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BEFORE:

UNITED HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY & COMMERCE
SUBCOMMITTEE ON COMMUNICATIONS, TECHNOLOGY & THE INTERNET

"UNIVERSAL SERVICE: REFORMING THE HIGH-COST FUND"

March 12, 2009

Thank you, Chairman Boucher and Congressman Stearns, for inviting me to testify at today's hearing. My name is Joel Lubin, Vice President – Public Policy, at AT&T. In that capacity, I am responsible for the development of and economic support for state and federal policy and planning initiatives. As you know, AT&T is a long-time supporter of our national policy of universal service and of recent efforts to sustain that policy through meaningful reform. We applaud your continued leadership on this thorny issue and appreciate the opportunity to share our perspectives on the health and future of the Universal Service Fund.

AT&T is the single largest provider of telephone service to rural America. In fact, we serve more than *seven million* rural access lines. At the same time, AT&T receives a disproportionately lower share of high-cost funding to provide this service. Under similar conditions, other carriers have divested their high-cost lines, or declined to serve rural areas. AT&T, however, remains committed to serving its customers. But as AT&T and other carriers across America have experienced firsthand, insufficient and unstable universal service funding not only threatens the continued quality of today's legacy services, but it also is a major deterrent to investment in advanced, broadband facilities and services.

Put simply, the current universal service high-cost support system is broken. Under today's regime, some carriers do not receive support for serving their high-cost areas and thus have no incentive to deploy broadband in those areas; others are using federal high-cost support to deploy broadband facilities without clear regulatory authority to do so; and, under the FCC's current rules, multiple providers receive support for serving customers in the same geographic area. The result: high-cost funding has increased 54% in the last five years — and is racing to exceed that level. At the same time, broadband technology is disrupting the very mechanisms and methodologies employed to support the fund. In a broadband world, there are no access charges. There is no interstate subscriber line charge on the bill. Indeed, the most fundamental touchstones of the existing system – including the basic distinctions between interstate and intrastate services – are rendered largely meaningless in a broadband enabled world that eschews artificial regulatory constructs in favor of fostering innovation. For this reason, regulators cannot continue to tinker around the edges of universal service and access charge reform. The incremental steps that have been taken to date are inadequate and the lack of comprehensive reform is hindering broadband deployment.

There are no easy answers to the thorny questions surrounding universal service reform. And, we acknowledge that there are legitimate concerns over steps that could dramatically or uncontrollably expand the fund – or even whether it is an appropriate support tool for this century's communications needs. Setting the purpose and policy for the universal service fund – what areas need to be supported; what services should receive support; who will pay to have those services delivered; and how much are we willing to pay? – are not, however, questions for a carrier; those are questions to be answered by lawmakers. Nonetheless, against the backdrop of an apparent desire on the part of lawmakers and regulators to engender a sensible evolution of the universal service system to support next-generation technologies, AT&T respectfully suggests the following guiding principles for comprehensive reform.

1. Reform the existing federal high cost funding mechanisms to promote – *explicitly* – the deployment of next generation broadband, and expanded and improved mobile wireless service, in rural areas.

2. Replace the existing revenues-based contribution mechanism with a telephone numbers/connections-based mechanism.

3. Reform the intercarrier compensation regime to preserve universal service during the transition to a fully deployed broadband environment.

With specific reference to reformation of the high-cost fund to promote broadband deployment in truly rural/high-cost areas, AT&T proposes a competitive application process. This competitive process would be more fiscally responsible than today's regime, in which some carriers receive thousands of dollars in recurring high-cost support per customer and others receive support for providing POTS to areas in which competition is thriving. AT&T's proposal would re-focus high-cost support, target this support to unserved areas, and have providers compete to provide access to broadband and voice services in these areas. Only one entity would be selected to provide access to broadband service in a particular geographic area and that winning applicant would receive project-based funding. In other words, providers would receive a precise amount of support and in exchange would commit to serving the area.

To maximize the existing levels of high-cost support, AT&T has further proposed transitioning almost all high-cost support amounts distributed through the legacy mechanisms to two new broadband funds. This transition would be straightforward and predictable for mobile wireless carriers – designated as competitive ETCs or CETCs. Over a five-year period, all CETC support would be transitioned in 20% increments to a new Advanced Mobility Fund. In a mere five years, all legacy CETC support would be transitioned to this new fund and, thus, completely detached from the amount of support received by ILECs. Through this new fund, mobile wireless providers would apply to provide mobile wireless broadband Internet access service and voice communications capabilities in unserved areas. They would commit to build out facilities in that FCC-designated area over a two-year period and offer service for a five-year period following the completed build out. There would be no expectation of any additional funding after that 7-year period. The transitioned support would remain dedicated to the state in which the CETC received it until there are no remaining unserved areas within that state, at which time the support would return to the general Advanced Mobility Fund and the FCC would redirect it to another state.

The transition of legacy federal high-cost dollars to the new fixed broadband fund – or Broadband Incentive Fund – would be different. Unlike CETCs and ETCs, ILECs have state-imposed carrier of last resort (COLR) obligations and their local retail rates are typically regulated by the states. If a state provides complete retail pricing deregulation to a price cap carrier, any federal high-cost support received by that ILEC would be transitioned to the Broadband Incentive Fund. The timing of this transition would correspond to the timing of the pricing deregulation set by the state. It is AT&T's view that, once a price cap LEC receives complete retail pricing deregulation, it no longer needs federal high-cost support to provide voice service. To give states an incentive to provide this relief to their price cap LECs, AT&T proposes that any federal high-cost support received by price cap LECs in a state would transition to the new broadband fund, but remain dedicated to that state until that state no longer has any areas within its price cap carriers' footprint that are unserved by broadband. Once that occurs, the broadband dollars for that state would return to the general Broadband Incentive Fund and would be directed to another state that continues to have unserved areas. Like the

Advanced Mobility Fund, fixed network broadband providers would apply to provide broadband Internet access service and voice communications capabilities in FCC-designated unserved areas. The winning applicant would commit to build out facilities throughout the designated area within two years and commit to provide access to broadband and voice services for a five-year period. Again, there is no expectation of continued funding after that term is over.

Likewise, significant reform of the *funding contribution* mechanism for universal service is essential. The percentage of interstate telecommunications revenue that customers pay each month is only increasing. This will happen even if the FCC or Congress were to cap the total universal service fund. Today, universal service contributors are assessed based on their interstate telecommunications revenues. Bundles of information and telecommunications services are commonplace as are one price all-you-can-eat local and long distance bundles. Since entities contribute only on interstate telecommunications revenues, contributors are required to identify the interstate telecommunications component of these bundles. Information/telecommunications service bundles can be exceedingly complex and identifying the assessable component of that bundle can be subject to good faith interpretations of the Commission's rules and requirements, which can vary by contributor. Some contributors will be more aggressive than others when interpreting FCC rules in a manner that reduces their contribution obligation in order to obtain a competitive advantage. Because of this unfortunate incentive, the contribution factor could continue increasing even if the total size of the universal service fund was capped.

Universal service contributions based on telephone numbers would be meaningfully more transparent (particularly to consumers) and fairer among contributors. Counting telephone numbers would be straightforward for contributors and easy for the regulators to audit. It is also technology neutral – a telephone number would be counted and assessed the same amount regardless of the technology being used to allow the end-user consumer to make or receive a call. Last September, AT&T and Verizon filed a telephone number-based contribution methodology proposal. We also filed information demonstrating that, if the FCC adopted this proposal, most residential customers would experience a decrease in the USF pass-through charges that appear each month on their telephone bills. In this instance, what is good for consumers is also good for contributors and for the health of the fund: while interstate telecommunications revenues continue to decrease, the number of telephone numbers in use continues to increase.

Finally, there can be no doubt that access reform is a critical component of effective and lasting universal service reform. To accomplish meaningful – and necessary – universal service reform, Congress and the regulators cannot ignore the dysfunctional and antiquated system of implicit subsidies that, despite Congress's admonition 13 years ago, still exists today. The circuit-switched networks and the market structure on which the existing intercarrier compensation regime was based have been replaced by today's robustly competitive environment. Now, a multitude of providers offer a vast array of "any-distance" services over a variety of technology platforms. While these platforms rely heavily on certain pieces of the PSTN, in many cases they bypass the access charges that regulators require local exchange carriers to collect in order to maintain that infrastructure. As a result, access revenue is drying up and will eventually disappear as savvy customers migrate to bypass technologies – technologies that are not subject to the access charge regime and, accordingly, are more cost effective to customers. AT&T has, accordingly, long advocated for comprehensive intercarrier compensation reform, and has worked extensively to bring parties with disparate interests together to reach consensus on a workable reform plan. We look forward to working with you and this subcommittee on furthering that effort.[1]

AT&T's proposals surely are not the only viable path to universal service reform. They are meant as flexible options rooted in the real-world challenges brought by swift and dynamic technology and marketplace shifts. There are other good ideas, and AT&T is committed to working with Congress and the FCC to find the best path forward. Likewise, given the current economic conditions, there is no guarantee that reform steps will lead any particular provider to increase its investments and deployments. But about one thing there can be no reasonable doubt: If the goal is a sustainable, fair and properly funded system that supports next generation technologies, the universal service system must undergo dramatic transformation.

Thank you and I look forward to your questions.

[1] Attached to this written statement is AT&T's letter to the FCC outlining in detail AT&T's intercarrier compensation proposals and recommendations; *see* letter from Robert Quinn, Senior Vice President – Federal Regulatory, AT&T Services, Inc., to Chairman Kevin Martin, Federal Communications Commission, dated July 17, 2008.