

**TESTIMONY OF HAYNES G. GRIFFIN
CHAIRMAN
VANGUARD CELLULAR SYSTEMS, INC.**

**Before the Federal Communications Commission
En Banc Hearing on Universal Service
March 6, 1998**

I. Introduction

Thank you very much for inviting me to speak at this en banc hearing on behalf of Vanguard Cellular Systems, Inc. Vanguard is a large independent cellular provider, and provides service to more than 685,000 customers in 29 markets in the eastern part of the U.S.

As you know, Vanguard has been an active participant in the Commission's Universal Service proceedings. Vanguard believes that proper resolution of universal service issues is critical to the continuing development of the telecommunications industry and to ensure that, as Congress intended, consumers and the Nation as a whole benefit from that development.

I have been asked to speak today about Vanguard's position on the allocation of universal service funding between the FCC and State regulators. At the outset, I should note that Vanguard, like many other providers of wireless service, believes that, under Sections 254 and 332 of the Communications Act, commercial mobile radio services are subject only to FCC universal service funding requirements, not to state requirements. No matter how that question is resolved, however, the allocation of financial responsibility for universal service between the federal and state jurisdictions is important. Some States and telephone companies with rural service areas have argued that the FCC must shift costs from the state jurisdiction

to the federal jurisdiction. Vanguard disagrees. Rather, the FCC and the States should focus on the fundamental purposes of the new universal service requirements in Section 254. These purposes do not include shifting funding responsibility to the federal level. There also is no evidence at this time that there is any need to create new subsidies at the federal level for what are now intrastate costs.

II. The Purposes of Section 254

Section 254, together with amendments to Section 214, creates a new universal service regime. There are three key elements to this regime. One of these is funding for schools, libraries and rural health care, which is outside the scope of today's discussion.

The second element of the new universal service regime is expanding eligibility for universal service funding, so all competitors have an equal incentive to serve all subscribers. Expanding eligibility increases choices, and reduces prices, for urban, suburban and rural customers alike. Section 214 gives the States the power to designate which carriers are eligible for universal service subsidies. Vanguard, which serves a significant rural population in many of its service areas, such as the Huntingdon Rural Service Area in Pennsylvania (RSA 11), expects that this element of the universal service program will give it the opportunity to meet the basic communications needs of many customers who now are underserved.

The third important element of the new regime is that it replaces the old system of implicit subsidies with explicit subsidies. Eliminating the implicit subsidies removes an important barrier to fair competition. Eliminating implicit subsidies also means that regulators have to make hard choices about whether to continue those subsidies in explicit form, to replace them with other subsidies, or to eliminate them altogether.

One thing the new regime does *not* do is to require the FCC to create new subsidies for basic telephone service, or to provide subsidies at the federal level for intrastate services. In fact, Section 254 gives the FCC and the States independent authority to preserve universal service and to adopt funding mechanisms that are limited to the areas of their jurisdictions: The FCC can obtain funding only from interstate carriers, and state-level funding is to be provided only by carriers in each specific State. There is nothing at all in Section 254 that suggests, let alone requires, that the FCC change the current balance between federal and state recovery of the costs of providing telephone service.

III. The Effects of Maintaining the Current Balance Between Federal and State Cost Recovery

I would like to turn now to the effects of maintaining the current balance between federal and state recovery of the costs of providing telephone service. As the Commission has recognized, the key regulatory issue in both federal and state universal service proceedings is how to recover the costs of providing telephone service. Historically, interstate revenues have been targeted to recover approximately 25 percent of the total costs of providing landline service, and intrastate revenues have been targeted to recover the rest of those costs. While

some carriers actually recover more than 25 percent of their costs from interstate sources, 25 percent is a reasonably accurate approximation.

As a practical matter, however, there is little evidence that 25 percent actually represents the best allocation of costs. For instance, when Vanguard prepares its own universal service and telecommunications relay service filings using the Commission's methodologies, only about 15 percent of Vanguard's revenues fall into the interstate category.

Although interstate costs generally are recovered through the Commission's access regime, it does not matter whether a cost is characterized as a "local" cost or an "access" cost, so long as all costs are recovered. For instance, the costs allocated to the intrastate jurisdiction are recovered both through charges for local service and through intrastate access charges. Under today's regime, all local exchange carriers recover all of their costs through revenues from interstate access, intrastate access, intrastate toll, and local service, based entirely on the current jurisdictional allocation.

In other words, if interstate charges continue to recover costs at the current level, there is no hardship on the States. Today, all jurisdictionally intrastate costs are recovered through existing intrastate charges, and rates generally are reasonable. In fact, rates often are lower in rural areas than in urban areas. If the total costs recovered through interstate charges remain the same, there is no reason for average intrastate rates to increase anywhere in the country.

In practice, any increase in the interstate portion of universal service funding caused by shifting costs out of the intrastate jurisdiction and into the interstate jurisdiction would be a new subsidy in addition to those that already exist. In this case, more densely populated areas would provide additional subsidy funds to less densely populated areas. Considering that many customers in rural areas already pay lower rates than those in urban and suburban areas, there does not appear to be any reason to create this new subsidy.

The real problem faced by the States is the same problem that the Commission has had to confront in its universal service proceedings: For years, hidden, implicit subsidies have been used to set rates and, in particular, to reduce rates for rural customers. Now the States have to eliminate those implicit subsidies and replace them with explicit subsidies. Shifting additional costs into the interstate jurisdiction might help state regulators avoid difficult political choices, but will do nothing to change the actual costs that must be recovered. Equally important, and as I described above, there is no evidence that Congress intended for the Commission to create new subsidies for high cost States and telephone companies. Vanguard believes that it is best for the Commission to do what the statute requires – make subsidies explicit and make them available to incumbents and competitors alike – and that the Commission should not try to readjust a jurisdictional balance that has worked well for so many years.

Thank you.