MONTANA
TELECOMMUNICATIONS
ASSOCIATION

May 31, 2013

The Honorable Greg Walden, Chairman
Subcommittee on Communications and Technology
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

ATTN: Charlotte Savercool

Re: Testimony of Geoff Feiss, Montana Telecommunications Association
"The Lifeline Fund: Money Well Spent?"
Additional Questions for the Record

Dear Chairman Walden,

Attached are my responses to additional questions for the record from the Honorable Henry Waxman.

1. Mr. Feiss your testimony suggested that Lifeline support for consumers choosing prepaid wireless should be set at $3 per month. Your testimony did not provide any evidence as to why that is the appropriate level of support. Where does your $3 figure come from?

RESPONSE:

Congressman Waxman, I greatly appreciate your interest in universal service and the Lifeline Program. I believe we share the same interest in sustaining a viable, efficient and effective Lifeline Program.

The $3 per month level of support for prepaid wireless providers which I suggest in my testimony is quite frankly speculative, because—unlike in the case of High Cost USF—the FCC has no data by which to determine the cost of providing prepaid wireless Lifeline service. My testimony points out that the current level of support ($9.25) is derived essentially from wireline cost factors when intercarrier compensation reform led to the establishment of a subscriber line charge (SLC), which applied only to wireline carriers. (Lifeline support was established to mitigate the effect of the SLC.) The current level of support has nothing to do with wireless providers' costs. It operates more like the identical support mechanism in the High Cost program, which the FCC eliminated in the Universal Service Transformation Order.

Since accurate data are not available, a few assumptions can be made regarding costs incurred by prepaid wireless Lifeline-only ETCs. First, prepaid wireless Lifeline-only ETCs by and large are service resellers. They have few, if any, facilities or infrastructure. In fact, the FCC has waived any facilities requirement for prepaid wireless Lifeline-only ETCs. In other words, unlike facilities-based carriers, prepaid wireless Lifeline-only ETCs incur only minimal capital expenses. Second, prepaid wireless Lifeline-only ETCs incur only a fraction of the operational expenses of facilities-based carriers. They don't "roll trucks," lay fiber, employ outside and inside plant technicians, build and operate secure central offices, maintain the administrative expenses to comply with various regulatory requirements, etc. In short, both CAPEX and OPEX for prepaid wireless Lifeline-only ETCs reasonably may be assumed to be substantially less than facilities-based providers, whose expenses form the basis of the current level of support.

The fact that prepaid wireless Lifeline-only ETCs can offer their service for free illustrates that the current level of support is more than enough to cover their costs. The Telecommunications Act provides that all Americans should have access to comparable service at comparable rates—a fundamental principle that MTA vigorously supports. There is nothing in statute or FCC rules that dictates that "comparable" rates means that service should be free, much as it may be desirable to provide free service to low income Americans. Moreover, by limiting the level of support for prepaid wireless Lifeline-only ETCs, we can stretch the Lifeline dollar either to expand participation beyond the current 55%, or to include broadband access, or some combination thereof, all within the current Lifeline "budget" of around $2 billion or less, without further stressing the overall universal service fund. (Note: the Lifeline Program is the only one of the four universal service programs without a budget today.)

Finally, as I note in my testimony, any prepaid wireless Lifeline-only ETC may petition the FCC under my proposal for a level of support that accurately reflects its cost of providing Lifeline service. Thus, the $3 level of support is only a default level, which remains rebuttable by any prepaid wireless Lifeline-only ETC that chooses to file supporting cost data.

2. Mr. Feiss, as you know, many members of the Montana Telecommunications Association are rate-of-return carriers that receive very high per line subsidies from the High Cost USF, which includes a guaranteed 11.25% return on investment beyond the "cost" of providing service. Your testimony suggested that low-income consumers should be required to pay $5 per month for Lifeline service. Do you believe it is fair

to ask families living in poverty to pay more for basic phone service while the FCC continues to provide certain companies a guaranteed 11.25% profit?

RESPONSE:

Congressman Waxman, the fact that some rate-of-return carriers receive "high" per line subsidies from the High Cost USF illustrates that High-Cost support is a function of the costs of providing high-cost service. My testimony suggests that the level of support provided to prepaid wireless Lifeline-only ETCs should be cost-based, as it is for the High Cost USF. If prepaid wireless Lifeline-only ETCs could demonstrate that their costs exceed $3 per Lifeline subscriber, they could receive a higher level of support. Such a policy would satisfy the FCC's competition and technology neutrality standards, since the current level of support confers a substantial financial advantage on prepaid wireless Lifeline-only ETCs.

I should add that no carrier is "guaranteed" 11.25% return on investment beyond the cost of providing service. Rather, rate-of-return carriers have the *opportunity* to earn *up to* 11.25% on only those *allowable costs* associated with the provision of *interstate voice communications*. Moreover, high-cost support is provided only for such allowable costs that exceed 115% of the national average cost per loop. In reality, few, if any, high-cost ETCs earn 11.25%. Indeed, it is not unusual to find total company return on investment, particularly for rural high cost companies, in the low to mid single digits.

My testimony noted that Sen. Coburn's budget amendment proposing a $5 participation fee "makes sense." As Sen. Coburn noted, a participation fee could yield savings in the Lifeline Program, which may stretch the Lifeline dollar, and help mitigate waste, fraud and abuse. While it can be said that a $5 participation fee may force low income citizens to pay more for basic phone service, it also can be said that $5 is substantially less than Lifeline-supported wireline service, which is around $16, after taking into account a Lifeline subsidy of $9.25 applied to an average local rate of $25. Even at $5, one could question whether such a rate meets the Telecommunications Act's comparability standards, not to mention the FCC's technology and competition neutrality standards.

My principle recommendation, however, is that the level of support for prepaid wireless Lifeline-only ETCs resembles the "identical support" mechanism from the High Cost program, which has been eliminated. If the level of support for prepaid wireless Lifeline-only ETCs were cost-based, the Lifeline Program could benefit more eligible low income Americans more efficiently while containing the contribution factor and sustaining universal service over the long run.

Again, it was an honor to testify on this important universal service program. I appreciate your interest in this matter, and I look forward to continuing the conversation at your convenience.

Respectfully submitted,

______________/s/_____________________

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