

Testimony of John E. Rooney
Before the U.S. Senate Committee on Science, Commerce and Transportation
June 12, 2007

Good morning, Mr. Chairman, Mr. Vice-Chairman, members of the Committee, my name is Jack Rooney and I am President and Chief Executive Officer of United States Cellular Corporation – known to our customers as U.S. Cellular. Thank you for the opportunity to appear before you today to share with you the many benefits our company has been able to bring to rural America as a result of the Universal Service Fund, and the very harmful effects that will result if the current proposal regarding a cap on this fund is adopted.

U.S. Cellular provides wireless service in nearly 200 markets located in regional clusters across the country, including many of the states represented on this Committee such as California, Maine, Minnesota, Missouri, New Hampshire, Oregon, South Carolina, Texas, Washington and West Virginia. The overwhelming majority of the geography we serve is rural in character.

You should also know that our opinions and perspectives on the Universal Service Fund are based on our experience in receiving universal service support in seven states that include Washington, Oregon, and Maine.

I am here to bring you good news about what wireless carriers like U.S. Cellular are accomplishing in rural America with universal service funding. In addition, I am here to advocate reform of the universal service program in a comprehensive, constructive manner that promotes both the universal service and competition mandates of the Telecommunications Act of 1996; and, at the same time, holds the entire industry accountable for the funds it receives. Specifically, U.S. Cellular strongly opposes capping funding only to wireless carriers while continuing to fund wireline carriers without reforming the rules.

Today, we at U.S. Cellular are using universal service support to provide consumers and communities with access to essential services they deserve in ways that would not otherwise be possible. For example, in Maine, we are constructing 21 cell sites in small towns such as Grand Isle, Union and Peru. USF funds are allowing us to provide consumers and communities with access to essential services they deserve and pay for – for the first time. In Oregon, we are using the funds to build 11 new sites in places such as Emigrant Lake, Wallowa and Butte Falls, among others. In every state where we receive assistance, we are deploying networks in sparsely populated communities where there is no logical business case that can justify the cost.

Let's also remember that every cell site we build provides critical public safety benefits. In every place where we build a new cellular site, consumers receive as much as 144 square miles of improved coverage, including all the emergency service benefits of wireless, such as the ability to make a 911 call, and to access the locating features of E-911. At a time when the public is increasingly concerned about having E-911 functionality, it scarcely bears mention that without a cell site, E-911 is useless.

I should also highlight the outstanding performance of wireless systems during the recent flooding in Missouri, wind storms in Washington and Oregon, and many other natural disasters. In each instance, our networks either continued to operate without interruption throughout the crisis, or were restored quickly with back-up battery power or generators so that service disruptions were confined to minutes or hours, not days or weeks. In fact, it's worth noting that this reliability and ubiquity makes wireless the preferred service for displaced people and first-responders. Again and again, our wireless networks have proven to be much more robust and reliable than wireline networks.

The key issue before us today, however, is what the Joint Board has overlooked in its rush to throw a cap on just the wireless portion of the fund. I would suggest we look backwards, and reflect thoughtfully on Congress' intent in enacting the Telecommunications Act of 1996 and the successes of universal service funding to date, before we talk about what should be done going forward.

Continued growth in universal service fund payments has raised the question of whether the program is sustainable given the current methodology it uses to collect and distribute funds. What must be remembered is that Congress, in its enactment of the 1996 Telecom Act, intended for rural consumers to have the same access to advanced services and competitive prices as their urban counterparts. This access should come from providers in a competitive market, governed by technology-neutral rules. In short, the growth of the fund is not some unintended aberration; it is the direct result of a conscious and enlightened public policy.

I believe that there are five factors to consider when reviewing the current situation:

1. The Vast Majority of Americans Prefer Wireless Service, and Rural Consumers Want Their Cell Phones to Work Just as Much as Those Living in Urban America.

Freezing support to wireless carriers diminishes our ability to invest in rural America and harms rural consumers by denying them the improved service that we're ready to deliver.

Let me explain. According to the FCC's own data, between 1995 and 2005, the average cost for wireless service dropped from 43 cents per minute to 7 cents per minute, while monthly usage has increased from 119 minutes to 740 minutes over the same period.¹

This is great news for people living in areas where network service quality is high. They see tremendous savings in their telephone bills, sometimes \$50 or more per month over wireline

¹ See Exhibit 1.

calling plans. However, these benefits are not available to rural Americans who live in areas with poor signal quality. The use of support to drive these consumer savings is exactly what Congress intended and the proposal to cap support only insulates wireline carriers from competition.

2. Wireline Networks that were Built and Paid for Decades ago Have Received 90% of Consumer USF Contributions Since 1996

Since 1996, more than \$22 billion of consumer contributions to the fund has gone to rural landline carriers, while less than \$2 billion has gone to rural wireless carriers. Consumers have a right to know where that \$22 billion went and why they are being asked to continue to provide \$3 billion per year to a service that they are abandoning in droves. Support should go to the service that consumers choose – not the service that regulators force them to choose.

3. A Freeze Will Disproportionately Harm Consumers in Some States

U.S. Cellular's efforts to serve customers in the states of Missouri and Illinois are examples of why this is a bad idea. A freeze on funds to these states means that rural consumers have to pay in, but get nothing – or next to nothing – in return. I understand that Illinois citizens contribute roughly \$265 million per year, while Missouri's citizens contribute roughly \$126 million.² Yet, Illinois draws out less than \$2,000 per year for wireless, and Missouri draws out roughly \$125,000 per year for wireless. Collectively, these states would not draw enough funds to put up one new cell site.

Assuming a cap is not instituted in Missouri, we are now poised to use support to build 39 new cell sites in the next two years to accelerate our network construction in underserved rural areas where our network requires significant additional investment. In Illinois, we have

² Source: FCC Joint Board Monitoring Report.

committed to building 121 new sites over five years if we are designated later this year as expected. This investment will improve service to over 2 million rural consumers. And that's just the beginning, as we'll continue to invest all available support each subsequent year.

For consumers, this is no small matter. There are substantial underserved rural areas in both of these states where people are demanding wireless service, and without support they aren't going to see that investment. If the Committee has any doubt about this, I am told that there are roughly 2,500 comments on file at the FCC from consumers opposing the cap, and that the only comments favoring a cap come from our friends in the wireline industry who fear the emergence of high-quality wireless service in their territories.

4. Support Must go to the Carrier that the Customer Chooses

Why should wireline carriers get subsidized even when they lose customers? Wireline carriers in rural areas have lost 10% of their access lines over the past three years; however, they continue to draw \$3 billion annually. When we lose customers, we lose support, and that's the way it should be. As consumers increasingly choose wireless for their voice needs, we should be receiving an increasing share of the fund so we can provide rural consumers with the high-quality service they deserve. If any one sector deserves heightened scrutiny, I would argue it's the landline providers that continue to benefit from the program while being insulated from financial and market realities.

5. The Cap as Proposed by the Joint Board is Not Competitively Neutral.

Finally, the idea of a wireless-only cap is wildly unfair in that wireless contributes the biggest share to the universal service fund, yet we draw out the smallest amount. All of the FCC's universal service rules must be competitively neutral in their effect, and there is no way that this discriminatory proposal passes muster. Nor does the unofficial freeze by the FCC on new ETC petitions.

To be completely frank, while disappointing, the Joint Board's decision wasn't all that surprising to us. The FCC has been treating our petitions for ETC status as if the cap has already been in place for some time. The FCC has not acted on any of our petitions for ETC status, despite our obvious qualifications to be designated. Some have been sitting there for three years. So we cannot deliver the benefits described above to rural consumers in New Hampshire, North Carolina, Virginia, Tennessee, and New York.

I would also like to rebut a common misconception I hear repeatedly about the wireless industry: that we are not accountable. In most states, U.S. Cellular files detailed reports demonstrating our accountability for what we do with these public funds. I can assure you that this company is using federal support in the manner that Congress originally intended: to provide rural consumers with high-quality service that is comparable to what is available in urban areas. Make no mistake, we are delivering on our promise and will continue to do so in the coming years with support from the USF. Wireline carriers do not have the same level of accountability, and we believe the universal service system is significantly over-subsidizing their networks because the system provides support on a "the more you spend, the more you get" basis.

The Joint Board's rationale for a cap is that the fund will become unsustainable. It doesn't, however, explain what that means.

Nor do the Board's numbers add up. We calculate that even if you accept the Board's unsupported projection that the fund could increase by another \$1 billion in the next year, this would add only 31 cents to the monthly federal universal service charge to consumers. Can someone please tell me, how does this represent a crisis – especially when wireline carriers continue to lose lines but are allowed to draw \$3 billion per year?

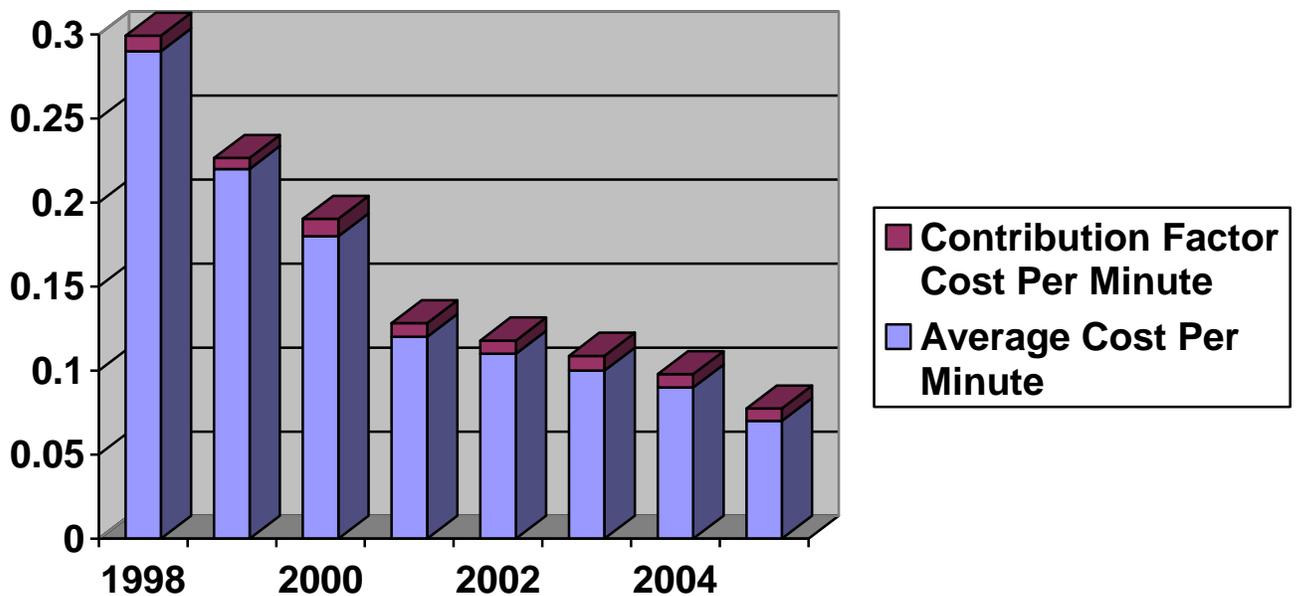
If the Senators believe that such an increase is too much for consumers to bear, then why not ask the wireline industry to share the burden? After all, wireline carriers draw three times what we do.

A much more responsible and competitively neutral fix is for the system to only provide support to the carrier that serves the customer. The FCC is fully capable of figuring out how much USF support is needed in a given area to provide consumers with the ability to choose the service that best suits their needs. I am told that's what Congress promised. Until that happens, fund growth is not going to be controlled and consumers are not going to see the benefits described above.

Mr. Chairman and members of the Committee, I greatly appreciate the opportunity to discuss this issue with you today and appreciate your interest. I believe that the Joint Board's ultimate recommendation, and the FCC's subsequent decision, will have a profound impact on rural Americans in your states, and on the host of competitive service-providers that are excited about offering the best telecommunications services possible. On behalf of U.S. Cellular, we hope that you can help ensure that those services are deployed as quickly and efficiently as possible without resorting to draconian and ill-conceived solutions.

Per-Minute Cost (\$) of Wireless Service (Including USF Contributions)

(1998-2005)³



³ Sources: FCC, Trends in Telephone Service, Table 19.17 (Feb. 2007); Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993 – Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, WT Docket No. 06-17, Eleventh Report, 21 FCC Rcd 10947 (2006), App. A, Table 10