

CRITERION ECONOMICS, LLC

1620 Eye Street N.W. Suite 800 Washington, D.C. 20006

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Contacts:

Jeffrey A. Eisenach/202-448-9029

PRESS RELEASE

New Studies Question Benefits of USF Subsidies to Wireless Carriers *Show Overlaps with Unsubsidized Carriers, No Evidence of Impact on Wireless Availability*

Washington, DC: Two studies released today call into question whether universal service subsidies received by cell phone companies generate benefits for consumers. Specifically, the studies show that subsidized cell phone companies actually provide less coverage than unsubsidized companies serving the same areas, and that there is no basis for wireless carriers' claims that they use the subsidies to build out coverage to areas that otherwise would not be served.

Wireless companies are expected to receive more than \$1 billion in subsidies from the Universal Service Fund (USF) in 2007. The subsidies have grown by more than 185% annually in recent years, raising concerns that about the financial sustainability of the fund. In May, the Federal-State Joint Board proposed capping the subsidies at 2006 levels; a final decision on the proposal is pending at the FCC.

The first study, by Criterion expert Nicholas Vantzelfde, compares the coverage of subsidized wireless carriers with coverage provided by unsubsidized wireless carriers in the same areas. Vantzelfde finds:

- In the approximately 800 study areas where wireless carriers receive USF subsidies, *unsubsidized carriers provide substantially more coverage*. Unsubsidized carriers cover 97% of the population in these areas, while subsidized carriers cover only 70%.
- Of the 148 million people living in areas where wireless carriers receive subsidies, *subsidized carriers provide unique coverage to only 2% of the population*. On the other hand, unsubsidized carriers provide coverage to 44 million people who do not have coverage from the subsidized carriers.
- Wireless carriers receive *over \$1,000 in subsidies for each incremental line served*, or \$95 per subscriber per month.
- Subsidies to wireless carriers are highly duplicative: *More than half of the population in areas where wireless carriers receive subsidies is covered by two or more subsidized carriers*.

The second study, by Criterion economist Kevin Caves and Chairman Jeffrey Eisenach, examines the relationship between subsidies and wireless availability. Utilizing a regression analysis approach, they find:

- Contrary to the claims of wireless carriers, and holding constant such other factors as topography and population density that affect the availability of wireless service, *there is no statistical correlation between the amount of subsidies paid and the proportion of the population or land area that has wireless coverage*.

(more)

- Also contrary to the claims of wireless carriers, and again holding other factors constant, *there is no statistical correlation between the amount of subsidies paid and the number of carriers from which consumers can choose*, i.e., USF subsidies do not contribute to the level of wireless competition.

In explaining their results, Caves and Eisenach point out wireless carriers do not receive subsidies on the basis of the amount of coverage they provide, but rather on the basis of how many subscribers they serve in areas where they are eligible for subsidies. Thus, they receive funds for subscribers they were serving even before becoming eligible. Furthermore, there are many ways they can expand the number of subsidized lines without expanding their coverage, such as increasing their marketing efforts or opening more retail outlets.

Both studies also provide important insight into the distribution of USF funds paid to wireless carriers. For example:

- The 10 largest recipients of USF subsidies to competitive telecom carriers are all wireless companies. *Collectively the 10 largest carriers received 80% of all subsidies.*
- The largest single recipient is Alltel, which received over \$226 million in 2006, or 29% of all subsidies to paid to competitive carriers. *USF subsidies accounted for 27% of Alltel's operating earnings in 2006.*
- Among states, the ten states receiving the most funding USF funding for wireless carriers accounted for 59% of all funds. Thirty (30) states contribute more to the USF fund to support subsidies to wireless carriers than they receive in return. *The biggest "losers" are California (-\$58 million), Texas (-\$32 million), New York (-\$29 million), Florida (-\$28 million) and Illinois (-\$22 million).*
- About 45% of all study areas receiving USF support for wireless carriers have median household incomes above the national median income. *Some areas receiving support have median household incomes of more than \$70,000.*
- Wireless CETCs receive little support from the USF programs that provide service to low income consumers, indicating they are providing little benefit to this group.

In releasing the studies, Eisenach said "I hope our work will cause policymakers who are inclined to support this program to take another look. Enhancing wireless coverage in rural America is a laudable goal, but the current program is not an effective way of doing so."