

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Facilitating the Provision of Spectrum-	)	WT Docket No. 02-381
Based Services to Rural Areas and	)	
Promoting Opportunities for Rural	)	
Telephone Companies to Provide	)	
Spectrum-Based Services	)	

**COMMENTS OF WESTERN WIRELESS CORPORATION**

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TABLE OF CONTENTS

Page

INTRODUCTION AND EXECUTIVE SUMMARY ..... 1

I. WESTERN WIRELESS IS A LEADER IN MAKING WIRELESS SERVICE AVAILABLE TO RURAL CONSUMERS ..... 2

    A. Western Wireless Provides Mobile Service To Consumers in Rural Areas..... 3

    B. Western Wireless Is Offering Universal Service to Consumers In Competition With Rural Telcos and Other ILECs ..... 4

II. THE COMMISSION’S RESPONSIBILITY IS TO PROMOTE THE AVAILABILITY OF WIRELESS SERVICE TO RURAL CONSUMERS – NOT THE INTERESTS OF RURAL TELCOS..... 8

    A. The Act Defines the Commission’s Policy Responsibilities Relating to Rural Wireless Service More Broadly Than Merely Helping Rural Telcos ..... 8

    B. Rural Telcos Have Ample Opportunities to Provide Wireless Service and Are Utilizing Those Opportunities ..... 10

III. THE COST OF PROVIDING WIRELESS SERVICE IS SIGNIFICANTLY HIGHER IN RURAL AREAS THAN IN MORE DENSELY POPULATED AREAS ..... 13

IV. UNIVERSAL SERVICE SUPPORT IS AN IMPORTANT TOOL TO PROMOTE THE AVAILABILITY OF WIRELESS SERVICE TO CONSUMERS IN RURAL AREAS..... 17

    A. Portable and Competitively Neutral Universal Service Support Eliminates Artificial Barriers to Economic Competition Between Wireless and Wireline Carriers..... 17

    B. Competitive Universal Service is Not Just About Wireless Displacement of Wireline ..... 22

V. THE FALLACY OF REGULATORY PARITY: COMPETITIVE NEUTRALITY DOES NOT REQUIRE IMPOSITION OF LEGACY MONOPOLY REGULATION ON COMPETITIVE WIRELESS CARRIERS ..... 28

VI. THE COMMISSION'S SPECTRUM AND LICENSING POLICIES CAN HELP PROMOTE RURAL CMRS..... 30

CONCLUSION..... 34

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**COMMENTS OF WESTERN WIRELESS CORPORATION**

Western Wireless Corporation (“Western Wireless”), by counsel, hereby submits its initial comments on the Notice of Inquiry (“NOI”), FCC 02-325 (released Dec. 20, 2002), in this docket.

**INTRODUCTION AND EXECUTIVE SUMMARY**

Consumers in rural areas are increasingly relying on wireless services to access telecommunications networks, and growing competition between wireless and wireline services will confer major benefits on rural consumers. Given the importance of this nascent competition, it is critically important for the Commission to keep in mind that its central responsibility is to promote *consumers’* access to wireless services in rural areas. The principal obstacles to providing wireless service in rural areas are the substantial costs of deploying facilities in areas of low population density and the difficulties in obtaining universal service funding to help defray those costs. These matters are not unique to the wireless affiliates of rural

telephone companies; they affect all wireless service providers operating in rural areas.

In these comments, Western Wireless describes its commercial mobile radio service (“CMRS”) offerings in rural areas and its experience as a competitive eligible telecommunications carrier (“ETC”) providing universal service to consumers in high-cost areas. We provide an overview of the statutory and public policy objectives that should guide the Commission’s efforts to promote the availability of wireless services to consumers in rural areas, and discuss the obstacles to deployment of wireless services. Next, we address how competitively-neutral universal service high-cost support helps meet the statutory mandate of promoting the development of wireless service in rural areas, and discuss policies that could help the Commission achieve this goal more effectively. We also show that imposing additional regulatory requirements on wireless carriers in a misguided attempt to achieve “regulatory parity” with incumbent wireline carriers is not necessary to achieve competitive neutrality and would disserve the interests of rural wireless consumers. Finally, we address the spectrum-related policy matters on which the NOI seeks comment.

## **I. WESTERN WIRELESS IS A LEADER IN MAKING WIRELESS SERVICE AVAILABLE TO RURAL CONSUMERS**

Paragraphs 11 and 12 of the NOI seek comment on “the services currently provided and planned to be offered in rural areas” and on “which service providers, in addition to rural telcos, are providing wireless services to rural

populations.” We respond to these inquiries by providing detailed information about Western Wireless and its offerings to rural consumers.

**A. Western Wireless Provides Mobile Service To Consumers in Rural Areas**

Western Wireless is a regional CMRS carrier that focuses on providing high-quality cellular service to consumers in rural areas in all or parts of 19 western states – Arizona, Arkansas, California, Colorado, Idaho, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, and Wyoming. Western Wireless’ licenses consist of 88 Rural Service Areas (“RSAs”) and 18 Metropolitan Statistical Areas (“MSAs”) with a combined population of over 10 million people and an average population density of only 11 people per square mile. Western Wireless provides service to over 1.1 million consumers, primarily under the Cellular One® brand name.

Western Wireless has recently undertaken a major network upgrade. At present, Western Wireless makes available digital cellular service using CDMA and TDMA technology to approximately 75% of the population in its service area and expects to complete the deployment of digital technology in the near future. Additionally, Western Wireless has deployed next generation digital technology, *e.g.*, 1XRTT, in certain areas, and plans to deploy such technologies more broadly over the next few years.

Western Wireless offers mobile wireless service in competition with approximately 36 different competitors in various portions of its service area. All

six of the “national” wireless carriers provide service to parts of the company’s service area, with the balance of the competitors being regional and local companies, including at least 18 wireless affiliates of rural telephone companies.

Larger national wireless carriers such as Verizon Wireless and Cingular Wireless are among the most significant competitors in large portions of the area served by Western Wireless. These carriers, with the majority of their customers in low-cost, urban areas, offer competitive calling plans to consumers nationwide. Operating in a competitive marketplace, Western Wireless must offer its customers comparable calling plans; but unlike the national carriers, Western Wireless does not serve low-cost urban areas. This competitive dynamic presents unique challenges to a mid-size rural carrier like Western Wireless. Nonetheless, by assembling the largest contiguous footprint of rural properties, the company has been able to realize economies of scale unusual in rural America. Despite not providing service to any top 100 markets with their inherently lower costs, Western Wireless is striving to compete with the largest wireless companies in America while providing consumers competitive pricing and superior coverage to rural territory.

**B. Western Wireless Is Offering Universal Service to Consumers In Competition With Rural Telcos and Other ILECs**

Western Wireless is increasingly satisfying its customers’ telecommunications needs in the home and at work, as well as while in transit. Thus, Western Wireless competes with wireline telephone companies as well as wireless companies, including Qwest, SBC, and other large incumbent local

exchange carriers (“ILECs”), as well as over 600 rural telephone companies providing landline service within Western Wireless’ license area. In rural markets, wireless service is following the national trend of landline replacement and displacement. Western Wireless has seen average customer minutes of use per month increase from 132 in 1998 to 353 in 2002.

Western Wats Center Inc., an independent market research company in Provo, Utah, recently conducted a survey within Western Wireless’ RSAs. Of the rural consumers surveyed who had wireless service: one-half stated that their cellular phone has become more important to them and their landline phone has become less important; 51% said that wireless service has replaced some or a large percentage of their home landline telephone service; 48% reported that wireless service has replaced 90% or more of their landline long distance; and 23% of respondents reported that they consider their wireless phone to be their primary phone.

Western Wireless is a leading competitive provider of universal service to consumers in high-cost areas, using wireless local loop (“WLL”) customer equipment as well as cellular handsets. Western Wireless underwent an extraordinarily lengthy and protracted set of state and federal regulatory proceedings to obtain designation as an ETC and related certifications needed to qualify for receiving high-cost support. These proceedings began in 1998, lasted 2-3 years in most of the states, and are not yet complete in a few states. Rural telephone companies have bitterly opposed Western Wireless’ efforts to obtain ETC

status and qualify for receiving the same universal service support payments that the rural telephone companies themselves receive.

At this point, Western Wireless has been designated as an ETC in 14 of the 19 states it serves, plus the Pine Ridge Reservation in South Dakota, and is receiving federal high-cost universal service support (and in some states, state support as well) for serving 11 of those states. This funding enables Western Wireless to recover some of the costs it incurs in providing universal service, and helps to eliminate the artificial regulatory barrier to competition that had previously been posed by the fact that rural telephone companies received support payments that had been denied to Western Wireless. As discussed in Part IV below, additional measures are needed to completely eliminate the disparate treatment of ILECs and competitive carriers for universal service purposes.

Consumers are the real winners now that Western Wireless and other wireless carriers are beginning to receive universal service support and this barrier to entry is being removed. Consumers are enjoying a facilities-based competitive alternative to the local service formerly offered on a monopoly basis by the ILECs. Many customers select Western Wireless' service because much larger calling areas are included in the definition of "local" calls, competitive pricing, and new and innovative service offerings. Others prefer the combination of mobility and convenience that we offer, as well as our excellent customer service. Consumers also benefit because, in a number of cases, ILECs with which we compete have responded to Western Wireless' market entry by reducing their rates, expanding the

size of their “local” calling areas, and otherwise improving their offerings to consumers.

All told, wireless/wireline competition benefits consumers by making more choices in technology and service packages available, driving providers to set prices and rate structures in ways that more fully satisfy consumers, and giving incumbent providers as well as new entrants strong incentives to improve their services. 1/ Wireless/wireline competition also strengthens incentives for complete deployment of wireline technologies in rural areas. However, these advantages have not yet been fully realized throughout rural America, where differences in the availability, use and cost of wireless services still exist in comparison to urban areas. 2/ Yet rural consumers can benefit from wireless communications as much as or even more than their urban counterparts. Rural residents often must travel significant distances in the course of their daily lives, and might spend larger portions of their day without convenient access to wireline phones. Western Wireless plays a leading role in bringing the benefits of competitive wireless service to rural Americans, for use at home, at work, and while on the move.

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1/ See *Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services*, Seventh Report, FCC 02-179 (rel. July 3, 2002) at 39 (“*Seventh CMRS Competition Report*”); National Telecommunications Cooperative Association 2002 Wireless Survey Report at 9 (Oct. 2002) (“NTCA Survey”) (noting that wireless operators owned by NTCA member companies “are providing an impressive array of services”).

2/ See *Seventh CMRS Competition Report* at 38 (citing an Econ One study comparing 25 rural markets to 25 urban markets and finding that the difference between the least and most expensive wireless service costs was 59% among rural markets, versus only an 8.3% disparity among urban markets, suggesting very uneven competition in rural areas). See also, *id.* (finding that rural markets on average have three wireless providers, compared to five to six in urban markets).

## II. THE COMMISSION'S RESPONSIBILITY IS TO PROMOTE THE AVAILABILITY OF WIRELESS SERVICE TO RURAL CONSUMERS – NOT THE INTERESTS OF RURAL TELCOS

The caption of the NOI indicates that the Commission's inquiry is focusing on both (1) "Facilitating the Provision of Spectrum-Based Services to Rural Areas" and (2) "Promoting Opportunities for Rural Telephone Companies to Provide Spectrum-Based Services." However, much of the text of the NOI addresses the second of these objectives. Western Wireless respectfully submits that the first of these goals is a much more worthwhile area of inquiry than the second, given the Commission's statutory goals and established public interest objectives. It is well established that the Commission's "statutory duty is to protect efficient competition, not competitors." <sup>3/</sup>

### A. The Act Defines the Commission's Policy Responsibilities Relating to Rural Wireless Service More Broadly Than Merely Helping Rural Telcos

In paragraph 13, the NOI seeks comment on the various public interest objectives that Congress established in Section 309(j) and elsewhere in the Act. Congress established a number of policy goals that are relevant to any evaluation of the Commission's regulations affecting services in rural areas. A brief review of some of these statutory mandates is worthwhile:

- Section 1 of the Communications Act sets the stage by charging the Commission with promoting the availability of all communications services to consumers throughout the nation, including those in rural areas. Such

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<sup>3/</sup> Bell Atlantic Mobile Systems, Inc., *Memorandum Opinion and Order*, 12 FCC Rcd 22280 (1997) at ¶ 16 (citing *Hawaiian Telephone Co. v. FCC*, 498 F.2d 771, 776 (D.C. Cir. 1974)).

services are to be provided on a “rapid and efficient” basis at “reasonable charges.” 4/

- Congress later passed the Telecommunications Act of 1996 (“1996 Act”) with the overarching goal of promoting competition in all telecommunications markets. 5/ The 1996 Act embodied the specific objectives of promoting facilities-based competition. 6/
- The 1996 Act requires the Commission to advance the provision of universal service to consumers in rural areas, who should have access to telecommunications services “that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged in urban areas.” 7/ The 1996 Act’s universal service goal is advanced, in part, by removing barriers to competitive entry by wireless carriers in rural telco areas. 8/
- Sections 309(j)(3)(B) and (j)(4)(D) of the Communications Act include provisions directing the Commission to structure spectrum auctions in a way that facilitates participation by diverse applicants, including small businesses, minority- and women-owned businesses, and rural telcos. 9/

The last provisions cited above receive prominent attention in the NOI, notwithstanding the fact that they constitute only a few of several statutory mandates the Commission must balance in forming policies relating to the availability of wireless services in rural areas. Moreover, these provisions relating

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4/ 47 U.S.C. § 151.

5/ The preamble of the 1996 Act states its purpose is to “promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.” Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996).

6/ See, e.g., S. Conf. Rep. No. 104-230 at 148 (contemplating that the 1996 Act would promote facilities-based local competition).

7/ See 47 U.S.C. § 254.

8/ See 47 U.S.C. § 253(f)(2) (barriers to competitive entry affecting commercial mobile service providers are to be preempted, notwithstanding the exemption from section 253 permitting states to require CLECs in rural telephone company areas to satisfy ETC requirements before they may provide service).

9/ See 47 U.S.C. § 309(j)(3) and (4).

to the structure of spectrum auctions should not be read as the most important of the statutory considerations. Sections of the Act that are narrowly focused on the design of spectrum auctions cannot take precedence over the broader objectives that undergird the Act, such as the promotion of competition and advancement of services to consumers. 10/

**B. Rural Telcos Have Ample Opportunities to Provide Wireless Service and Are Utilizing Those Opportunities**

In any event, Western Wireless submits that the Commission has fulfilled its obligations under Section 309 with regard to rural telcos. Section 309(j)(4)(D) instructs the Commission to “consider” the use of spectrum auction tax certificates and bidding preferences for small businesses, minority- and women-owned businesses, and rural telcos to ensure that such entities have the “opportunity” to participate in the provision of wireless services. 11/ The Commission did undertake such a consideration, and it properly determined that, although bidding credits were necessary for small businesses and women- and minority-owned entities, such assistance was not required for rural telcos that did not fall within one of these other categories. 12/ The Commission based its decision

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10/ Indeed, the licensee diversity objective found in section 309(j)(3)(B) is listed *after* section 309(j)(3)(A)’s objective of promoting the rapid deployment of new products and services to rural consumers “without administrative or judicial delay.”

11/ See *Melcher v. Federal Communications Commission*, 134 F.3d 1143, 1155 (D.C. Cir. 1998) (“Section 309(j)(4)(D) does not mandate that the rural LECs receive preferential treatment . . .; it just instructs the FCC to ‘consider’ the possibility.”).

12/ Of course, rural telcos qualifying as small businesses or women- or minority-owned businesses are still eligible to receive bidding credits. The NOI reports that 84% of rural telco spectrum auction bidders have, in fact, received such credits. NOI at ¶6.

on a finding that rural telcos had not demonstrated a “historical lack of access to capital” that served as a basis for awarding bidding credits. 13/

The Commission’s finding that rural telcos had not demonstrated a “historical lack of access to capital” and did not need special bidding credits continues to hold true today. Indeed, rural telcos have preferential access to capital, due to low-cost loans and loan guarantees that the Rural Utilities Service of the U.S. Department of Agriculture has made available exclusively to rural telcos. 14/ Rural ILECs also receive the lion’s share of federal high-cost universal service support: it is estimated that over 96.5% of all federal high-cost universal service funds go to ILECs, and rural telcos receive a large majority of this amount. 15/ By contrast, competitive ETCs, including Western Wireless and other wireless carriers, receive less than 3.5% of those funds. Given that most rural telcos remain virtual monopolies in their local service areas (unlike almost any other group of companies in the telecommunications industry), they are able to earn very healthy returns for their investors.

The conclusion that rural telcos do not need any special bidding credits is bolstered by data reported in a survey conducted by the National Telecommunications Cooperative Association (“NTCA”). NTCA reports that more

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13/ Implementation of Section 309(j) of the Communications Act – Competitive Bidding, *Fifth Memorandum Opinion and Order*, 10 FCC Red 403, 457-58 (1994).

14/ NOI at ¶ 17.

15/ See Universal Service Administrative Company, “Federal Universal Service Support Mechanisms Fund Size Projections for the First Quarter 2003,” *available at* <http://www.universalservice.org/overview/filings> (Nov. 1, 2002), at Appendix HC01.

than half of the survey respondents indicated they hold an interest in a wireless license. 16/ Significantly, 85% of NTCA’s wireless operators reported annual customer retention rates greater than 75%, and 55% reported retention rates of 90% or more. 17/ The same survey indicated that a significant percentage of respondents (24%) do not see value in a wireless license. Further, less than half of respondents (41%) have attempted to approach an existing licensee about partitioning or disaggregation opportunities. And as the NOI notes, 89% of rural telco bidders won licenses in the most recent auction for the lower 700 MHz band. 18/ These data points lead to the conclusion that the current rules have been effective in providing access to spectrum for those rural telephone companies that wish to pursue it. In this regard, the system is working and there is no need to fix it.

In the past, the Commission has properly moved in the direction of creating equal opportunities for all carriers – including, but definitely not limited to, rural telcos – to compete in providing wireless service to consumers in rural areas. The Commission should remain focused in this proceeding on promoting the interests of rural *consumers* in accessing wireless services and technologies – not on promoting the interests of one class of prospective *competitors* (*i.e.*, rural telcos) in providing wireless services. As the Commission and the courts have previously recognized, the Commission’s “statutory duty is to protect efficient competition, not

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16/ NTCA Survey at 3.

17/ *Id.*

18/ NOI at ¶ 6.

competitors.” 19/ By contrast, a rural wireless policy that served to protect a particular class of provider from competition “would run contrary to one of the primary purposes of the Act.” 20/

### **III. THE COST OF PROVIDING WIRELESS SERVICE IS SIGNIFICANTLY HIGHER IN RURAL AREAS THAN IN MORE DENSELY POPULATED AREAS**

Paragraph 12 of the NOI asks commenters “to identify the obstacles to providing wireless service in rural areas.” As discussed above, the availability of spectrum to rural telcos or other parties is not a critical obstacle to the availability and deployment of wireless service to consumers in rural areas. Rather, the two principal obstacles that inhibit carriers’ ability to provide wireless technologies and services in rural areas are (1) the high cost of serving rural areas, and (2) barriers to entry posed by the difficulties rural wireless carriers encounter in seeking the same universal service funding that is received by the rural telcos for their wireline service. We discuss the high cost of serving rural areas immediately below. The barriers to entry relating to the availability of universal service support are discussed in Part IV.A below.

The costs of providing wireless service in rural areas are substantially higher than in denser urban and suburban areas, especially when costs are

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19/ See *supra* note 3.

20/ *Alenco Communications, Inc. v. FCC*, 201 F.3d 608, 623 (5<sup>th</sup> Cir. 2000).

compared on a per-subscriber basis. Wireless service is more costly to deploy in rural areas, just as wireline service is. 21/

A comparison between the actual forward-looking cost of providing wireless services in urban versus rural areas, and between wireless and wireline service in both urban and rural areas, can be derived from the Wireless Cost Model, developed by HAI Consulting and filed with the Commission by Western Wireless on August 28, 1998 in CC Docket No. 96-45. That model revealed, for example, that the forward-looking cost per subscriber of providing service in rural Regent, North Dakota is significantly higher than the cost in Bismarck, North Dakota, a more urban community:

Rural Area, Regent North Dakota

Wireless Cost:	\$201.77 per month
Wireline Cost:	\$138.19 per month

Urban Area, Bismarck, North Dakota

Wireless Cost:	\$58.37 per month
Wireline Cost:	\$12.24 per month

There are several cost drivers that account for the difference between the monthly cost of providing wireless services in rural (*e.g.*, Regent) versus urban (*e.g.*, Bismarck) areas. The cost of providing wireless services in rural America, much like urban areas, is based upon numerous factors, such as the cost of spectrum, network infrastructure, interconnection, back office operations, and human resources. The per-subscriber cost must be developed by dividing the total

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21/ See Rural Task Force, "The Rural Difference," White Paper #2 (Jan. 2000) at 11-13, available at <http://www.wutc.wa.gov/rtf>.

cost of specified wireless infrastructure by the number of subscribers served (or the population capable of being served) by those facilities.

Wireless deployment costs are higher in rural than in urban areas in significant part due to the differences between the population densities in rural and urban areas. For example, a typical cell site costs \$450,000.00, and if this cell site serves a population of 500, the cost of the cell site per population is \$900. In contrast, in an urban area that same cell site may serve a population of 10,000, resulting in the cost of a cell site per population being \$45.

Another significant set of cost drivers in rural areas are the higher costs of interconnection with landline providers and backhaul from cell sites to interconnection points. Western Wireless maintains interconnection agreements with many of the telephone companies in its service area in order to terminate traffic and to provide consumers with local telephone numbers. It is the company's experience that it pays ten times or more for interconnection with rural telcos than it does with Bell operating companies. In addition, rural telcos have frequently delayed the company's requests for interconnection agreements by attempting to insert terms in their agreements that would prohibit the company from offering WLL service in competition with them – notwithstanding that such conduct potentially violates the Act and other law, and could subject those carriers to liability in enforcement proceedings. Nonetheless, the delays caused by such attempts have increased Western Wireless' cost of interconnection in certain rural telco areas.

Interconnection costs vary significantly based upon ILEC and area served. For example, comparing the transport and termination interconnection costs in a rural area like Regent versus in an urban area like Bismarck reveals:

Regent transport and  
termination costs:           \$0.016 cents per minute-of-use

Bismarck transport and  
termination costs           \$0.001 cent per minute-of-use

If a wireless carrier's customers terminate, on average, 400 minutes-of-use per month to the local telephone company, then the wireless carrier would incur the following transport and termination costs on a per-subscriber basis each month:

Regent                               \$6.40 per month

Bismarck                           \$0.40 per month

In sum, the costs of providing wireless service – not regulatory difficulties with access to spectrum – may pose a significant obstacle to both rural telco-owned and independently-owned wireless carriers' ability to deploy wireless technology and expand their service offerings in rural areas. Of course, competitively neutral universal service support would help defray the high cost of providing wireless service in rural areas, and would be a very potent means to overcome these “obstacles to providing wireless service in rural areas” and to “promote build-out to rural regions.” <sup>22/</sup> The Commission deserves credit for charting a course, so far,

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<sup>22/</sup> NOI, ¶ 12. In Part IV.A below, we discuss the obstacles to providing wireless service in rural areas posed by the complex and difficult regulatory hurdles that wireless carriers must overcome to obtain universal service support.

toward creating a level playing field for rural providers who seek to avail themselves of this support.

#### **IV. UNIVERSAL SERVICE SUPPORT IS AN IMPORTANT TOOL TO PROMOTE THE AVAILABILITY OF WIRELESS SERVICE TO CONSUMERS IN RURAL AREAS**

##### **A. Portable and Competitively Neutral Universal Service Support Eliminates Artificial Barriers to Economic Competition Between Wireless and Wireline Carriers**

Paragraph 30 of the NOI seeks comment on how the Commission's rules concerning universal service support for ETCs – including both ILECs and wireless carriers – impact deployment of wireless services to rural areas; and paragraph 12 seeks comment on obstacles to rural wireless deployment. Western Wireless submits that the availability of federal high-cost universal service support is just beginning to have an impact in enabling wireless carriers to provide competitive alternatives to wireline service in rural areas, and to deploy the necessary facilities to improve service quality. Substantial progress has been made toward removing some of the pre-existing barriers to entry posed by non-competitively neutral universal service programs, to the credit of the Commission, the Federal-State Joint Board on Universal Service, and certain state commissions, providing substantial benefits to rural consumers. <sup>23/</sup> Nonetheless, the impact could be more effective with the removal of the barriers to entry discussed below.

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<sup>23/</sup> See, e.g., *Federal-State Joint Board on Universal Service; Western Wireless Corporation Petition for Preemption of an Order of the South Dakota Public Utilities Commission*, 15 FCC Rcd 15168 (2000) (“*South Dakota Preemption Declaratory Ruling*”) (precluding states from declining to designate wireless carriers as competitive ETCs on the grounds that they did not provide ubiquitous service prior to designation due to alleged

Some parties take the position that the availability of universal service support to parties other than ILECs has the effect of artificially promoting uneconomic competition in high-cost areas. This view is dead wrong. 24/ Making universal service support to prospective entrants as well as incumbent carriers eliminates a very substantial, artificial barrier to economic competition that was posed in the past by artificial regulatory rules that were designed to, and did, restrict competition. Asymmetric availability of support funding – *i.e.*, when rural telcos and other ILECs, but not wireless carriers, have access to such funds – can pose a significant barrier to entry, as the Commission has correctly held:

No competitor would ever reasonably be expected to enter a high-cost market and compete against an incumbent carrier that is receiving support without first knowing whether it is also eligible to receive such support. We believe that it is unreasonable to expect an unsupported carrier to enter a high-cost market and provide a service that its competitor already provides at a substantially supported price. Moreover, a new entrant cannot reasonably be expected to be able to make the substantial financial investment required to provide the

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coverage gaps); *Federal-State Joint Board on Universal Service; Cellular South License, Inc. Petition for Designation as an Eligible Telecommunications Carrier Throughout its Licensed Service Area in the State of Alabama*, CC Docket No. 96-45, DA 02-3317 (WCB, rel. Dec. 4, 2002) (same); *Federal-State Joint Board on Universal Service; RCC Holdings, Inc. Petition for Designation as an Eligible Telecommunications Carrier Throughout its Licensed Service Area in the State of Alabama*, CC Docket No. 96-45, DA 02-3181 (WCB, rel. Nov. 27, 2002) (same); *Access Charge Reform*, Sixth Report and Order, 15 FCC Rcd 12962 (2000) (“*CALLS Order*”) (*inter alia*, eliminating certain implicit subsidies and turning others into explicit and competitively neutral universal service support).

24/ Cf. *Federal-State Joint Board on Universal Service; Western Wireless Corp. Petition for Designation as an Eligible Telecommunications Carrier for the Pine Ridge Reservation in South Dakota*, 16 FCC Rcd 18133, ¶¶ 12, 15 (2001) (“An important goal of the Act is to open local telecommunications markets to competition. Designation of qualified ETCs promotes competition and benefits consumers by increasing customer choice, innovative services, and new technologies. \* \* \* We reject the general argument that rural areas . . . are not capable of sustaining competition for universal service support.”).

supported services in high-cost areas without some assurance that it will be eligible for federal universal service support. In fact, the carrier may be unable to secure financing or finalize business plans due to uncertainty surrounding its designation as an ETC. 25/

Yet uncertainties surrounding ETC designation, as well as difficulties with satisfying other prerequisites to obtaining funding, remain endemic to the universal service system. As noted above, Western Wireless went through a multi-year ordeal of overlapping state and federal proceedings in order to obtain ETC designations, and that process – initiated over 4 years ago – is not yet complete in certain jurisdictions. Some states have taken an inordinately long time to conduct ETC designation proceedings; some require applicants to go through separate, repetitive proceedings to obtain designation for purposes of state, as well as federal, support; and some have granted wireless carriers ETC status conditioned upon compliance with detailed requirements, and then required additional lengthy proceedings before certifying that a carrier’s compliance plan is acceptable. Some states, as part of the ETC designation process, purport to impose on wireless carriers burdensome substantive requirements that Section 332 of the Act preempts

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25/ *South Dakota Preemption Declaratory Ruling*, 15 FCC Rcd at 15173, ¶ 13. *See also Alenco Communications, Inc. v. FCC* 201 F.3d 608, 622 (5th Cir. 2000) (“portability is not only consistent with [the Act’s requirement of] predictability, but also is dictated by the principles of competitive neutrality and . . . 47 U.S.C. § 254(e).”); *see also id.* at 616 (“[T]he [universal service] program must treat all market participants equally – for example, subsidies must be portable – so that the market, and not local or federal government regulators, determines who shall compete for and deliver services to customers. Again, this [portability] principle is made necessary not only by the economic realities of competitive markets but also by statute.”) (emphasis added); *Western Wireless Corp. Petition for Preemption of Statutes and Rules Regarding the Kansas State Universal Service Fund Pursuant to Section 253 of the Communications Act of 1934*, 15 FCC Rcd 16227 (2000) (“*Kansas USF Declaratory Ruling*”) (any regulatory system according ILECs more per-line support than competitive ETCs would constitute an unlawful barrier to entry).

states from imposing, such as “equal access,” tariff filing requirements, and rate and entry regulation. 26/ And some states have dragged their feet in issuing the required “certifications” that wireless carriers are properly utilizing the support funds they receive. 27/

Moreover, the very complexity of the universal service system makes it difficult for wireless carriers to participate. For example, different amounts of support are disbursed to geographic areas defined based on ILEC-centric geographic units such as “wire centers,” “study areas,” and “UNE pricing zones.” In order to make business plans and then participate in the universal service support system, wireless carriers must undertake a complicated analysis to determine which of their subscribers reside in which “wire centers” and “study areas,” since wireless carriers do not keep records organized based on those ILEC geographic units.

This process recently became even more convoluted and difficult for wireless carriers when the Commission permitted rural telcos, with *no* regulatory oversight, to unilaterally file plans to “disaggregate” their study areas and direct different amounts of support to different locations in their service territories. 28/

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26/ See generally Comments of the Competitive Universal Service Coalition, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, filed April 10, 2002, at 9-17 (detailed description of state commission procedural difficulties that Western Wireless and other prospective ETC applicants have encountered before state commissions).

27/ See 47 C.F.R. § 54.314.

28/ See *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Second Report and Order, 16 FCC Rcd 19613 (2001) (“MAG Order”), recon. in part, Order on Reconsideration, 17 FCC Rcd 11472 (2002), and Order and Second Order on Reconsideration, 17 FCC Rcd 11593 (2002). See also *Federal-State Joint Board on Universal Service*, Fourteenth Report and Order, 16 FCC Rcd 11,244 (2001) (“RTF Order”).

While it is easy for rural telcos to unilaterally disaggregate their geographic areas for funding purposes, it is somewhat more difficult for wireless carriers or other new entrants to obtain changes to rural telco study areas to facilitate ETC applications. 29/ This process requires an affirmative decision by a state commission plus no action after a specified notice period by the FCC's Wireline Competition Bureau. 30/ Some rural telcos, while content to take advantage of the streamlined procedure that benefits themselves, are trying to impose even more obstacles to the process of study area redefinition that wireless carriers and other competitive entrants need in order to qualify as ETCs. 31/

Finally, while the FCC and certain state commissions have made much progress in eliminating implicit subsidies and replacing them with explicit and portable funds, rural telcos continue to receive implicit subsidies that are unavailable to wireless carriers seeking to compete with them. For example, excessive access charges and other pricing distortions continue to provide streams of subsidy revenue to ILECs that are unavailable to competing carriers.

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29/ In the case of rural telcos, 47 U.S.C. § 214(e)(2) provides that a competitive entrant must serve a rural telco's entire "study area" in order to qualify for ETC designation. Some rural telcos' study areas include geographically dispersed pockets of territory spread over broad areas of a state. If a wireless carrier's license footprint does not coincide with the rural telco's study area, the wireless carrier must obtain redefinition of that study area before it can qualify as an ETC.

30/ 47 C.F.R. § 54.207(c).

31/ See, e.g., Application for Review or, Alternatively, Petition for Reconsideration of CenturyTel of Eagle, Inc., *In the Matter of Petition by the Colorado Public Utilities Commission, Pursuant to 47 C.F.R. § 54.207(c), for Commission Agreement in Redefining the Service Area of CenturyTel of Eagle, Inc., A Rural Telephone Company*, CC Docket No. 96-45 (filed Dec. 17, 2002).

Western Wireless looks forward to working with the FCC, the Joint Board, and state commissions to streamline the ETC designation process and make it easier for wireless carriers and other competitive entrants to qualify for the support to which they are entitled. A new proceeding before the Federal-State Joint Board on Universal Service, to be initiated soon in response to a referral order recently issued by the FCC, presents an opportunity to address and resolve these difficulties. <sup>32/</sup> Other pending and soon-to-be-initiated rulemaking proceedings present additional opportunities for federal and state regulators to fully eliminate unfair implicit ILEC subsidies. The full elimination of all these barriers to entry will make a major difference in enabling wireless carriers to compete on a level playing field with wireline incumbents, and to deploy spectrum-based services to rural consumers.

**B. Competitive Universal Service is Not Just About Wireless Displacement of Wireline**

Wireless/wireline competition is driving increased usage of wireless service in rural areas, as it is in other parts of the country. As discussed above, Western Wireless' experience bears out this trend. The NOI asks several questions relating to wireless/wireline competition in the context of universal service support. Specifically, paragraph 30 seeks comment on wireless carriers' receipt of universal service support "for providing service to consumers that use wireless service as their only phone service" and asks about customers that "had no phone service

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<sup>32/</sup> See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order, FCC 02-307, ¶¶ 6, 10 (released Nov. 8, 2002) (referring competitive universal service issues to the Joint Board).

whatsoever until they purchased wireless service.” <sup>33/</sup> The Commission should be careful to avoid falling into the trap of thinking that the only wireless/wireline competition that matters is when wireless service completely displaces wireline service, *i.e.*, either when customers drop their wireline service and use wireless as their only phones, or when customers who never had phone service sign up for wireless instead of wireline.

Wireless/wireline competition is fueled by consumers’ use of wireless not only as a *substitute* for wireline (consumers who use wireless as their only phones) but also as a *complement* to wireline. A large number of consumers use both wireline and wireless, but are relying more and more heavily on wireless. For example, many consumers choose to purchase additional wireless phones rather than second lines from wireline carriers. FCC data reveal that wireless minutes and lines are still growing rapidly, while wireline long distance minutes and access lines are declining. <sup>34/</sup>

Consumers increasingly use wireless phones alongside their wireline phones for a number of reasons. First, wireless carriers typically offer more expansive definitions of “local” calling service areas, and many offer low-cost or “free” long-distance calling plans. Second, when considering whether to purchase an additional line, the advantages of mobility make a wireless phone more appealing than an additional wireline connection. Third, customers who are often

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<sup>33/</sup> NOI, ¶ 30.

<sup>34/</sup> *Seventh CMRS Competition Report* at 20-21; 32-33.

on the go and come to rely on their mobile wireless phones when they are in transit are increasingly likely to use the same phones when placing and receiving calls when they are at home or in the office as well.

As a transitional matter, consumers' use of wireless alternatives as a competitive complement to wireline – for example, when they purchase additional wireless phones as a substitute for second lines from wireline carriers – is an important way for wireless competitive entrants to gain a foothold in the market. This, in turn, increases subscribers' willingness eventually to “cut the cord” and rely exclusively on wireless communications in the future. Thus, when assessing the state of wireless/wireline competition, in rural areas and elsewhere, it is most relevant to consider the *proportion* of total communications being carried by wireless providers, and not just the number of customers that are using wireless as a complete replacement for wireline service. <sup>35/</sup> The data reveal that consumers are increasingly turning to wireless. As noted above, Western Wireless has seen its monthly average minutes of use per subscriber increase from 132 in 1998 to 353 in 2002. Moreover, as discussed above, in a recent survey of customers in rural areas served by Western Wireless: one-half stated that their cellular phone has become

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<sup>35/</sup> See, *Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services*, Notice of Inquiry, WT Docket No. 02-37, FCC 02-327, ¶ 54 (rel. Dec. 13, 2002) (seeking data on, *inter alia*, the percentage of consumer's total monthly voice communication minutes that are made from mobile phones; the percentage of consumers' total monthly long distance minutes that are made from mobile phones; the percentage of mobile telephone subscribers' calls and minutes that occur in their homes using their mobile phones; and the percentage of both mobile telephone minutes and wireless calls and minutes that terminate on mobile phones); compare NOI at ¶ 30 (asking only for data on number of wireless ETC customers that also maintain a wireline phone, or that had no phone service prior to obtaining wireless service).

more important to them and their landline phone has become less important; 51% of respondents stated that wireless service has replaced some or a large percentage of their home wireline service; 48% of respondents indicated that wireless has replaced 90% or more of their wireline long distance calling, and 23% reported their wireless phone to be their primary phone. 36/

Finally, it is important to note that it is altogether reasonable for wireless carriers to receive universal service support “for providing service . . . to consumers that also maintain wireline service.” 37/ This is fully consistent with the competitive dynamics of the marketplace for services supported by high-cost funds. First, when customers purchase service both from an ILEC and from a CETC, there is no reason to assume that ILEC service is “primary” while all other service constitutes an insignificant add-on. As discussed above, more and more consumers view their wireless phones as their “primary” voice service. 38/ Consumers may also use connectivity to the public switched network for several purposes, and any one of the mix of services any consumer purchases could be deemed “primary” by that

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36/ See also Yuki Noguchi, *Cutting the Cord*, THE MIAMI HERALD, Jan. 7, 2002 (“About 2.2 percent of people in the [U.S.] have done away with their regular phone service and depend totally on their cellphones or other wireless devices, according to [CTIA] . . . .”); see also Elizabeth V. Mooney, *Wireless Replacement May Pose Threat to LECs by Decade’s End*, RCR WIRELESS NEWS, March 25, 2002 (“Wireless is getting cheaper faster than wireline, and the reality is that the percentage of users who could benefit cost-wise from landline replacement is growing.”) (internal quotation and editing omitted).

37/ NOI, ¶ 30.

38/ Paul Kirby, *Analysts: Wireless Displacement of Wireline Services Will Rise*, TELECOMMUNICATIONS REPORTS, May 6, 2002.

customer, a designation that may change (and change back or back-and-forth) over time.

Moreover, as discussed above, local competition is not limited to “primary lines” in any event, nor is it a matter of consumers picking either the ILEC or the new entrant as their “primary” service provider. Rather, competition continues to develop for “second lines.” Such competition is in the public interest and should be encouraged by the FCC’s rules and policies. Just as opening markets for “primary” lines to competition conveys significant value to consumers, enabling competition with respect to all other lines also greatly advances the public interest.

In addition, as discussed above, wireless service is very costly to provide in rural areas, just as wireline service is. Competitively neutral universal service support is a reasonable way to ensure that consumers have the opportunity to take advantage of wireless for their communications needs.

Finally, the established principle of competitive neutrality and the Act would be violated if the Commission were to provide support when a consumer with one wireline phone line chooses to buy a second line from the ILEC, but not when the same consumer chooses to purchase its “second line” service from a wireless carrier, as NTCA proposed in a recent petition for rulemaking. <sup>39/</sup> Under NTCA’s proposal, if a customer with one ILEC line decides to purchase one or more additional lines

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<sup>39/</sup> See *National Telecommunications Cooperative Association Petition for Rulemaking to Define “Captured” and “New Subscriber Lines for Purposes of Receiving Universal Service Support, Pursuant to 47 C.F.R. § 54.07 et seq.*, RM No. 10522, filed July 26, 2002. See also *Comments of the Competitive Universal Service Coalition*, RM No. 10522, filed Sept. 23, 2002.

from the ILEC, the ILEC would receive support for every one of those added lines, but if the same customer decided to purchase the identical service from a CETC, the CETC would be denied any support. Moreover, under NTCA's proposed definitions, if an ILEC is contacted by a "new" customer with a request for service, the ILEC would be assured of receiving support when it provides service to that customer regardless of what else the customer is purchasing from whom, but if a CETC is contacted by a "new" customer, the CETC would not be assured of receiving support unless it could verify that the customer is not also taking service from someone else. This discriminatory approach violates Sections 253 and 254 of the Act and the established principle of competitive neutrality, which prohibit the Commission from adopting a system that provides funding to an ILEC but denies funding to a CETC that provides an identical service. <sup>40/</sup> Worse, it would thwart competition in rural and high-cost areas to the detriment of consumers there.

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<sup>40/</sup> See, e.g., *Alenco*, 201 F.3d at 616 ("[T]he program must treat all market participants equally – for example, subsidies must be portable – so that the market, and not local or federal government regulators, determines who shall compete for and deliver services to customers. Again, this principle is made necessary not only by the economic realities of competitive markets *but also by statute.*") (emphasis added); *Federal-State Joint Board on Universal Service*, First Report and Order, 12 FCC Rcd 8776, 8701-02, ¶ 48 (1997) (subsequent history omitted) ("*Universal Service First Report and Order*") ("We conclude that competitively neutral rules will ensure . . . that no entity receives an unfair competitive advantage that may skew the marketplace or inhibit competition by limiting the available quantity of services or restricting the entry of potential service providers."); *Kansas USF Declaratory Ruling*, 15 FCC Rcd at 16231, ¶ 8 ("A mechanism that provides support to ILECs while denying funds to eligible prospective competitors . . . may well have the effect of prohibiting such competitors from providing telecommunications service, in violation of section 253(a).")

## V. THE FALLACY OF REGULATORY PARITY: COMPETITIVE NEUTRALITY DOES NOT REQUIRE IMPOSITION OF LEGACY MONOPOLY REGULATION ON COMPETITIVE WIRELESS CARRIERS

Some parties have called for the imposition of additional requirements, such as “equal access” to long distance, “carrier of last resort” obligations, and rate regulation, upon wireless carriers seeking to receive universal service support in order to compete with ILECs in rural areas. But it would make no sense to impose such legacy monopoly regulations on competitive wireless carriers that, unlike the ILECs, do not possess market power. Competitive neutrality clearly does not require that competitive entrants be subjected to “symmetrical” regulatory requirements designed for ILECs with market power. 41/

Well-intentioned, but unnecessary and expensive, state and FCC rules, in the name of regulatory parity or ill-defined consumer benefit, often preclude wireless carriers from investing in improving the services that consumers want and need. The costs of these regulatory mandates impede wireless carriers’ ability to deliver the best possible services to consumers, and interfere with their ability to compete with wireline carriers. A case in point is equal access to long-distance, a requirement imposed upon incumbent monopolists that some argue should be imposed on wireless ETCs as well – even though the purpose of the requirement was to preserve consumers’ access to competitive long-distance alternatives in an

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41/ See *Federal-State Joint Board on Universal Service*, First Report and Order, 12 FCC Rcd 8776, 8819-20, ¶ 79 (1997), *subsequent history omitted* (“[S]tatutory and policy considerations preclude us from imposing ‘symmetrical’ service obligations on all eligible carriers,” such as equal access requirements, because such requirements “would undercut local competition and reduce consumer choice . . .”).

environment of local monopoly, a purpose that makes no sense in the context of new entrants that lack market power, such as wireless carriers. Such a requirement would substantially raise the costs faced by wireless carriers and make it more difficult for them to compete with wireline incumbents, with no countervailing consumer benefits. Thus, such a mandate not only would impose a major cost on wireless carriers; it also would create a bias that could make it easier for incumbent *wireline* carriers to compete more effectively with wireless carriers, but not the other way around.

The Commission's conclusion twenty years ago still rings true today: "we believe that it would defy logic and contradict the evidence available to regulate in an identical manner carriers who differ greatly in terms of their economic resources and market strength." 42/ For competitive carriers, the Commission can continue to rely on the "marketplace forces [that] will operate to ensure that the rates and other tariff provisions of non-dominant carriers comply with the objectives of Sections 201 and 202 of the Act," including reasonable and non-discriminatory rates. 43/

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42/ *Policy and Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorizations Therefor*, 85 FCC 2d 1, 14, ¶ 34 (1980) ("*Competitive Common Carrier*").

43/ *Competitive Common Carrier*, 85 FCC 2d at 18, ¶ 48; *cf.* 47 U.S.C. § 160.

## **VI. THE COMMISSION'S SPECTRUM AND LICENSING POLICIES CAN HELP PROMOTE RURAL CMRS**

The NOI raises many questions as to whether the Commission's current spectrum allocation and licensing tools – such as bidding credits, geographic service areas, partitioning and disaggregation, and performance requirements – serve to facilitate the delivery of wireless services to rural or underserved areas. Western Wireless generally supports the Commission's current application of these spectrum tools. We note that adopting a "case-by-case" rather than "one-size-fits-all" approach will better serve the goal of fostering rural deployment, especially given the varying applications, propagation characteristics, potential users, and other features distinguishing different wireless services.

In paragraph 12 of the NOI, the Commission seeks comment on whether it should "maintain a web site that would include information that would be helpful to parties seeking to provide wireless services to rural areas." Western Wireless applauds this idea. It could be quite helpful for the Commission to compile and publicize such information using a publicly available website, and the Commission should coordinate with officials at the National Telecommunications and Information Administration, the Rural Utilities Service of the U.S. Department of Agriculture, the Universal Service Administrative Company, and other federal and state agencies to highlight specific loan, grant, and other funding programs available to service providers in rural areas.

*Auction Bidding Credits.* Western Wireless supports exploring the possibility of an auction bidding credit based on the provision of wireless service to

rural areas, modeled after the tribal lands bidding credit. Such a mechanism could encourage both small companies and larger companies that may not currently be eligible for small business credits to consider greater or first-time deployment in these areas. Such bidding credits should be carefully structured, however, so that the build-out period is commercially reasonable and the financial incentives outweigh any associated burdens or costs, such as the need for detailed business plans or other requirements.

On the other hand, Western Wireless does *not* support adopting bidding credits designed specifically for rural telcos, which already benefit from a broad array of rural grant and loan programs as well as implicit and explicit subsidies from the universal service fund. As noted previously, such an approach would not be competitively neutral, and could undermine nascent wireless-wireline competition emerging in many rural markets.

*Geographic Service Area Definitions.* As a licensee of many different wireless services, ranging from paging, cellular, Personal Communications Service (PCS), and Local Multipoint Distribution Service (LMDS) service licenses, Western Wireless is keenly aware that geographic service areas must be tailored to particular wireless services. For example, large geographic areas are appropriate for certain mobile services such as PCS, whereas site-by-site licensing areas are better suited to many private land mobile radio services. Geographic service areas for fixed wireless services must take into account their unique propagation

characteristics and potential use, whether for telecommunications backhaul or local area networks.

Nevertheless, Western Wireless believes that certain general principles should apply in establishing geographic service areas: (1) ensuring competitive neutrality, not favoring a particular technology or type of carrier; (2) offering different sized licenses where at least two or three licenses are available in every market, and (3) providing licensees the flexibility to partition, disaggregate, and acquire additional spectrum as they develop and adjust their business plans.

*Partitioning and Disaggregation.* Western Wireless has taken advantage of geographic partitioning for both paging and cellular licenses, and believes that this is an important regulatory tool to encourage deployment in rural and underserved areas. Rural populations do not remain static, and population growth can often create demand for more wireless services, spurring new or existing providers to seek additional spectrum to serve these emerging needs. Western Wireless's partitioning of a number of its paging licenses enabled the creation of a new paging company serving rural areas, providing additional wireless competition and new services in many markets.

Western Wireless agrees that the Commission should examine whether there are impediments that may limit the viability of partitioning or disaggregation for some carriers, and explore possible incentives to encourage greater use of these tools. Specifically, the Commission could consider ways to increase the availability of data regarding partitioning and disaggregation

opportunities, perhaps through facilitating creation of an electronic database or similar vehicle whereby interested parties could share information. Western Wireless does not support *mandatory* partitioning or disaggregation, however, which could result in uneconomic spectrum use and limit future deployment opportunities as they become available.

*Build-Out and Unserved Area Rules.* Western Wireless generally supports the Commission's current population-based build-out requirements for new wireless services, which provide the licensee with greater deployment flexibility and ensure more economic build-out to a larger number of consumers than geographic requirements. Likewise, we continue to support self-certification procedures as an adequate means of ensuring compliance with construction requirements, particularly given the Commission's own limited resources.

In general, Western Wireless also agrees with the Commission's statement in paragraph 25 of the NOI that:

it may be economically inefficient, and thus harmful to customers, to require for each wireless service the same number of competitors in urban and rural areas. This appears to be true, for example, with regard to mobile telephony . . . Economic theory predicts that where licensees are in competitive markets, and no market failures exist and transactions costs are sufficiently low, market forces will drive optimal decisions on what is built, where, and when. In that setting, build-out rules arguably would distort resource allocation, or at best be irrelevant.

In Western Wireless's long experience serving rural markets, this statement accurately reflects the economics of rural deployment, which is better governed by the practical realities of the marketplace rather than artificial rules. Given the

much higher costs of building out in rural areas, it is likely that restrictive construction rules would impose efficiency costs that could force carriers to abandon the service entirely or to focus more on meeting these artificial requirements rather than offering high quality service to consumers in the market.

## CONCLUSION

In conclusion, Western Wireless urges the Commission to consider competitively neutral policies to promote the deployment of wireless services and technologies to consumers in rural areas, as discussed above.

Respectfully submitted,

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