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FCC move spurs phone providers' tug-of-war over subsidy funds

By Jim Stafford
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A recent move by the Federal Communications Commission to consider a cap on subsidies from the Universal Service Fund for wireless providers has so inflamed John E. Rooney, chief executive officer of U.S. Cellular Corp., that he has initiated something of a one-man campaign against it.

"A panel assembled by the FCC has chosen to cap the fund for reasons that we cannot comprehend," Rooney said this week. "We think it's a gambit by the local wireline companies to cap the fund and make sure that wireless companies don't take any more out of it than they already are taking out."

Subscriber numbers provided by wireline service carriers show evidence that the rise of wireless telecommunications companies has come largely at the expense of traditional telephone providers.

For example, AT&T's wireline subscribers in Oklahoma have fallen from 1.3 million last year to less than 1.1 million at the latest count, AT&T Oklahoma spokesman Andy Morgan said.

So it's no surprise that wireless companies are at odds with their traditional telephone competitors in the debate over the share of the Universal Service Fund that is used to subsidize telephone service in rural areas of the nation. The point of debate is the so-called "high cost" fund that subsidizes rural carriers because of the relative cost for each subscriber in sparsely populated areas.

Since 1999, more than \$22 billion in consumer contributions to the Universal Service Fund has been provided to rural landline telephone companies across the country that have "mature" networks, Rooney said.

Less than \$2 billion has gone to rural wireless carriers at a time when they still are building out their networks.

Why is that important to U.S. Cellular and to its potential customers in rural Oklahoma? Chicago-based U.S. Cellular serves both the Oklahoma City and Tulsa markets, as well as rural areas of the state.



"That would have a chilling effect on the ability to expand wireless service to areas that don't currently have wireless service or if they have wireless service it is woefully inadequate," Rooney said. "You can picture yourself in a rural area of Oklahoma where

your car breaks down, and there is no pay phone there to call and no access to 911 services; you are just stuck."

The numbers don't justify the expense of building infrastructure in rural areas without the subsidy, he said.

"It's kind of hard to justify a \$300,000 capital investment because there is just not enough activity on that tower to justify that approach," Rooney said. "On the other side of the coin, with some help from the Universal Service Fund, we can put that tower in and integrate it with the network."

Rural wireline carriers have had their infrastructure in place for decades in many cases and don't have the expense of building out a network, Rooney said. Yet, their share of the fund amounts to billions of dollars.

Not so fast, said Dick Segress, chief executive officer of tiny Terral Telephone Co. in far southwest Oklahoma. The company services fewer than 300 subscribers in Terral and southern Jefferson County and is the smallest telephone provider in Oklahoma.

"Understand that that fund was initially established to make sure that service to the small rural areas would continue to be maintained as a quality of service," Segress said. "It was never meant to subsidize the big companies that had a broad range of customers both in metro and rural areas, where they had a base of customers to support and provide the infrastructure throughout the network."

Wireless carriers were allowed to share in the Universal Service Fund high cost subsidy beginning in 1996, Rooney said.

It should have never happened, Segress said.

"I don't see any cellular systems that are struggling to stay alive," Segress said.

"I don't see that the cellular systems need a subsidy in order to maintain their network, where the small telephone company, because we don't have the base; we don't have



the billing. If we charged our customers what it cost us to provide the service, they couldn't afford it.

"I think it's unfair to the process itself for cellular companies to participate in the Universal Service Fund."

U.S. Cellular's Rooney isn't alone in speaking out against the proposed cap.

A coalition of rural wireless providers that includes Alltel and Dobson Communications also are working to block the fund cap, said Thomas Coates, Dobson's vice president for corporate development.

When Congress passed the Telecommunications Act of 1996, it intended to use the Universal Service Fund to create telecommunications services for rural Americans that are comparable to the urban counterparts, Coates said.

That includes wireless service, he said.

"I think it was entirely envisioned by Congress that this would help foster the development of wireless services in rural America," Coates said.

"I don't think there can be any argument that the receipt of Universal Service Funds will enable wireless companies to build the less densely populated areas more quickly than they would otherwise be able to do."

The potential cap on the fund would freeze the Universal Service Fund at 2006 levels.

It also would affect new applications for designation as what are known as Competitive Eligible Telecommunications Carriers, Coates said.

Rooney alleged that the FCC panel and its recommendation to implement the cap was a ploy to halt the competition brought to rural America by the wireless companies.

If it obtained Eligible Telecommunications Carrier status in Oklahoma, U.S. Cellular would gain access to about \$7 million to build infrastructure in the state, he said.

"They were trying to sneak it through where nobody was paying any attention to it," Rooney said.