



Telephone providers battle over fund division

By Jim Stafford
Business Writer
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The biblical King Solomon was asked to decide an issue of great importance to two women: Which woman was the real mother of a baby.

Solomon decided the best way to settle the issue was to take a sword and display his intention to slice the baby down the middle. The real mother started wailing; Solomon had his answer.

Fast forward about 3,000 years, give or take a few centuries, and we have a similar issue, although it's not a baby but money that is now the subject of contention.

The issue today is the so-called Universal Service Fund High-Cost Program that uses an assessment on every American's telephone bill to help pay for the cost of providing telephone service to rural America.

A noble cause, except that the traditional "incumbent" telephone service providers are at odds with their mostly wireless telecom competitors that have claimed a growing share of the high cost fund in recent years.

Playing the role of Solomon in this modern-day scenario is the Federal Communications Commission, which has proposed to cap the share of the high-cost fund claimed by wireless competitors at January 2006 levels. The cap could go into effect as early as November.

The cap would reduce the dollars that a big rural player like U.S. Cellular would receive, which is why the Chicago-based company's Chief Executive Officer John E. Rooney is loudly protesting the proposal.

Since 1999, more than \$22 billion in consumer contributions has gone to traditional wireline telephone companies, Rooney said. Wireless companies have received about \$2 billion in that time, although their share is growing.

Rooney sees the proposed cap as a scheme by traditional wireline carriers to cut off funds that provide telecommunications infrastructure on which rural Americans increasingly rely.



"The only ones that support this thing are these little rural companies that sit there sapping the fund," Rooney said. "The amount that wireless takes out of this fund is peanuts compared with what these wireline carriers do and all they do is put it in their pocket.

"They are getting subsidized for capital that they put into the system 40 years ago."

However, in a speech made earlier this year, FCC Chairman Kevin Martin said the fund is "subsidizing multiple competitors" for voice services in rural areas. The fund raises about \$4 billion annually to support telecommunications in rural area. "Competitive," or wireless carriers received about \$1 billion of that.

"Today we have a problem," Martin said. "Changes in technology and increases in the number of carriers who are receiving universal service support have ballooned, placing significant pressure on the stability of the fund."

Telecommunications giant AT&T supports a funding cap on an "interim" basis, although the company provides both wireline and wireless service in urban and rural areas of the country.

"The proposal undoubtedly will impose some burdens, at least in the short-term, on (wireless companies) — including AT&T — by reducing the amount of high-cost funding available to deploy and maintain facilities used to serve high-cost customers and complicating investment decisions," AT&T said in its statement.

"But these burdens, if strictly limited in duration and minimized to the extent possible, will be well worth it if they lead finally to more fundamental reform."

AT&T called for modifications of the proposed cap that it said would minimize the financial impact on wireless carriers.

The Oklahoma Telephone Association represents 34 Oklahoma telephone companies but hasn't taken an official position on the proposed cap, but is "closely monitoring" the situation because of its possible impact on members, said Bob Stafford, executive director of the association.

A wireline coalition called keepamericaconnected.org published an article on its Web site that identified Oklahoma as one of 10 states with the most households at risk of losing access to "affordable" telephone service if the wireless share of the high cost fund keeps growing.



As many as 7.1 million consumers are potentially at risk, the wireline coalition said.

Not so, said U.S. Cellular's Rooney. Many rural Americans have abandoned their old wireline providers and rely only on wireless phones for communications.

"The arguments here are the same kind of arguments that you would expect back in the day when the automobile came around and the poor buggy whip manufacturers were trying to justify their existence," Rooney said.

U.S. Cellular built 10 towers in Oklahoma this year, funded in large part by its share of the Universal Service Fund, Rooney said. If its share is reduced by a cap at January 2006 levels, that would jeopardize future infrastructure investment, he said.

"I will tell you to the community where that tower goes in, it means a lot," he said. "It means a lot to the first responders, it means a lot to economic development."