Testimony of

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on behalf of

Rural Cellular Association

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regarding

Broadband: A Catalyst for Small Business Growth

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Chairman Graves, Chairwoman Ellmers, Ranking Member Velázquez, Ranking Member Richmond, and members of the Subcommittee, thank you for the opportunity to be here today. My name is Roger Bundridge, and I am the General Manager of NorthwestCell. NorthwestCell is headquartered in Maryville, Missouri and provides mobile voice and broadband services to customers in five counties, including several rural areas that would not otherwise have access to these services. We also provide nationwide coverage through roaming agreements. Not only does NorthwestCell provide services for local small businesses and public safety officers, but it is also a small business itself, with 29 employees, one retail location, and eleven agent locations. We like to say that we are big enough to serve you, but small enough to know you.

I also serve on the Board of Directors for the Rural Cellular Association (RCA), which represents over 100 competitive wireless carriers, most of which qualify as small businesses under the U.S. Small Business Administration's Size Standards. NorthwestCell is like many other RCA members in several ways: the area that we serve is overwhelmingly rural; we are community-oriented, locally-based, and take pride in our commitment and support of our community; and our participation in the federal universal service program has enabled our build-out of high-quality mobile wireless services, including mobile broadband.

Mobile Broadband Fosters Small Business Growth

Smaller, rural and regional wireless providers connect Americans wherever they live, work, and play and provide social, educational, and public safety benefits to our customers and communities. Our mobile broadband services allow small businesses to innovate and compete. For example, I recently met with a group of farmers that will use our mobile broadband network and iPads to control and maximize planting and harvesting. This mobility will allow them to be

more efficient and productive. NorthwestCell also provides EVDO (3G) data cards to the Nodaway County Sheriff's department so officers can access critical databases in real time. For example, an officer can receive immediate information associated with a license plate during traffic stops. This system also allows dispatch to know where an officer is located and allows the officer to complete his reporting in the field.

Smaller, rural and regional wireless providers also directly benefit local economies by constructing and maintaining wireless towers, completing radio frequency engineering, opening and maintaining retail locations, obtaining an inventory of devices, engaging in local advertising, and providing customer care and service. With each of these activities, carriers like NorthwestCell are retaining and expanding employment with high quality jobs and supporting other small businesses.

The ability of competitive wireless carriers to maintain, upgrade and expand their networks is critical to the continued deployment and expansion of mobile broadband services, particularly in rural areas, and to supporting other small businesses. As I will explain, however, in order to be able to continue to serve rural America, NorthwestCell and other competitive wireless carriers need sufficient and predictable support through the new universal service mechanisms, access to useable spectrum, access to cutting edge devices, and reasonable terms and conditions for roaming service.

Universal Service Fund/Connect America Fund

Like most RCA members, NorthwestCell currently receives high-cost support through legacy Universal Service Fund mechanisms to construct, maintain, and upgrade a high-quality wireless network to provide affordable mobile service to customers in rural areas. Also like

many RCA members, NorthwestCell stands to lose all, or a substantial portion of, this critical funding as a result of the Federal Communications Commission's (FCC) recent universal service reform efforts. While it is important to support wired voice and broadband, underfunding support for wireless carriers like NorthwestCell will likely result in degraded or significantly diminished mobile wireless service for rural Americans. Unless the FCC takes steps to ensure adequate support for mobile broadband in universal service mechanisms, and makes that support available to competitive carriers, the continued deployment of mobile broadband services in rural areas is uncertain.

As the FCC works to implement and defend its universal service reform efforts from several court challenges, it also is working to establish the Mobility Fund to provide support specifically for mobile wireless services. Unfortunately, the $400 million in annual non-tribal support budgeted for the ongoing Mobility Fund is woefully inadequate. In order to ensure that Americans in rural areas have access to mobile broadband services, the FCC must provide additional funding for wireless.

In addition, to ensure that sufficient and predictable funds are available through the Mobility Fund, it is critical that these funds be distributed based on a forward-looking cost model rather than single-winner reverse auctions. Using a model, the FCC would determine the support levels based on the costs an efficient carrier would incur in providing service to the area, with support provided to the carrier that wins the customer in that area. As the FCC has stated in the context of other USF reform efforts, the use of a cost model, "send[s] the correct signals for entry, investment, and innovation." Utilization of a cost model would also ensure that carriers that have been dedicated to providing service in rural areas, like NorthwestCell, may continue to do so.

Rather than a portable, cost-savings model, however, the FCC has proposed using a reverse auction to determine and award Mobility Fund support. Unfortunately, reverse auctions disadvantage the smaller carriers already providing service, and these auctions effectively foreclose competition in high cost markets. A reverse auction, where carriers "compete" with lower and lower support levels to be selected to provide service in a particular area, is inherently anti-competitive, with the government selecting a monopoly provider. Further, there is significant risk that larger carriers may participate in a reverse auction for the sole purpose of eliminating competition from smaller wireless providers, because such larger carriers can rely on revenues from service in urban areas to subsidize artificially low bids to provide service in rural areas. This scenario does little to expand broadband, threatens to reduce existing service, will result in lower quality service, and may drive smaller carriers from the market.

Consumers increasingly rely on mobile broadband services, and I respectfully request that this Committee urge the FCC to increase its budget for the Mobility Fund and to make such funds available to wireless carriers based on a portable, forward-looking cost model.

Spectrum Access

In order to provide service, and to respond to the skyrocketing demand for data, carriers need to be able to access useable spectrum through participation in government-run auctions or through the secondary market. Spectrum is a finite, tax-payer owned resource which is exclusively licensed for commercial service to carriers. It is the lifeblood of mobile broadband. Increased consumer adoption of mobile services and increased use of high-speed data puts a strain on a carrier's spectrum holdings. As capacity is exhausted, a carrier must acquire additional spectrum licenses, either through FCC auctions or the secondary market.

Since the Omnibus Budget Reconciliation Act of 1993, the FCC has distributed licenses to use wireless spectrum through auctions. The current statute provides the FCC with the tools needed to ensure competition in the auction room, which combined with the correct policy decisions and business plans should lead to competition in the marketplace. This existing authority is critical so that the FCC can utilize auction mechanics developed over the last 18 years, to ensure that smaller, rural, and regional carriers have the *potential* to win access to a license or licenses in future auctions.

The FCC's authority to auction spectrum is currently set to expire later this year, and it is important that Congress work to extend this authority. One path forward is to include the extension of auction authority in the ongoing Conference Committee pending between the House of Representatives and the Senate, focused on other issues such as extending the "payroll tax deduction." Spectrum policy has become part of this discussion as auctions are often a win-win; they get spectrum into the market for carriers to use to expand wireless service, and they bring in significant revenue to the U.S. Treasury – to the tune of over $75 billion in net revenue between 1994 and 2010.

Unfortunately, the FCC and small carrier experiences established over nearly two decades of auctions at the FCC may be disrupted by a section of the spectrum provisions under consideration. This provision would prohibit the FCC from establishing any eligibility restrictions in future auctions, or from imposing any conditions on licenses, such as requirements that a licensee offer service on wholesale basis. The removal of competitive safeguards could make it very difficult for a smaller wireless carrier to establish a strategy for future auctions and more challenging to attract investment, and may have the unintended consequence of discouraging many smaller wireless carriers from competing in an auction. Down the line, this

would ultimately lead to further consolidation in an industry that already has been moving towards two dominant players controlling the marketplace. I urge members of this Committee to preserve the FCC's authority to structure auctions and license services in a manner that promotes competition and participation by small businesses.

Access to Devices

Smaller carriers also experience great difficulties gaining access to the latest wireless devices. Exclusivity agreements between device manufacturers and the largest carriers have limited the number of devices that are available to smaller carriers. Even worse, exclusivity arrangements increase the cost of available devices. Obtaining devices is an issue of scale, and like many smaller carriers, NorthwestCell cannot order sufficient volume of devices to demand the attention of manufacturers. Even when several smaller carriers band together to increase our collective buying power, our percentage of customers in the U.S. wireless market pales in comparison to the large carriers. Each of the top two wireless carriers, Verizon Wireless and AT&T, individually control almost as many subscribers as the next 10 largest carriers combined.

The lack of device interoperability over different bands of spectrum, particularly in the 700 MHz band, also threatens the deployment of mobile wireless services and the ability of small carriers to obtain devices and provide service. As the industry moves to fourth generation (4G) service, the largest carriers have launched devices designed to work on their own spectrum frequencies alone. This anticompetitive technology block further frustrates the ability of rural and regional carriers to access devices and provide roaming service.

Data Roaming

Rural and regional carriers offer the larger carriers access to our networks through roaming. Like the large carriers, rural and regional carriers need to provide roaming service to our customers when they are outside their home service areas. To do so, we must negotiate with other carriers to determine the terms, conditions and prices for access on the other carrier's networks. Customers expect and deserve for their devices to work wherever a compatible network is present, and if we cannot provide this service, we lose the customer to another service provider. Data roaming is critical for smaller carriers to continue to exist in today's market.

Thanks to the FCC's *Data Roaming Order* last year, carriers are now required to offer roaming for both voice and data services at fair and commercially reasonable rates, where technically possible, through private, business negotiations. Prior to this roaming order, it was difficult, if not impossible, to compel the larger carriers to come to the negotiating table. The order is being challenged in court, and smaller and regional carriers may yet find they are unable to provide their customers with broadband roaming on the larger carrier's networks.

Conclusion

Despite the challenges I have discussed today, NorthwestCell and wireless carriers like us play a critical role by providing service to rural and otherwise underserved areas and acting as a competitive balance to the largest carriers. We typically offer high-quality service plans at lower costs and with better coverage and customer service than our national counterparts. We also work to provide high quality jobs while expanding mobile broadband service in areas that may otherwise remain unserved. For us to remain competitive in an increasingly consolidated industry, and to continue to expand service to difficult to serve areas, I strongly urge you to support policies at the FCC and in Congress that level the playing field and allow smaller carriers

to grow with sufficient and predictable universal service support for mobile broadband, competitive access to spectrum, roaming on commercially reasonable rates, and the availability of cutting-edge, interoperable devices.

Thank you again for the opportunity to participate in today's hearing, and I welcome any questions.

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