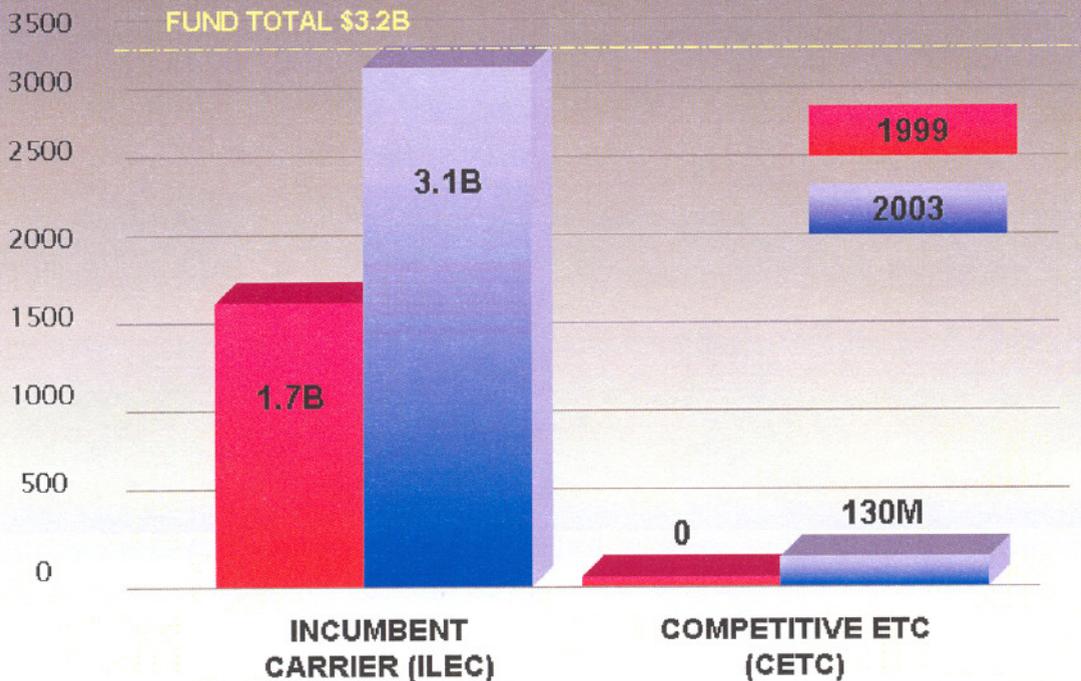
FACT: A close examination of the facts about the high-cost fund shows nothing could be further from the truth.

The most recent figures available show the high-cost fund to total approximately \$3.2 billion (2003). This fund primarily supports rural incumbent landline telephone companies, known as ILECs, and wireless providers serving rural areas who have been designated either by the Federal Communications Commission (FCC) or by the state as eligible to receive high-cost support.



Of the roughly \$3.28 billion in federal high-cost support distributed in 2003, competitive ETCs received approximately \$130 million, or around 4 percent of the total.¹ Without a doubt, support to new entrants has risen significantly on a percentage basis, notably because it began from zero. However, during the same time period, support to incumbents, which operate mature networks that are not growing, has gone from approximately \$1.7 billion per year to approximately \$3.15 billion per year.²

Universal Service Fund Distributions (in thousands)
High Cost Fund



Source: Universal Service Administrative Company, Distribution of High-Cost Support Between CETC and ILEC, 1998 Through 2Q2004, available at <http://www.universalservice.org/hc/whatsnew/072004.asp#072704>.

In other words, while wireless carriers have collected an additional \$131 million in high cost over the past five years, distributions to ILECs have seen an increase of \$1.4 billion or more than 10 times the amount distributed to wireless providers.

Growth In The Fund Is The Predictable Result Of Sensible USF Disbursements

Growth in the fund to date has been a predictable outcome of sensible universal service distributions and up to now has overwhelmingly benefited rural ILECs. Midwest Wireless and

¹ Source: Universal Service Administrative Company, Distribution of High-Cost Support Between CETC and ILEC, 1998 Through 2Q2004, available at <http://www.universalservice.org/hc/whatsnew/072004.asp#072704>.

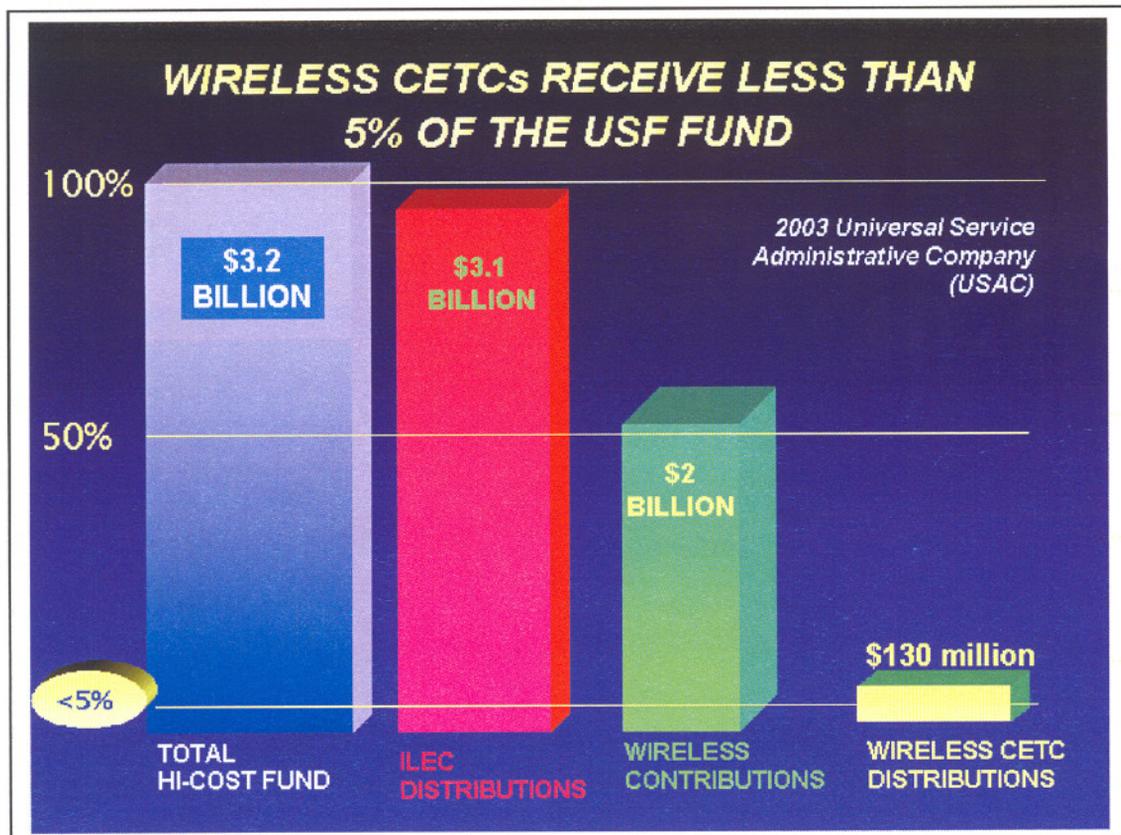
² See *id.*

RCA believe the FCC 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 stand to benefit from increased quality and quantity of services at lower prices.

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

FACT: Wireless contributions total more than 50% of the fund's worth (approx. \$2 B)

Since 2001, when the FCC established a safe harbor formula for contributions, we estimate that each carrier contributes \$1.00 per customer line per month. Given that there are over 180,000,000 wireless lines in service today, the wireless industry now contributes over \$2 billion per year—and the number will continue to grow every year with the addition of new customers and lines. That amount is well over half of the total federal high-cost fund. Although CETCs contribute as much as they do, so few wireless providers have been granted ETC status that they only draw approximately 5% of those funds to assist with deploying and building out wireless service in rural areas.



As the FCC or state commissioners continue to designate more wireless providers as eligible to receive high-cost support (and thus enter rural areas), this will create an environment where competition will eliminate support from some low-cost areas that are currently being funded. It can be expected to eventually force less efficient providers who are more costly to the universal service fund to improve efficiencies to compete with newcomers. It is for this reason that USF policy should continue granting entry of wireless providers to the high-cost program so that rural communities will be ensured the benefits of advanced telecommunications services.

MYTH: “NINETY-SEVEN PERCENT OF THE TOTAL U.S. POPULATION (I.E., 276 MILLION PEOPLE) LIVE IN COUNTIES WITH ACCESS TO THREE OR MORE DIFFERENT WIRELESS OPERATORS”...AND THUS WIRELESS USF IS NO LONGER NEEDED. ³

FACT: The FCC caveats this statistic as follows...

The source of that statistic is the FCC’s Ninth Report on CMRS Competition, released in September of 2004. Yet, the FCC caveats this statistic as follows:

[T]here are several important caveats to note when considering these data. First, to be considered as “covering” a county, an operator need only be offering any service in a portion of that county. Second, multiple operators shown as covering the same county are not necessarily providing service to the same portion of that county. Consequently, some of the counties included in this analysis may have only a small amount of coverage from a particular provider. Third, the figures for POPs and land area in this analysis include all of the POPs and every square mile in a county considered to have coverage. Therefore, this analysis overstates the total coverage in terms of both geographic areas and populations covered. (Ninth Report at para. 47.)

In his companion remarks to the Eighth Report, released in 2003, FCC Commissioner Michael Copps specifically criticized the FCC’s method of measuring effective competition, stating that it does not reliably show where service is available within a county.

Rural wireless operators and rural consumers know much better the current state of affairs. Although wireless services continue to improve in rural areas, anyone living or traveling through these areas has experienced spotty coverage or no coverage at all. In a recent speech, Governor John Baldacci of Maine decried the state of affairs in rural areas, stating, “Like many of you, my phone calls are lost while I’m on the road. Recently, I was driving to Portland and my call was repeatedly lost. This made me think – when will wireless service actually serve all of Maine. There are communities from Cape Elizabeth to Sebec where there is very little service. Maine’s busiest road, the turnpike, is plagued by service problems.”

³ Kramer, Joseph, Richard Levine, Randolph May. *The Myths and Realities of Universal Service: Revisiting the Current Justification for the Current Subsidy Structure*; Washington, D.C.: Progress and Freedom Foundation, January 2005.

Before the advent of the high-cost program, investment in improving telecommunications services in rural areas was mostly limited to densely populated areas and major roads. So while wireless service is becoming a substitute for wireline service in urban areas, and in densely populated portions of rural areas, the fact is many states have granted ETC status to wireless carriers precisely because wireless is NOT yet a substitute for traditional phone service in many rural areas. Examples include West Virginia, Oregon, Maine, Washington, Minnesota, South Dakota, Vermont. All have cited the need for wireless to develop networks so that wireless may one day become a substitute and consumers may one day have the choices in telecommunications services available to urban areas.

Wireless providers that have obtained ETC status have been using high-cost support to drive infrastructure beyond areas near urban centers into higher cost areas that would not be constructed without high-cost support. Although, in many rural areas, there is not yet sufficient network quality to permit consumers to depend on wireless the way they do in larger towns or in our nation's urban areas, high-cost areas are precisely where support today should be targeted to improve wireless coverage.

Congress's goal of driving new and efficient technologies into rural areas, so that rural consumers can have choices in services at similar prices to those in urban areas, requires investment in new networks in high-cost areas. Short term solutions that limit high-cost support to only a few will prevent the goal from being achieved because there will not be sufficient funding to construct networks that serve all consumers regardless of where they live.

MYTH: WIRELESS PROVIDERS “CHERRY PICK” AREAS WHERE IT’S FINANCIALLY BENEFICIAL TO OPERATE

FACT: High-cost fund regulations prevent cherry picking

This statement is true but only for those carriers who do not receive any USF support. A competitor has every prerogative to enter a low-cost, high-return market but those carriers who want high-cost support must demonstrate that they can and will do more for customers in rural areas.

For example, a CETC receiving support must commit to serve throughout the ETC service area designated by the state commission (or the FCC). Wireless service areas are usually larger than rural ILEC service areas. Additionally, wireless carriers must demonstrate that it will serve in the public's interest and commit to serve every customer in its ETC service area upon reasonable request, which is the same standard applied to ILECs.

Lastly, the FCC's rules allow ILECS to protect themselves from any “cream skimming” opportunity because the current rules for providing high-cost support to CETCs specifically allow ILECs to remove support from low-cost areas for wireless providers choosing to serve those areas.

BENEFITS OF USF TO RURAL AMERICA

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

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 rural terrain. Although things are changing, many rural consumers have traditionally seen mobile phones more as ancillary communications tools, rather than one that can be counted on to provide primary telephone service.

The best thing the FCC and Congress can do to protect the health and safety of rural Americans is to ensure that critical infrastructure continues to be built out in rural communities. **The high-cost fund has provided the incentive to invest in better technologies and services that ultimately result in improved emergency communications.** Nevertheless, as more people come to rely on the versatility and convenience of wireless technology, the expectation for improved wireless services will grow in these communities.

To illustrate, with the help of high-cost support, Midwest Wireless' new cell site construction is rapidly filling in service gaps and extending its reach in rural areas that it would not have reached for many years, if ever. It is self-evident that the number of important health and safety calls, such as those made by doctors, volunteer firemen, police, and first responders, is increasing with every new cell site we construct in rural Minnesota. John Kleinschmidt, City Clerk in Morgan, Minnesota, coordinates communication for the local ambulance, police and utilities. "We are all very happy. We use the phones to communicate with police, ambulance and utility employees and there is just no comparison between then and now in the signal - it's a great improvement."

We can think of few achievable goals more important than driving investment into rural areas that will improve the infrastructure needed to complete emergency calls. Encouraging wireless carriers to become ETCs and ensuring that funds are spent on network construction is critical to delivering this vital benefit to rural America.

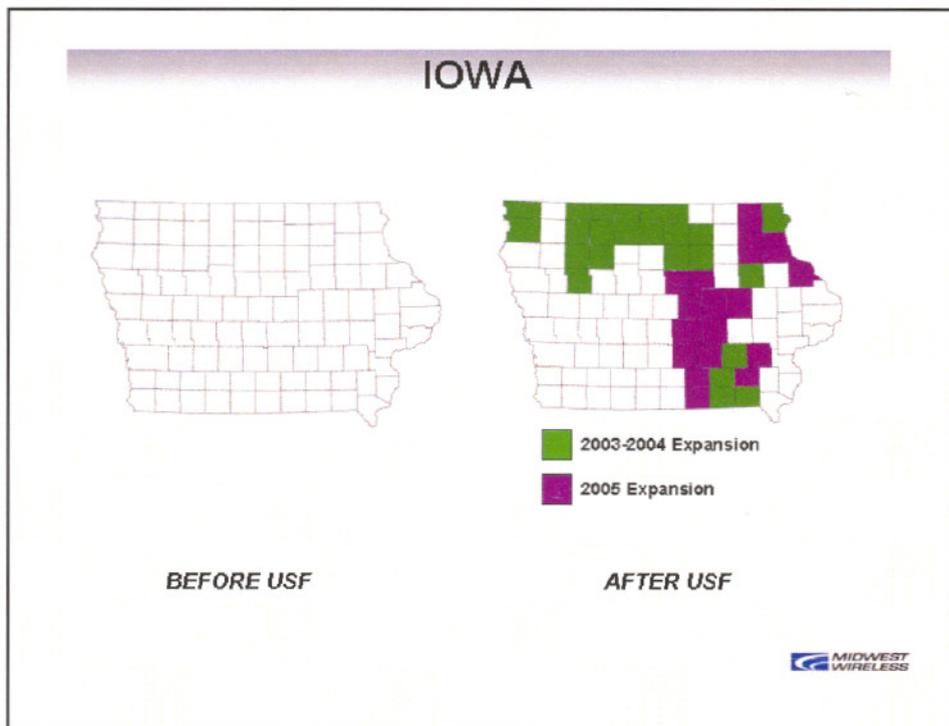
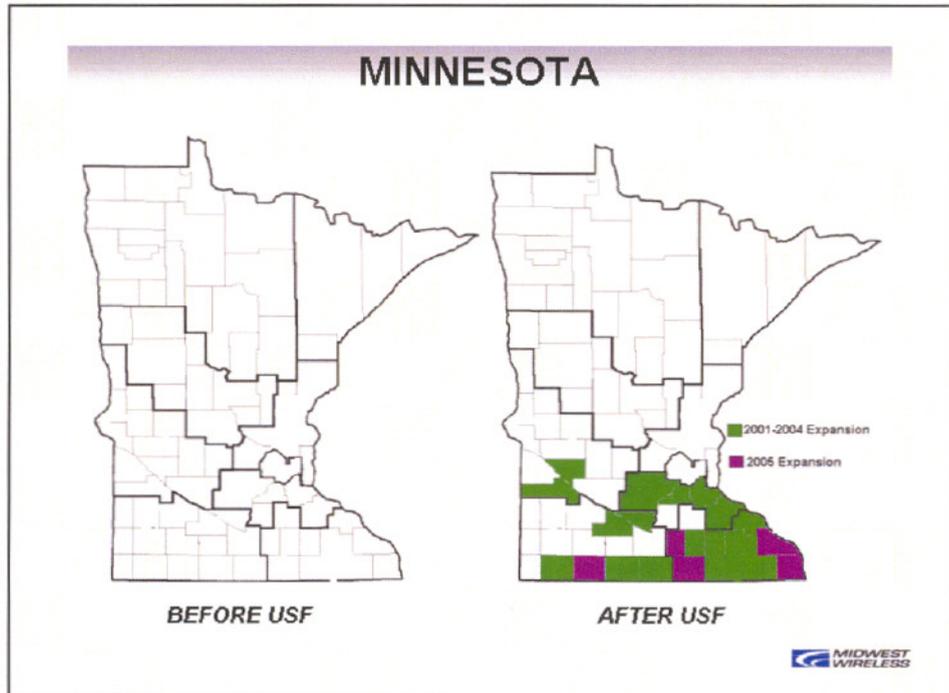
High-Cost Support in Rural Areas Drives Economic Development

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 and people consider rural areas as more attractive places to locate and to live 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.

Federal high-cost support has permitted Midwest Wireless to expand service and add cell towers that has resulted in a drastic change in the way rural communities do business. For example, Mike Peters, who runs a van service in Harmony, Minnesota, says [the addition of new towers] is, "A huge help. I'm on the road all the time and it's an absolute necessity for my customers to reach me. The coverage is excellent now." Amy Geiwitz of Houston, Minnesota, who runs a day care center, says "Now, when I go walk with the kids, I can take my phone with me and their parents or my kids can get a hold of me. It's great. We needed this tower."

MINNESOTA AND IOWA BEFORE AND AFTER USF SUPPORT



POLICY RECOMMENDATION

Rural communities benefit the most from policies that encourage competition and improvement to existing telecommunications services. Any policy that attempts to stall the entry of new providers in rural areas retards the development of wireless infrastructure and ultimately will widen the gap between rural and urban areas. Wireless consumers pay into the fund and thus deserve the benefits that Congress intended to deliver when it passed the 1996 Act. Therefore, Congress and the FCC should continue to allow rural wireless carriers who have ETC status to receive high-cost support from the universal service fund in a competitively neutral fashion.