

# Issues in Universal Service and Intercarrier Compensation:

## A T-Mobile Perspective

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# Universal Service

## Traditional Principles and Goals

- Consumers in all areas should have access to the same types of services
- Consumers in all areas should pay prices that are reasonably comparable
- Prices for services should be reasonable and nondiscriminatory

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## Traditional Wireline Subsidy Flows

- Consumers in urban areas subsidized consumers in rural areas, and business consumers subsidized residential consumers (value of service pricing)
- Consumers of long-distance service subsidized consumers of local exchange service (separations/settlements/division of revenues, access charges)
- Consumers of “enhanced” and “vertical” services subsidized consumers of “basic” services (residual pricing for local exchange service)

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## Why Did the Traditional System Work?

- Limited consumer choice of providers
- Limited consumer choice of services (limited substitutability)
- Limited consumer choice of technologies

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## Why Is the Traditional System Breaking Down?

### Technological Changes:

- Feasibility of cable telephony / VoIP service
- Widespread consumer availability of wireless service
- Rise of “multipurpose” networks
- General adoption of broadband service at home (“over the top” VoIP, enhanced services)
- Widespread use of PCs

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## Why Is the Traditional System Breaking Down?

### Industry Changes:

- Local service, or local service substitutes, are available from carriers other than ILECs within ILEC service areas
- Traditional long-distance providers and minutes of use are being rapidly displaced with options from other carriers (wireless, interconnected VoIP, “over the top” VoIP, IM, SMS, MMS)
- Service bundles offered by all carriers
- Changing consumer preferences

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## Results of Technological and Industry Changes

- Declining numbers of traditional landlines, while network costs decline at a much lower rate
- Declining traditional long-distance minutes of use, which has been a major source of contributions to universal service
- Consumers are no longer content to simply use whatever is offered, but are searching for better alternatives

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## Incumbent Provider Challenges in the “New World”

### Declining revenues from existing customers

- Losses to new providers
- Substitution of new services
- Migration to lower-cost alternatives

### Limited opportunities for growth in existing services

- Must compete for customers with alternative technologies and providers



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## Long-Run Implications of the “New World”

- Providers who try to price “above cost” when the purchaser has alternatives, will simply drive the purchaser to those alternatives
- Attempts to export “old world” regulatory requirements to rapidly evolving new technologies will only result in a “whack-a-mole” game that regulators cannot win
- Incumbent providers must find new revenue sources from services provided by multipurpose networks

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## Core Principles for Reform - 1

### Define the result you want

- “Like it always was” won’t work
- Target penetration/availability rates for services
- Specificity required (can’t rely on “just and reasonable”)

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## Core Principles for Reform - 2

### Focus on the consumer

- Most USF subsidies should be placed in the hands of the consumer
- Consumers should decide the services and technologies that will get those subsidy dollars
- Goal is to keep consumers on the network, not support corporate revenues

# Universal Service

## Core Principles for Reform - 3

### Know the difference between business problems and public policy problems

- In the first instance, declining revenues and customer numbers are business problems that require business solutions
- As long as customers have choices, be very skeptical of subsidies to providers
- Limited and highly targeted subsidies to providers may be appropriate if necessary to preserve penetration rates in extreme high-cost areas

# Thank You!

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