

This is a preliminary transcript of a Committee Hearing. It has not yet been subject to a review process to ensure that the statements within are appropriately attributed to the witness or member of Congress who made them, to determine whether there are any inconsistencies between the statements within and what was actually said at the proceeding, or to make any other corrections to ensure the accuracy of the record.

1 {York Stenographic Services, Inc.}

2 HIF071.160

3 HEARING ON ``UNIVERSAL SERVICE: REFORMING THE HIGH-COST

4 FUND''

5 THURSDAY, MARCH 12, 2009

6 House of Representatives,

7 Subcommittee on Communications, Technology, and the Internet

8 Committee on Energy and Commerce

9 Washington, D.C.

10 The subcommittee met, pursuant to call, at 10:05 a.m.,
11 in Room 2123 of the Rayburn House Office Building, Hon. Rick
12 Boucher (chairman) presiding.

13 Members present: Representatives Boucher, Rush, Stupak,
14 DeGette, Doyle, Weiner, Butterfield, Christensen, Castor,
15 Space, McNerney, Welch, Waxman (ex officio), Stearns, Deal,
16 Shimkus, Shadegg, Blunt, Radanovich, Walden, Terry, Blackburn
17 and Barton (ex officio).

18 Staff present: Amy Levine, Telecommunications Counsel;

19 Roger Sherman, Senior Counsel; Tim Powderly, Counsel; Shawn
20 Chang, Counsel; Greg Guice, Counsel; Jennifer Schneider, Mr.
21 Boucher's Chief of Staff; Pat Delgado, Telecommunications
22 Policy Coordinator; Philip Murphy, Legislative Clerk; Neil
23 Fried, Minority Senior Counsel; Amy Bender, Minority Counsel;
24 and Garrett Golding, Legislative Analyst.

|
25 Mr. {Boucher.} The committee will come to order.

26 Our subject this morning is comprehensive reform of the
27 Universal Service High-Cost Fund, a matter on which the
28 subcommittee will act in the near future. Universal service
29 support is as essential to our national economic future as it
30 has been historically. In this time when electronic
31 communications are at the very heart of the national economy,
32 it is perhaps more essential than ever before that all
33 Americans remain connected. Affordable telephone service not
34 only benefits the individual users of that service but at a
35 time when electronic commerce and communications are central
36 to national economy performance, having all of America
37 connected should be a priority for rural and metropolitan
38 residents alike.

39 The Universal Service Fund that assures affordable rural
40 telephone service has come under increasing pressure and
41 comprehensive reform is now a necessity. New technologies
42 and new business plans are combining to diminish the long-
43 distance revenues that have historically been relied upon in
44 order to support universal service, and broadband has emerged
45 as a critical part of our telecommunications infrastructure.
46 In reforming the USF, other funding sources must be tapped,
47 and new controls must be placed on expenditures from the

48 fund. We should also reexamine which networks and services
49 deserve USF support.

50 In an effort to achieve these goals in a manner that is
51 fair to the rural telephone companies that are the net
52 beneficiaries of USF support and the large regional carriers
53 that are net contributors into the fund, my colleague from
54 Nebraska, Mr. Terry, and I have worked together for the last
55 3 years and in the last Congress introduced a comprehensive
56 reform bill based on that 3 years of effort. We consulted
57 with dozens of stakeholders and sought consensus among
58 various competing interests. We intend to continue that
59 process this year and shortly will introduce a revised
60 version of that legislation, and we welcome the suggestions
61 and the cosponsorship of our measure by other members of the
62 subcommittee on a bipartisan basis.

63 Our goal is to expand the revenue base for the fund. We
64 would give the FCC discretion to use a revenues or a numbers
65 approach to contributions or some combination of those two
66 approaches. We would allow the assessment for the fund of
67 intrastate as well as interstate revenues. We would also
68 impose strict limitations on growth of the fund by capping
69 the entire fund and basing payments on a carrier's actual
70 cost rather than the cost of the incumbent telecommunications
71 carrier in the region. We would improve the efficiency of

72 expenditures from the fund by requiring that all recipients
73 meet minimum FCC standards in order to receive support. We
74 would also future-proof the fund by requiring that all
75 recipients offer broadband at preset minimum speeds. To
76 receive support that broadband offering would be a condition.
77 Broadband is to communities today what electricity and basic
78 telephone service were 100 years ago. It is the new
79 essential infrastructure for the commercial success of all
80 communities and clearly deserving, in my view, of USF
81 support.

82 Other elements of our measure would include a better
83 targeting of support to high-cost areas by switching from
84 statewide to wire center averaging, fixing the phantom
85 traffic problem by requiring carriers to pass through call
86 identifying information, making rural exchanges more
87 marketable for telephone companies that may desire to sell
88 them by repairing the parent trap, and making permanent the
89 Antideficiency Act exemption to the Universal Service Fund
90 rather than requiring an annual appropriations waiver of that
91 ADA provision, which happens at the present time.

92 There are other matters that I think we should consider
93 and about which I would welcome the insights of our
94 distinguished panel this morning. For example, how, if at
95 all, should the \$7.2 billion of broadband stimulus money

96 affect inclusion of broadband in the universal service reform
97 measure? Another question is when we eliminate the identical
98 support rule, how should the actual cost of the recipients of
99 universal service funding be calculated? As another
100 question, should we eliminate the distinction between rural
101 and non-rural carriers presently embedded as a consequence of
102 an FCC order? I hope that our witnesses will address this
103 morning these and other matters.

104 I want to thank today's witnesses for their
105 participation, for preparing their testimony and engaging in
106 this important discussion with us.

107 [The prepared statement of Mr. Boucher follows:]

108 ***** COMMITTEE INSERT *****

|
109 Mr. {Boucher.} I now recognize the gentleman from
110 Florida, the ranking Republican of our subcommittee, Mr.
111 Stearns, for 5 minutes.

112 Mr. {Stearns.} Good morning, and thank you, Mr.
113 Chairman, and thank you for having this hearing. There has
114 been many, many ideas including your legislation that have
115 been discussed and so I look forward to hearing from our
116 witnesses this morning and hearing how best to move forward.

117 I think all of us this morning agree that the USF needs
118 to be reformed and reformed quickly. The system is fraught
119 with waste, fraud and abuse, in our opinion. A major
120 overhaul is necessary. So a question before us this morning
121 is what are the appropriate goals of the program and of
122 course how best do we achieve them. The 1996 Telecom Act
123 codified universal service but the concept goes back decades
124 earlier to a time when there was really only one phone
125 company. Now the landscape looks a whole lot different and
126 yet the fund is still administered by outdated rules.

127 This hearing will focus on the High-Cost Fund, the
128 largest component of the USF and the program most in need of
129 reform. The cost of this fund has more than tripled in the
130 last decade, soaring from \$1.3 billion in 1997 to almost \$4.5
131 billion last year. The FCC's high-cost rules do not reflect

132 the dramatic changes in the marketplace including multi-
133 facilities-based providers entering markets throughout the
134 Nation. Now nearly the entire country has access to phone
135 service. We have more competition and better technology than
136 ever before. Yet the Universal Service Fund has grown out of
137 control and can continue to do this unless we adopt
138 meaningful reforms.

139 The universal service fees have topped 11 percent of the
140 consumer's monthly bill. Accordingly, there is a need to
141 reform the program away from subsidies, in our opinion, that
142 may no longer be necessary as technology and services improve
143 and become more and more widespread. Instead, we need to
144 move towards a solution that ensures the goals of universal
145 service but minimizes consumer cost. Without fundamental
146 reform, now is not the time to expand the fund to include
147 just broadband. The recently enacted stimulus package
148 already provides \$7 billion, an entire year's worth of USF,
149 to bring broadband to unserved areas. It will take at least
150 2 years for the stimulus money to be fully distributed and
151 the program to be completely implemented. For now let us
152 take the 2 years while the stimulus package is being used and
153 examine the effectiveness of the current program. Instead of
154 adding new broadband requirements to universal service, we
155 should engage in oversight evaluation of these existing

156 programs.

157 In addition, we should impose a firm cap to prevent
158 uncontrolled growth in the fund. With a limitless pool of
159 money, carriers have little incentive to operate more
160 efficiently. The subsidy chills innovation by propping up
161 older technologies and carriers and making it harder for new
162 innovators to compete. Throwing additional money at this
163 crumbling program makes no sense. Moreover, performance
164 measurements are needed to ensure we are getting results from
165 the over \$50 billion we have spent in the last decade. What
166 impact are these funds having when everyone already has
167 access to phone service? This type of transparency and
168 accountability goes a long way towards preventing abuse.

169 To really add competitive pressure, however, we also
170 need to move to market-based mechanisms that are technology-
171 neutral and fund the carrier that can provide the most
172 effective service in that area. A report by the GAO shows
173 that the FCC needs to improve oversight and management of the
174 USF. The GAO has also criticized the FCC for failing to
175 develop specific performance goals and measurements for this
176 high-cost program. One question we might ask is, how much
177 has been lost to waste, fraud and abuse. The FCC's inspector
178 general found error rates of close to 25 percent in the High-
179 Cost Fund, which translates to improper payments of

180 approximately \$1 billion. The inspector general also found
181 that all four universal service programs to be ``at risk.``
182 We need to take a hard look at this program and institute
183 real reform.

184 So Mr. Chairman, I again commend you for having this
185 hearing to examine the goals and assess the results of the
186 existing program. We all agree that the system needs reform.
187 I hope we are able to work together towards a solution that
188 is fair to all consumers.

189 [The prepared statement of Mr. Stearns follows:]

190 ***** COMMITTEE INSERT *****

|
191 Mr. {Boucher.} Thank you very much, Mr. Stearns.

192 The gentleman from Michigan, Mr. Stupak, is recognized
193 for 2 minutes.

194 Mr. {Stupak.} Thank you, Mr. Boucher, and thank you for
195 holding this hearing on how we should reform the Universal
196 Service Fund. I appreciate that we are taking up this issue
197 quickly considering we almost had the FCC make dramatic
198 changes to the program late last year.

199 USF is important to rural Americans so significant
200 changes to the program should come from Congress where it can
201 be done in an open manner with direct member input through
202 the legislative process, not with the FCC. Now, this is not
203 to say that this will be an easy process since there are many
204 differing views on how we should reform USF but the one thing
205 I think we can all agree on is that the USF should be
206 reformed to promote broadband deployment. Communities that
207 lack broadband access in today's world are at a disadvantage
208 on all fronts. Businesses without broadband cannot compete
209 in a globalized market. Schools without broadband cannot
210 properly prepare their students today for the workforce of
211 tomorrow and hospitals without broadband cannot access the
212 latest advances in telemedicine.

213 Reforming USF should mean retooling it so it reflects

214 advancements in technology to meet the needs of tomorrow's
215 economy. Reform should not be mischaracterized as a means to
216 cut overall federal investment into our rural communities.
217 We cannot obtain more broadband deployment with a smaller
218 investment or a weaker support structure for rural
219 telecommunications. I look forward to hearing from our
220 witnesses on how we can modernize the USF to continue meeting
221 its goal of providing universally accessible and affordable
222 telecommunications for all Americans.

223 Thank you, Mr. Chairman. I yield back the remaining 20
224 seconds.

225 [The prepared statement of Mr. Stupak follows:]

226 ***** COMMITTEE INSERT *****

|
227 Mr. {Boucher.} Thank you very much, Mr. Stupak.

228 The gentleman from Missouri, Mr. Blunt, is recognized
229 for 2 minutes.

230 Mr. {Blunt.} Thank you, Mr. Chairman, and thank you for
231 holding this hearing today and to have the opportunity to
232 hear from this group of really well-grounded and
233 distinguished witnesses. I know this an area, Mr. Chairman,
234 where you have shown great leadership in the past and I know
235 all the members of the subcommittee are looking forward to
236 working with you to see if we can find ways to reform and
237 update the Universal Service Fund.

238 We all understand the fund needs serious reform. The
239 cost of the program soared, tripling in the past 12 years
240 alone, and the impact on consumers is uneven and often
241 arduous. Allegations of waste, fraud and abuse have arisen
242 and no suitable accounting mechanism exists to appropriately
243 monitor where the money is going. In short, this program is
244 broken and the Congress should act. However, it should act
245 responsibly and within the mission of ensuring that valuable
246 services remain available to parts of the country that need
247 it. Congress should carefully consider whether it is
248 appropriate to add new components such as broadband access to
249 the Universal Service Fund. We need to stop the soaring cost

250 of the program but do it in a way that ensures that unserved
251 communities continue to get service where the market is
252 challenged to deliver it.

253 I want to thank you, Mr. Chairman, for calling this
254 hearing. I also want to thank both Mr. Terry and Mr. Barton,
255 our full committee ranking, for their leadership on this
256 issue. Most importantly, I want to thank our witnesses today
257 who come with incredible information on this topic. I look
258 forward to a bipartisan bill to address this program.

259 [The prepared statement of Mr. Blunt follows:]

260 ***** COMMITTEE INSERT *****

|
261 Mr. {Boucher.} Thank you very much, Mr. Blunt. That is
262 my goal as well.

263 The gentleman from Pennsylvania, Mr. Doyle, is
264 recognized for 2 minutes.

265 Mr. {Doyle.} Thank you, Mr. Chairman, for holding this
266 hearing on universal service. I hope that we are able to
267 draw some conclusions after this hearing that will help us
268 expedite the process to make sure that all Americans are able
269 to communicate with each other however they choose.

270 At our last subcommittee hearing on this issue, I said
271 that the Universal Service Fund's best purpose as we
272 conceived it in the Telecom Act in 1996 had fundamentally
273 changed. At that time I said that ``we need to completely
274 reform the fund by moving away from subsidizing telephone
275 service and instead put our money towards the broadband
276 future.'' For now I will call this needed reform Universal
277 Service 2.0. Mr. Chairman, Universal Service 2.0 means that
278 all Americans have access and are able to use fast broadband.
279 Universal Service 2.0 recognizes that using cost-efficient
280 technologies is critical when some parts of the country are
281 asked to pay for others. Universal Service 2.0 recognizes
282 that competition is still vital to drive down consumer prices
283 and required subsidies, and Mr. Chairman, Universal Service

284 2.0 means that local governments have a role to play, and I
285 want to say to you, Mr. Chairman, that I will join you in
286 educating anyone at today's witness table that disagrees that
287 they do.

288 Thanks, and I will yield back my time.

289 [The prepared statement of Mr. Doyle follows:]

290 ***** COMMITTEE INSERT *****

|
291 Mr. {Boucher.} Thank you very much, Mr. Doyle.

292 The gentleman from Oregon, Mr. Walden, is next. I
293 believe he has departed at least temporarily. The gentleman
294 from Nebraska, Mr. Terry, is recognized for 2 minutes.

295 Mr. {Terry.} Well, thank you, Mr. Chairman, for holding
296 this hearing on Universal Service Fund. I have enjoyed our
297 time working together to develop this bill and the framework.

298 I set out several years ago, almost 4 years ago, to
299 reform USF because I felt that the principles and goals of
300 universal service are relevant today just as they were at the
301 origination of this program. However, the Universal Service
302 Fund had failed to adapt to the changing telecommunications
303 environment. The fact that broadband is still not a
304 supported goal of USF reflects the need for reform. The FCC
305 has built a tremendous record on USF reform over the last few
306 years and now it is time for this committee to act.

307 I will note that I represent an urban suburban area. I
308 have more concrete than grass in my district yet I see the
309 need to continue universal service and modernize it. I
310 recognize the importance of ubiquitous broadband network and
311 the value my constituents receive from being able to connect
312 to anyone anywhere in the country and hope that my colleagues
313 do too. Now, as we move forward on reform, we must not lose

314 sight that USF is about providing customers in all regions of
315 the Nation living in rural, insular and high-cost areas
316 access to affordable telecommunications and information
317 services.

318 I yield back.

319 [The prepared statement of Mr. Terry follows:]

320 ***** COMMITTEE INSERT *****

|
321 Mr. {Boucher.} Thank you very much, Mr. Terry, and
322 thank you for your outstanding work on this measure.

323 The gentlelady from the Virgin Islands, Ms. Christensen,
324 is recognized for 2 minutes.

325 Ms. {Christensen.} Thank you, Mr. Chairman.

326 Chairman Boucher and Ranking Member Stearns, as a
327 representative of a district that is a high-cost insular area
328 which reportedly received \$25.5 million in high-cost support
329 in 2007 and has benefited from the other programs as well, I
330 thank you for holding this hearing and for both of your long-
331 term legislative efforts to try to keep the Universal Service
332 Fund in sync with a rapidly changing landscape. I think has
333 everyone has agreed on the need for reform but also to
334 preserving the intent codified in 1996 that all consumers
335 across our Nation should have access to the broad spectrum of
336 communication possibilities at affordable rates, although
337 with some expansion of that.

338 The broadband provisions in the recent recovery package
339 will give a welcome boost to the goal of making technology
340 equally accessible to everyone everywhere as well as create
341 more demand for broadband as we look to transform our health
342 care system beginning with health information technology, and
343 so on the areas that present challenges to taking the

344 Universal Service Fund into the 21st century, I look forward
345 to the testimonies and welcome our panelists this morning.

346 [The prepared statement of Ms. Christensen follows:]

347 ***** COMMITTEE INSERT *****

|
348 Mr. {Boucher.} Thank you very much, Ms. Christensen.

349 The gentleman from Georgia, Mr. Deal, is recognized for
350 2 minutes.

351 Mr. {Deal.} Thank you, Mr. Chairman. I want to welcome
352 our witnesses, and in order to expedite the hearing of their
353 testimony I will waive my opening statement.

354 [The prepared statement of Mr. Deal follows:]

355 ***** COMMITTEE INSERT *****

|
356 Mr. {Boucher.} Thank you very much, Mr. Deal. We will
357 be pleased to add 2 minutes to your time for questioning our
358 witnesses.

359 The chairman of the full committee, the gentleman from
360 California, Mr. Waxman, is recognized for 5 minutes.

361 The {Chairman.} Thank you very much, Mr. Chairman. I
362 am pleased that the subcommittee is beginning its review
363 today of the Nation's Universal Service Fund. I suspect that
364 we all agree that the program is in need of repair and that
365 the High-Cost Fund is a good place to start.

366 I would like to outline a few principles that will guide
367 me during this process. First, I believe the goals of
368 universal service are as important now in the age of
369 broadband as they have ever been. Simply put, we cannot
370 allow any part of the country, urban or rural, to be left
371 behind.

372 Second, we need to modify the program by looking
373 forward, not by looking back. We need a Universal Service
374 Fund that supports the broadband networks of the future, uses
375 public money wisely and efficiently and spreads
376 responsibility for the program as broadly and equitably as
377 possible.

378 Third, we must recognize that public obligations

379 accompany public money. The \$7 billion Universal Service
380 Fund is financed by consumers. Service providers are simply
381 conduits that transfer to the fund an 11 percent fee on top
382 of the ordinary charges for the long-distance and
383 international calls. We should ensure that recipients of
384 these public funds meet certain obligations that benefit the
385 consumers who pay these fees. For example, last Congress I
386 introduced legislation to require wireless companies that
387 receive USF subsidies to open their networks to other
388 carriers for roaming purposes. I plan to reintroduce that
389 measure shortly. Going forward, this committee will look
390 closely at whether additional public interest conditions are
391 appropriate.

392 Fourth, we must ensure full accountability and
393 transparency in this program. As GAO included in a June 2008
394 report, despite the investment of over \$30 billion in the
395 High-Cost Fund over the last 12 years, there are no data to
396 show what this massive investment has produced. I know
397 Ranking Member Barton feels strongly about this point, and I
398 look forward to working with him and other committee members
399 who share our concern about performance measures and
400 potential waste, fraud and abuse.

401 As chairman of the Committee on Oversight and Government
402 Reform during the last Congress, I asked the FCC to provide a

403 list of the 10 largest recipients of high-cost program
404 subsidy dollars for 2006 through 2008 as well as a list of
405 the 10 largest per-line subsidies by location for 2006 and
406 2007. This was not secret information, but it had not been
407 collected or released in this format before. The results of
408 this inquiry raise additional questions about the high-cost
409 program. For instance, three companies in Hawaii, Sandwich
410 Isle Communications, Sprint Nextel and Moby PCS each receive
411 a subsidy of close to \$13,000 a year per line to serve the
412 same insular area. Over the past 3 years these three
413 companies received a total of more than \$120 million in
414 support. Under current rules, a single household in this
415 part of Hawaii might have a landline phone connection from
416 Sandwich Isle Communications, a wireless phone from Sprint
417 Nextel and a wireless phone from Moby PCS, resulting in a
418 federal subsidy of \$39,000 per year.

419 As we consider reforms to the High-Cost Fund, we should
420 ask tough questions and be open to creative solutions. For
421 example, where is the money going and to whom? Is this
422 really the best use of public dollars? Are companies
423 adequately demonstrating that funds are being used for their
424 intended purposes? Are there less expensive ways to provide
425 service by using different technologies? Should we consider
426 competitive bidding for what are in effect government

427 contracts? For how long and at what level should carriers be
428 supported after they build facilities? Should we consider
429 requiring State matching grants? Now that over 90 percent of
430 American households have access to wireline broadband, should
431 we consider shifting the funds to also support consumer
432 adoption of broadband?

433 I know universal service legislation is a priority for
434 you, Mr. Chairman. I look forward to working with you,
435 Ranking Members Stearns and Barton and the other members of
436 this committee to figure out the best way forward. Thank
437 you.

438 [The prepared statement of Mr. Waxman follows:]

439 ***** INSERT 10 *****

|
440 Mr. {Boucher.} Thank you very much, Mr. Chairman, and I
441 look forward to working with you and others on this committee
442 on a bipartisan basis to achieve those goals.

443 The gentleman from Arizona, Mr. Shadegg, is recognized
444 for 2 minutes.

445 Mr. {Shadegg.} Thank you, Mr. Chairman, and thank you
446 for holding this hearing.

447 I want to begin by welcoming Mr. Steve Davis, the senior
448 vice president of Public Policy and Government Relations for
449 Qwest Communications. Qwest plays a large role in my
450 Congressional district and I look forward to his testimony as
451 well as that of the other witnesses.

452 I would like to associate my views with the remarks of
453 the ranking member, Mr. Stearns. I believe he articulated my
454 views here well. I would also like to commend Congressman
455 Lee Terry and Ranking Member Barton for their work in this
456 area.

457 I look forward to the discussion of the Universal
458 Service Fund and to learning ways in which we should improve
459 and reform the system. We have come a long way since the
460 concept of a Universal Service Fund first came forward. We
461 have worked as a Nation to ensure that affordable basic
462 telecommunications services are available to everyone

463 regardless of where they live but we are now at a crossroads
464 as our technology evolves and improves, and I believe it is
465 essential that we reevaluate the Universal Service Fund and
466 how it is used. It is clear that some reform is necessary,
467 and given the current status of our economy, we must find
468 ways to make the system more cost-effective. An audit from
469 July 2006 to June 2007 revealed that roughly \$1 billion of
470 Universal Service Fund funds were awarded erroneously. We
471 simply cannot afford nor defend that kind of waste in our
472 system. We must find ways to make sure that these errors do
473 not occur in the future because they will only hurt our
474 economy and our constituents.

475 I very much look forward to the testimony of our
476 witnesses here today on how we can improve the system and use
477 technology to make it better serve the Nation at a more
478 economical cost, and again, Mr. Chairman, I thank you for the
479 hearing.

480 [The prepared statement of Mr. Shadegg follows:]

481 ***** COMMITTEE INSERT *****

|
482 Mr. {Boucher.} Thank you very much, Mr. Shadegg.

483 The gentleman from Vermont, Mr. Welch, is recognized for
484 2 minutes.

485 Mr. {Welch.} Thank you very much, Mr. Chairman.

486 Two things. It has mostly been said. But, one, the
487 need is enormous and it has to include broadband. That would
488 make a huge difference everywhere but especially to rural
489 States like Vermont. We get many companies that can decide
490 whether to come to Vermont or not, depending on whether in
491 the rural area they want to locate there is access to
492 broadband.

493 Second, we have to reform the amount of money and how it
494 has being spent, how it is being deployed, it has been said,
495 but just the witnesses here at this table represent companies
496 who received in the range of \$5 billion for the universal
497 fund, and the question obviously is, to the users, to your
498 customers, are you using that money well, are you getting the
499 job done, and you face the tension because on the one hand,
500 you have an obligation to the shareholders of your company
501 that suggest that you maximize profit, but on the other hand,
502 you have a public trust and that requires that you extend
503 access to this essential utility service to every single
504 American.

505 I look forward to working with you, Mr. Chairman, and
506 the members of the committee to improve this bill. Thank
507 you.

508 [The prepared statement of Mr. Welch follows:]

509 ***** COMMITTEE INSERT *****

|
510 Mr. {Boucher.} Thank you very much, Mr. Welch.

511 The gentleman from Oregon, Mr. Walden, is recognized for
512 2 minutes.

513 Mr. {Walden.} Thank you, Mr. Chairman. I am going to
514 waive my opening statement in lieu of more time in the
515 questioning period.

516 [The prepared statement of Mr. Walden follows:]

517 ***** COMMITTEE INSERT *****

|
518 Mr. {Boucher.} Thank you very much, Mr. Walden.

519 The gentlelady from Florida, Ms. Castor, is recognized
520 for 2 minutes.

521 Ms. {Castor.} Thank you, Mr. Chairman. I will ask
522 unanimous consent to submit my opening statement for the
523 record and waive at this time.

524 [The prepared statement of Ms. Castor follows:]

525 ***** COMMITTEE INSERT *****

|
526 Mr. {Boucher.} Without objection, the opening
527 statements of all members who desire to submit them will be
528 received for the record, and the chair thanks the gentlelady.

529 [The prepared statement of Mr. Space follows:]

530 ***** INSERT 11 *****

|
531 Mr. {Boucher.} The gentleman from Illinois, Mr.
532 Shimkus, is recognized for 2 minutes.

533 Mr. {Shimkus.} Thank you, Mr. Chairman. I will be
534 brief.

535 It is great to have the panel. We need to move on
536 legislation. Broadband deployment is key in rural America.
537 I represent 30 counties, parts of 30 of 102 in the State of
538 Illinois, so this has been very helpful. I also co-chair
539 with Congresswoman Eshoo the E-911 caucus, you know, stellar
540 delivery and location identification is critical to rural
541 America, especially when health and safety issues are
542 concerned.

543 We have some challenges as we move forward, Mr.
544 Chairman, but I look forward to working with you as we make
545 those challenges and accept those and move forward. I yield
546 back.

547 [The prepared statement of Mr. Shimkus follows:]

548 ***** COMMITTEE INSERT *****

|
549 Mr. {Boucher.} Thank you very much, Mr. Shimkus.

550 The gentleman from New York, Mr. Weiner, is recognized
551 for 2 minutes.

552 Mr. {Weiner.} In the interest of more time for
553 questions, I yield my opening statement.

554 [The prepared statement of Mr. Weiner follows:]

555 ***** COMMITTEE INSERT *****

|
556 Mr. {Boucher.} Thank you, Mr. Weiner.

557 The gentleman from California, Mr. McNerney, is
558 recognized for 2 minutes.

559 Mr. {McNerney.} Thank you, Mr. Chairman.

560 Well, we certainly have seen a tremendous change in the
561 technology since the last legislation on this in 1996. It
562 was difficult then to foresee what we would be having now and
563 it is going to be hard for us to see what we are going to see
564 in the next 10 years, so we are going to look to you all to
565 give us guidance on that. We are going to work on both sides
566 of the aisle and we will come up with some good legislation.
567 Thank you.

568 [The prepared statement of Mr. McNerney follows:]

569 ***** COMMITTEE INSERT *****

|
570 Mr. {Boucher.} Thank you very much, Mr. McNerney.

571 Mr. Rush from Illinois is recognized for 2 minutes.

572 Mr. {Rush.} Mr. Chairman, I think I will defer for an
573 additional 2 minutes of questioning.

574 Mr. {Boucher.} Thank you, Mr. Rush.

575 [The prepared statement of Mr. Rush follows:]

576 ***** COMMITTEE INSERT *****

|

577 Mr. {Boucher.} All members having been recognized for
578 opening statements, we now turn to our panel of witnesses,
579 and I want to express appreciation to each of them for their
580 appearance here this morning and for their participation in
581 this conversation regarding universal service reform. Our
582 panel consists of Mr. Steve Davis, senior vice president for
583 public and policy and government relations for Qwest; Mr.
584 Joel Lubin, vice president for public policy at AT&T; Mr. Ted
585 Carlson, chairman of the Board of United States Cellular
586 Corporation; Mr. Mark Gailey, chairman of the board of the
587 Organization for the Promotion of Advancement of Small
588 Telecommunications Companies and a board member of the
589 Western Telecommunications Alliance; he is also president and
590 general manager of Totah Communications. Mr. Derek Turner is
591 research director at Free Press. Mr. Tom Tauke, a former
592 member of this committee, is the executive vice president for
593 public policy affairs and communications at Verizon. Mr. Tom
594 Gerke is the chief executive officer of Embarq. Mr. Gregory
595 Hale is speaking on behalf of the National Telecommunications
596 Cooperative Association. He is general manager of the Logan
597 Telephone Cooperative. And Mr. Scott Wallsten is vice
598 president for research and a senior fellow at the Technology
599 Policy Institute.

600 Without objection, all of your prepared written
601 statements will be entered into the record and we would
602 welcome your oral summaries and ask that you keep those to
603 approximately 5 minutes so that we have ample time for
604 questions. Mr. Davis, we will be pleased to hear from you
605 first.

|
606 ^STATEMENTS OF STEVE DAVIS, SENIOR VICE PRESIDENT, PUBLIC
607 POLICY AND GOVERNMENT RELATIONS, QWEST CORPORATION; JOEL E.
608 LUBIN, VICE PRESIDENT, PUBLIC POLICY, AT&T; LEROY T. CARLSON,
609 JR., CHAIRMAN OF THE BOARD, U.S. CELLULAR; MARK GAILEY,
610 PRESIDENT AND GENERAL MANAGER, TOTAH COMMUNICATIONS; DEREK
611 TURNER, RESEARCH DIRECTOR, FREE PRESS; TOM TAUKE, EXECUTIVE
612 VICE PRESIDENT, PUBLIC AFFAIRS, POLICY AND COMMUNICATIONS,
613 VERIZON; TOM GERKE, CHIEF EXECUTIVE OFFICER, EMBARQ; GREGORY
614 HALE, GENERAL MANAGER, LOGAN TELEPHONE COOPERATIVE, INC.; AND
615 SCOTT WALLSTEN, VICE PRESIDENT FOR RESEARCH AND SENIOR
616 FELLOW, THE TECHNOLOGY POLICY INSTITUTE

|
617 ^STATEMENT OF STEVE DAVIS

618 } Mr. {Davis.} Good morning. Thank you, Mr. Chairman,
619 and members of the committee. My name is Steve Davis and I
620 am senior vice president for public policy and government
621 relations for Qwest. I appreciate the opportunity to share
622 Qwest's views with you this morning on universal service.

623 Before I address the universal service issues directly,
624 I would like to tell you a bit about Qwest and why we care so
625 much about these issues. Qwest provides voice data, Internet
626 and video services nationwide and globally, and we provide

627 local telephone service and broadband service in 14 western
628 States. As of December 31, 2008, Qwest provided 11.6 million
629 voice-grade access lines and 2.8 million broadband lines to
630 customers in our territory, and we currently have broadband
631 available to 86 percent of our customer base. Our local
632 service territory is very diverse. It includes urban areas
633 like Denver, Seattle, Minneapolis and Phoenix but it also
634 includes many smaller towns and cities and many rural
635 communities with low household density. In fact, 42 percent
636 of our 1,300 wire centers serving 2.2 million homes and
637 businesses are located outside of metropolitan areas. We
638 have 34 wire centers that serve areas comparable or larger
639 than the size of Rhode Island. Needless to say, these are
640 very sparsely populated areas.

641 Although Qwest serves extremely rural areas in all the
642 14 States in which we provide local service, we only receive
643 high-cost federal universal service support in four States.
644 Qwest receives no high-cost support in such rural States as
645 North Dakota, Idaho, Iowa, New Mexico. In 2009, Qwest is
646 projected to receive approximately 1 percent of the total
647 \$2.3 billion federal high-cost assistance.

648 I would like to commend Chairman Boucher for his
649 longstanding recognition of the need for universal service
650 reform and for holding this hearing to address these

651 important issues. Qwest supported the proposed universal
652 service reform bill of Chairman Boucher and Congressman Terry
653 in the last Congress and we look forward to continued efforts
654 to accomplish significant universal service reform in this
655 Congress.

656 Currently, there are different mechanisms for
657 distributing high-cost support to carriers depending on
658 whether they are deemed rural or non-rural under the FCC's
659 rules, and despite the massive rural territory served by
660 Qwest, under the FCC's rules we have been deemed a non-rural
661 carrier and thus excluded from access to the vast majority of
662 the federal high-cost assistance. Qwest and other non-rural
663 carriers receive limited support under a mechanism that has
664 twice been held invalid by the 10th Circuit Court of Appeals
665 yet this flawed system for distributing high-cost support
666 remains in place. High-cost support should be based on the
667 areas served and not the size or identity of the carrier
668 providing the service. Qwest agrees with the approach of
669 Chairman Boucher and Congressman Terry's USF reform bill that
670 high-cost support to non-rural carriers should be retargeted
671 to individual wire centers.

672 The purpose of high-cost support has been to enable
673 telecommunications service in areas where it is not otherwise
674 economic for a carrier to provide the service. It should not

675 be used to support multiple carriers in an area where it is
676 uneconomic for even one to provide service. Unfortunately,
677 in many areas the current high-cost support program does just
678 that. High-cost support to duplicate network providers,
679 primarily wireless carriers, has caused the enormous growth
680 in the High-Cost Support Fund in recent years. While high-
681 cost support to incumbent carriers has been flat since 2003,
682 support to these duplicative network providers has grown from
683 approximately \$17 million in 2001 to a projected \$1.4 billion
684 in 2009. In order to return the High-Cost Fund to its core
685 principle of universal service, high-cost support for all
686 carriers should be based on their costs of providing the
687 support services.

688 As Chairman Boucher, Congressman Terry and many others
689 have recognized, it is also time to promote universal access
690 to broadband through universal service support. Qwest
691 currently offers broadband services to approximately 86
692 percent of the households in our region. However, in the
693 absence of additional federal assistance, the necessary
694 upgrades to expand our footprint are not economically
695 feasible in many rural areas. The grants for broadband
696 deployment established in the stimulus are a start but are
697 not sufficient to result in ubiquitous deployment of high-
698 speed broadband. There remains a crucial role for universal

699 service funding.

700 Qwest believes that the primary purpose of any broadband
701 deployment subsidization should be to aid construction of
702 facility in unserved areas but high-cost support should not
703 provide ongoing operational subsidies nor should the support
704 subsidize competition or build duplicate networks. In 2007,
705 Qwest proposed a new federal universal service program that
706 would provide one-time grants to selected applicants to
707 deploy broadband to unserved areas, and we commend that
708 proposal to the subcommittee for its consideration. Congress
709 has an important opportunity here to structure an improved
710 program for supporting universal access to basic telephone
711 service and a new program for supporting universal access to
712 broadband.

713 Again, I thank you for the opportunity to testify today
714 on these issues and I look forward to your questions.

715 [The prepared statement of Mr. Davis follows:]

716 ***** INSERT 1 *****

|

717 Mr. {Boucher.} Thank you very much, Mr. Davis.

718 Mr. Lubin, we will be pleased to hear from you.

|
719 ^STATEMENT OF JOEL E. LUBIN

720 } Mr. {Lubin.} Good morning. Thank you, Chairman
721 Boucher, Ranking Member Stearns and members of the
722 subcommittee for inviting me here today. AT&T is a long-time
723 supporter of our national policy of universal service and of
724 recent efforts to sustain that policy through meaningful
725 reform. In this regard, we salute your leadership and the
726 work of the entire committee.

727 AT&T is the single largest provider of telephone service
728 in rural America today. AT&T provides service to 7 million
729 rural telephone customers. AT&T remains committed to serve
730 our customers regardless of where they live and where they
731 work. AT&T's unique experience serving a diverse set of
732 customers has shown us the value of broadband services.

733 Today's hearing is on point. The current universal
734 service high-cost system is broken and will not create the
735 proper incentives for broadband deployment in high-cost
736 areas. Let me explain with a personal experience of mine
737 that happened 5 years ago. Five years ago, my daughter and
738 son-in-law came to us and said we have got some good news and
739 bad news. I said share the bad news first. They said well,
740 we live 6 miles away today, we are moving 6,000 miles

741 tomorrow. I said what is the good news. The good news is,
742 we will back in about 1 or 2 years but I already got online,
743 I have an apartment, I got a broadband connection, and did
744 you ever hear about this thing called voice over the
745 Internet. I said yes. They said well, you know what, I can
746 even keep the same local number. That was a big deal. That
747 was a big deal for them because they didn't have to send out
748 a number to everyone. It was a big deal for my wife and I
749 because we could be in contact as a local call speaking to
750 our granddaughter virtually every day.

751 Let me try to unpack what I just said. I call old
752 technology, let us call that the narrowband local service
753 that you know and you have today. That narrowband pipe is
754 paid by a combination of local rate line items on a
755 customer's bill, State and federal access charges paid by
756 carriers that are then in turn recovered not from that
757 particular customer but from a host of customers including
758 that one who has the pipe. In addition, it recovers who are
759 paid by existing federal and State universal service funds.
760 For this old technology to work, it is essential to know
761 where the call originated and terminated. By the way, I am
762 going to describe a new technology where it just doesn't
763 matter. The new technology, let us call it a broadband pipe.
764 It is paid directly by the end user. You will not need to

765 know where the call, I actually should say packets, where the
766 packets originate and terminate. Just like when my kids
767 moved 6,000 miles away, I still dialed the same number and lo
768 and behold it arrived and we spoke.

769 I am sharing this story because it clearly shows that
770 broadband technology is a disruptive technology. It simply
771 redefines the game including the local calling area, not just
772 to be the small local calling area but it redefines it to be
773 in effect the whole USA or, in my example, the globe. In a
774 broadband world, there are no access charges. There is no
775 federal local service line charge on the bill. It also turns
776 out that the broadband service offers much more capability to
777 the customers. That is why we are talking about it. And I
778 hope you see that it doesn't have the complexity of the old
779 narrowband pipe nor do I hope we ever take the baggage of the
780 old technology and drive it into the new world. What a shame
781 that would be.

782 So what to do? I would like to identify three things,
783 because one needs to start thinking about a comprehensive
784 solution to the dilemma and the issue is, do I want broadband
785 deployed. We will talk about that shortly. But
786 comprehensive reform needs to address three things.

787 First, number one, we need to replace the existing
788 collection mechanism from interstate retail revenues to a

789 broader based collection mechanism which we would suggest
790 telephone numbers or a combination of telephone numbers and
791 connections, which is a more stable collection mechanism,
792 reform intercarrier to preserve universal service during the
793 transition to a fully deployed broadband world, and let me
794 very clear on this point. Access charges are going to
795 vaporize. They are going to go away. They are not going to
796 exist, and it is an issue that needs to be dealt with.
797 Reform of the existing federal high-cost funding mechanism to
798 promote deployment of next-generation broadband and expanded
799 and improved wireless service in rural areas is important.

800 I would like to make one final point, and we need to
801 clearly understand adjusting to the new world, this old world
802 where you have very small local calling areas, and I am going
803 to focus on a small rural calling area. That small rural
804 calling area may have a local rate that is 40 to 50 percent
805 lower than the urban rate but yet the cost of that service in
806 the rural areas could be 5, 10, 20 or more times greater than
807 the cost in the urban area. I just observe that the local
808 calling area of the old world is going to ultimately expand
809 to be in effect the whole USA or maybe the globe, and the
810 issue here ultimately is, how do we reconcile these
811 differences and create that comprehensive solution.

812 My final point: remember, universal service funds and

813 access charges didn't exist 25 years ago in 1984 and access
814 charges won't exist in a broadband world.

815 I look forward to your questions and working with you to
816 find solutions. Thank you.

817 [The prepared statement of Mr. Lubin follows:]

818 ***** INSERT 2 *****

|

819 Mr. {Boucher.} Thank you very much, Mr. Lubin.

820 Mr. Carlson.

|
821 ^STATEMENT OF LEROY T. CARLSON, JR.

822 } Mr. {Carlson.} Chairman Boucher, Ranking Member Stearns
823 and members of the--

824 Mr. {Boucher.} Mr. Carlson, please pull the microphone
825 over, get it very close, turn it on. Thank you.

826 Mr. {Carlson.} There we go. Sorry about that.

827 Mr. {Boucher.} A little technology lecture here. Thank
828 you.

829 Mr. {Carlson.} I am not an engineer. I am sorry.

830 Chairman Boucher, Ranking Member Stearns and members of
831 the subcommittee, good morning. As you continue your review
832 of the universal service program, I have observed from my
833 decades of experience, there are several core principles that
834 should guide you when you reform the program.

835 First, you must recognize--

836 Mr. {Boucher.} Mr. Carlson, I hate to raise the issue,
837 but I think your microphone is off.

838 Mr. {Carlson.} No, it did go off there.

839 Mr. {Boucher.} There we go.

840 Mr. {Carlson.} First we must recognize that the money
841 involved is not the government's as one of you said nor the
842 telecommunications provider's; it is the consumer's money.

843 Second, collectively, government and the participating
844 carriers must be superb stewards of these precious funds.
845 Third, while progress has been made, there are still many
846 areas of the country that are expensive to reach and serve
847 with quality service and without assistance will not be
848 successfully served and thus the program continues to be
849 needed. And finally, that the core principles of competitive
850 telecommunications for every American remains an important
851 and worthy goal.

852 Based upon these principles, I believe there are three
853 questions for the committee to address. First, what is the
854 proper role and scope of the universal service program? One
855 of you mentioned that. Second, what investments should be
856 made in the future? And finally, how do you structure the
857 program effectively and efficiently so as to maximize the
858 benefits to consumers, as something you pointed out.

859 As to the first question, I agree with the current law
860 but the proper role of this program must be to ensure that
861 high-cost areas have modern, high-quality telecommunications
862 services that are reasonably comparable to those available in
863 our urban and suburban centers and at reasonably comparable
864 rates. Because if universal service were limited to a phone
865 that was tethered to the kitchen wall, rural Americans would
866 be denied access to the mobility tools that they need to

867 compete with urban citizens both here in the United States
868 and abroad, and we commend your bill that you introduced in
869 the prior session in that regard.

870 With respect to the second question, there are two
871 observations that I would offer. First, broadband services
872 and mobile wireless services are two must-have
873 functionalities that consumers expect and demand for personal
874 and business use. Therefore, the program should be expanded
875 to make broadband eligible for USF support. Second, however,
876 significant additional investment is still required to bring
877 high-quality mobile services to all Americans. Remaining
878 committed to that investment in mobility will enable
879 companies to bring essential economic development and public
880 safety benefits to rural areas and through the network effect
881 to all Americans. As a carrier that serves vast rural areas,
882 I know that many Americans do not have sufficient access to
883 high-quality mobile wireless services. My company's use of
884 USF support has enabled us to extend service to literally
885 hundreds of small communities that previously had no service
886 or poor service, and we have made some huge coverage gains in
887 places where we have been eligible for those funds such as
888 Oregon, Washington and Maine. There is also much work still
889 to be done extending and improving service in States
890 represented on this committee such as Virginia, Illinois,

891 North Carolina, Tennessee and Missouri, States where we have
892 just recently been designated as an eligible
893 telecommunications carrier.

894 For those of you who represent rural districts or anyone
895 who visits rural America, you know how your Smart Phone can
896 stop working or you have noticed how dropped calls and dead
897 zones can increase when you leave heavily traveled roads. I
898 believe a reform program can effectively and efficiently
899 address these problems, and if tailored correctly can be
900 complementing the program that has just recently been
901 authorized, the American Recovery and Reinvestment Act. To
902 be clear, we now serve many rural areas that do not generate
903 sufficient revenues to meet ongoing operations expenses and
904 to maintain a high quality of service. There is no escaping
905 the reality that the USF program is critically important to
906 the viability of providing basic mobile services for millions
907 of Americans.

908 Some additional points that we would like to see we make
909 sure that goes into the legislation from our standpoint, the
910 legislation should not favor any class of carrier or
911 technology because by not doing so, we will foster innovation
912 and competition. We believe we should look at a cost model
913 rather than carriers' own costs because a cost model would
914 save significant cost and expense. And we believe that the

915 legislation should reject any amendments that would foster a
916 single market winner, for example, through reverse auctions,
917 because a single market winner would relegate rural America
918 to the days of a monopoly carrier requiring enormous and
919 unnecessary regulatory oversight to protect consumers.

920 Thank you.

921 [The prepared statement of Mr. Carlson follows:]

922 ***** INSERT 3 *****

|

923 Mr. {Boucher.} Thank you, very much, Mr. Carlson.

924 Mr. Gailey.

|
925 ^STATEMENT OF MARK GAILEY

926 } Mr. {Gailey.} Chairman Boucher, Ranking Member Stearns
927 and members of the subcommittee, thank you for inviting me
928 here today. I am Mark Gailey, president and general manager
929 of Totah Communications located in Ochelata, Oklahoma. Our
930 family-owned company serves over 3,000 telephone subscribers
931 and more than 1,000 DSL subscribers in sparsely populated
932 areas of Oklahoma and Kansas. I come before you as chairman
933 of the board of the Organization for the Promotion and
934 Advancement of Small Telecommunications Companies and as a
935 board member of the Western Telecommunications Alliance. The
936 companies and cooperatives represented by these associations
937 provide numerous services to their communities including
938 voice, broadband Internet access, video and wireless.

939 The recent enactment of the American Recovery and
940 Reinvestment Act of 2009 has brought more attention and focus
941 than ever on the efforts to provide broadband service to all
942 citizens of our Nation. The broadband infrastructure funding
943 included in that law should further the goals set forth by
944 Congress and the Administration. However, as significant as
945 that funding levels were for broadband build-out, it will not
946 get the entire job done, nor will these grants and loans

947 provide for the ongoing operations, maintenance and upgrades
948 of broadband networks.

949 This brings me to the subject of today's hearing, the
950 Federal Universal Service Fund. OPASTCO and WTA believe very
951 strongly that the Universal Service Fund high-cost program
952 should explicitly support broadband. The goal of universal
953 service policy has been to ensure that every American
954 regardless of their location has access to affordable, high-
955 quality public switch network. For rural incumbent local
956 exchange carriers, high-cost universal service support is a
957 cost recovery program designed to promote investment in areas
958 where it would not other be feasible for carriers to provide
959 quality service today or in the future, and the future of
960 communications, as we know, is broadband.

961 While the availability of broadband service is
962 necessary, just is important is the adoption of broadband
963 service. There are many factors that spur adoption of
964 broadband. Computer availability and training come to mind,
965 but the major factors are price and speed of the service, and
966 USF plays a very important role in making broadband both
967 affordable and attractive for consumers. Health care,
968 education and commerce have joined communications and
969 entertainment as applications that now make high-speed
970 broadband Internet connection a necessity.

971 USF needs other significant reforms. The USF
972 contribution base must be expanded to include all broadband
973 and voice connections, thus leading to smaller USF line items
974 on consumers' bills and more funding availability. The so-
975 called Identical Support Rule should be eliminated, which
976 would result in cost savings to the USF and prudent use of
977 funds based on real investment levels of competitive
978 carriers, not the investment levels of an incumbent carrier.

979 OPASTCO and WTA strongly believe that no cap should be
980 imposed on the high-cost program or any portion of it so that
981 sufficient funds are available for ongoing broadband
982 investment and upgrades. Continual investment is critical
983 because broadband connections that are available today are
984 not the networks that will enable rural areas and the rest of
985 the country to be compete globally 5 years from now. A high-
986 quality broadband network can enable existing businesses in
987 rural areas to grow as well as to attract new business to the
988 areas, both of which will energize the local economy.

989 We also request that the USF be permanently exempt from
990 the Antideficiency Act accounting standards. The imposition
991 of the ADA on the USF or even the threat of such action
992 brings about uncertainty regarding future USF payments that
993 thwart investment in communications and network services.
994 OPASTCO and WTA also oppose the implementation of reverse

995 auctions, State grants, vouchers and other mechanisms that
996 will only diminish the usefulness of USF.

997 Chairman Boucher, I wish to thank you and Congressman
998 Terry for the insight and leadership you have shown on this
999 issue. Introduced in the previous Congress, the Boucher-
1000 Terry USF reform legislation was supported by both OPASTCO
1001 and WTA. Many of the reforms to USF that we requested in
1002 this testimony were contained in that bill. We look forward
1003 to working with you once to move forward with progressive
1004 reform to this very important program.

1005 I would like to move to an important aspect of any USF
1006 reform effort: oversight and accountability. OPASTCO and
1007 WTA pledge to work with Congress and the Administration to
1008 continue the high-cost program's accountability to the
1009 public. On the issue of transparency and the operation of
1010 the USF, all parties involved must work toward realistic
1011 processes and fair solutions to better administer the funds
1012 collected from communications customers.

1013 In conclusion, for nearly 75 years our Nation has
1014 supported the policy of universal communications services for
1015 its citizens. Throughout those years, those meant
1016 telecommunications or voice service. Our country, our
1017 economy and in fact our entire world has vastly changed and
1018 it is well past time to reform the USF.

1019 Thank you.

1020 [The prepared statement of Mr. Gailey follows:]

1021 ***** INSERT 4 *****

|

1022 Mr. {Boucher.} Thank you very much, Mr. Gailey.

1023 Mr. Turner.

|
1024 ^STATEMENT OF DEREK TURNER

1025 } Mr. {Turner.} Chairman Boucher, Ranking Member Stearns,
1026 Mr. Barton and members of the committee, I thank you for the
1027 opportunity to testify today on the important issue of high-
1028 cost reform. I am the research director for Free Press, a
1029 public interest organization dedicated to public education
1030 and consumer advocacy on communications policy.

1031 Technology is rapidly changing the way Americans
1032 interact, learn and do business, and all for the better, but
1033 the rules governing our communications markets are not
1034 keeping up with this rapid pace of change and consumers are
1035 suffering as a result.

1036 When the current universal service regime was created in
1037 1996, the Internet was an application that rode on top of the
1038 telephone infrastructure. Today it is the opposite.
1039 Telephony is just one of many applications that ride on top
1040 of broadband infrastructure. With this convergence comes the
1041 opportunity to ensure universal affordable broadband access
1042 while also reducing the future burden on the fund. We
1043 strongly support the goals of universal service. Everyone
1044 benefits when rural consumers have access to affordable high-
1045 quality communications services. But as advocates for the

1046 consumers whose monthly bills support the fund, we want to
1047 ensure that our system of universal service is both fair and
1048 efficient.

1049 Consumers in the 21st century marketplace should not be
1050 forced to subsidize a 20th century technology. We believe a
1051 bold and transformative shift in USF policy is needed. Done
1052 properly, we can bring affordable broadband to all Americans
1053 while also substantially reducing the size of the fund in the
1054 long term. Here is how. We must begin by asking two basic
1055 questions: how much money is each USF supported line
1056 receiving each month, and is that support actually needed.
1057 Our research shows that 40 percent of the high-cost fund,
1058 nearly \$2 billion annually, goes to subsidizing lines that
1059 receive less than \$10 per month. This is also true for small
1060 rate-of-return carriers. Two-thirds of these lines receive
1061 less than \$10 per month in high-cost support. Now, these
1062 subsidies may be justified but it begs the question: Is this
1063 the best use of that \$2 billion? We also should ask whether
1064 rates in these areas are already below the national average,
1065 and should we instead be using this money for broadband
1066 deployment to bring rural customers more than just a
1067 telephone line.

1068 The path to universal broadband and the ending of the
1069 over-reliance on subsidies begins with recognizing how

1070 convergence has changed the business of telecommunications.
1071 Before broadband, carriers were only able to earn perhaps \$20
1072 per customer each month selling local phone service. In
1073 today's converged world, a carrier can well over \$100 on that
1074 same line by offering phone, TV and Internet services.
1075 Unfortunately, our current regulatory structure does not
1076 account for this potential, ignoring that with this
1077 additional revenue many high-cost carriers can operate
1078 profitably without ongoing subsidies. Instead, it tries to
1079 clumsily separate out regulated from unregulated cost
1080 revenues and really results in overpayments and
1081 anticompetitive subsidies.

1082 As an alternative to this broken process, we suggest
1083 basing ongoing high-cost support on total revenue earning
1084 potential and forward-looking infrastructure costs calculated
1085 for each carrier on a granular disaggregated basis. This
1086 modernized regulatory structure will reduce the need for
1087 ongoing support as many carriers will be able to recoup
1088 network costs and earn healthy profits from triple-play
1089 services. However, for some carriers, the upfront cost for
1090 deploying broadband into currently unserved areas is just too
1091 high. Here is where we have the opportunity to turn the
1092 regulatory structure on its head. We should use the fund to
1093 pay these upfront costs and then only provide ongoing support

1094 where it is truly needed. We propose a 10-year transition
1095 where the new total cost potential revenue support model is
1096 phased in and the resulting cost savings are used to fund the
1097 build-out of open access broadband infrastructure into
1098 unserved areas. We estimate that after this transition, the
1099 total size of the High-Cost Fund could be reduced by two-
1100 thirds to less than \$1.5 billion per year.

1101 Now, the \$7 billion in broadband stimulus funds presents
1102 policymakers with a window of opportunity to transform USF.
1103 Here, a substantial portion of the upfront costs for rural
1104 networks may be financed by taxpayer dollars. The carriers
1105 operating these networks will thus have little capital costs
1106 to recover and therefore little need for ongoing support.
1107 But unless the FCC moves to modernize the regulatory
1108 structure, we may see double dipping. Now, by that I mean
1109 carriers might ask ratepayers to reimburse them for the
1110 networks already paid for by taxpayers.

1111 Now, getting universal service policy right isn't the
1112 only thing we need to do to ensure universal service. For
1113 rural carriers, the viability of the self-supporting triple-
1114 play business model depends on getting fair rates and terms
1115 for transport and special access services and getting fair
1116 access to video programming.

1117 In closing, we urge Congress to maintain its commitment

1118 to universal service but to do so with policies that are
1119 flexible and that benefit all consumers. I thank you for
1120 your attention and I look forward to your questions.

1121 [The prepared statement of Mr. Turner follows:]

1122 ***** INSERT 5 *****

|
1123 Mr. {Weiner.} [Presiding] Thank you.

1124 Mr. Tauke, you are recognized for 5 minutes.

|
1125 ^STATEMENT OF TOM TAUKE

1126 } Mr. {Tauke.} Thank you, Mr. Chairman, Ranking Member
1127 Stearns and Ranking Member Barton. We appreciate the
1128 opportunity to testify before this committee on this
1129 important issue.

1130 We have come a long way. Just a year ago, we were
1131 spending our time talking about the need for a capital fund
1132 to cover the upfront investment costs for broadband and we
1133 were talking about the need to reform universal service in
1134 order to be able to ensure that it was focused on operational
1135 costs where necessary. We also talked about mapping in order
1136 to identify the areas of the country that were unserved so we
1137 could focus the money on the unserved areas. Well, now, a
1138 year later, the mapping legislation has been approved by the
1139 Congress, the capital funds are available through the
1140 stimulus package and we are now back to looking at the
1141 Universal Service Fund.

1142 I think it is fair to say that there is consensus that
1143 Universal Service Fund needs to be reformed. I would offer
1144 four quick suggestions as to what you should focus on in this
1145 reform.

1146 First, cap the fund. The bottom line is that is not

1147 that we are spending too little money. The problem is, we
1148 aren't targeting the money we spend to the right places. And
1149 so the first effort is to try to force that retargeting of
1150 money to broadband and to mobile wireless services.

1151 Second, consumers want access not just to fixed services
1152 or wireline services, they want access to wireless services,
1153 and the Congress recognized that 10 years ago. But the
1154 bottom line is, the mechanism for reimbursing mobile wireless
1155 carriers has been, well, it is frankly a travesty. Nobody
1156 any longer steps up and defends the Identical Support Rule,
1157 which says that every wireless carrier that comes into the
1158 community gets the same amount of support as the underlying
1159 wireline carrier in that community. Nobody defends that
1160 anymore. Now the argument is over what is the new mechanism
1161 for giving support to wireless carriers. We strongly urge
1162 you to use a mechanism of reverse auctions or competitive
1163 bidding in order to enter into contracts with wireless
1164 carriers to provide service to unserved areas.

1165 You know, today the reality of life is that we have
1166 four, five, six and in some cases more carriers receiving
1167 reimbursement to provide service to areas, areas where many
1168 carriers are providing service without subsidy. There just
1169 is no rationale for this. So some way we should use a cost-
1170 based system for all of those carriers that want to provide

1171 service. The first question is, why do we want to subsidize
1172 all of these carriers. But the second question is, what is
1173 the practical reality of trying to implement a cost-based
1174 system. A cost-based system is a can of worms. Look, on the
1175 wireline side, you have infrastructure that is devoted to a
1176 single residence, and on the wireless side, you don't have
1177 that. On the wireline side, you have an accounting system
1178 that has in place for years to identify costs associated with
1179 that infrastructure that goes to the individual household.
1180 You don't have that on the wireless side. The bottom line
1181 is, trying to impose a cost system on the wireless side is
1182 going to be a mess. So we encourage you to take a hard look
1183 at having some kind of reverse auction or some kind of
1184 competitive bidding as you do for other government contracts
1185 when you are in essence purchasing services.

1186 Third point, middle mile. This hasn't received much
1187 discussion, but when you look at the world of broadband, here
1188 is the reality. The cost of the last mile is high but in
1189 many cases the cost of the middle mile from what we will call
1190 the central office to the long-haul network is even greater
1191 per customer. We haven't paid much attention to this issue
1192 in the past, but as we look more closely at delivering
1193 broadband services through more rural areas, we have to look
1194 at that middle mile issue, and in my written testimony I

1195 offer some suggestions.

1196 Finally, we should pay into the fund on the basis of
1197 numbers. Last year a broad coalition of players in this
1198 space filed with the FCC a numbers-based plan. I am not
1199 saying it is the only plan but I am saying a lot of work has
1200 been done, a lot of support has been developed from a broad
1201 coalition. It is simple, it is fair and it is workable, and
1202 therefore it is something that should be considered.

1203 We look forward to working with you, Mr. Chairman, and
1204 all the members of the committee in your efforts to reform
1205 this important program.

1206 [The prepared statement of Mr. Tauke follows:]

1207 ***** INSERT 6 *****

|

1208 Mr. {Boucher.} Thank you very much, Mr. Tauke.

1209 Mr. Gerke.

|
1210 ^STATEMENT OF TOM GERKE

1211 } Mr. {Gerke.} Good morning, Chairman Boucher, Ranking
1212 Member Stearns and members of the committee. Thank you for
1213 the opportunity to testify today on behalf of my employer,
1214 Embarq, a primarily rural provider of voice, Internet, video
1215 and other services.

1216 Reforming the Federal Universal Service Fund offers an
1217 opportunity to accelerate broadband deployment to customers
1218 in unserved areas while maintaining affordable access to
1219 critical voice connectivity. Embarq commends Chairman
1220 Boucher and Congressman Terry on their introduction of H.R.
1221 2054, the Universal Service Reform Act, which included a
1222 transition to a broadband-focused fund, a more targeted
1223 support mechanism and appropriate carrier-of-last-resort
1224 obligations, all critical elements of USF reform. We also
1225 commend Congressmen Barton and Stearns on some of the key
1226 provisions in H.R. 6356, the Universal Service Reform
1227 Accountability and Efficiency Act, which sought to more
1228 precisely direct USF support to truly high-cost areas and tie
1229 USF more directly to carrier-of-last-resort obligations.

1230 Policymakers, stakeholders and providers are
1231 increasingly coming to the conclusion that the Universal

1232 Service Fund is ready to enhance its mission by adding a
1233 focus on expanding and supporting broadband availability to
1234 all Americans. After all, broadband is increasingly an
1235 essential service. It is important in keeping people
1236 connected, enhancing public safety, enabling education and
1237 telemedicine, and creating jobs. Of course, there are
1238 important considerations in this effort such as ensuring that
1239 the current mission of reliable, affordable voice service
1240 from a carrier of last resort is not abandoned and targeting
1241 USF support to places where the market would not otherwise
1242 deliver broadband.

1243 Incumbent phone providers have a very specific carrier-
1244 of-last-resort mandate associated with universal service. To
1245 illustrate, we have brought a diagram today of a rural market
1246 in Goodland, Indiana. Each of the green dots here represents
1247 a household. As you can see, most of the households are
1248 clustered in a town center and that is the most economical
1249 place to serve, but as a carrier of last resort, we are
1250 required to serve all of the outlying areas as well where the
1251 cost to provide such service is much higher. In this case,
1252 costs are well over 10 times higher. The challenge here is,
1253 how to layer on and expand the availability of broadband
1254 throughout low-density areas while maintaining the voice
1255 service that is critical.

1256 The policy of universal service was conceived to bring
1257 and maintain reliable, affordable service to places where the
1258 market forces alone would not otherwise provide it. The
1259 Universal Service Fund was created in 1996 because Congress
1260 realized that as competition emerged, service providers in
1261 high-cost rural areas would no longer be able to maintain the
1262 implicit urban-to-rural subsidies and they would need to be
1263 replaced with explicit support in the form of the Universal
1264 Service Fund. The contemplated competition has become a
1265 reality. Under today's system, universal service support has
1266 been calculated and distributed on the basis of broad
1267 statewide geographic study areas averaging together low- and
1268 high-density areas that could be literally hundreds of miles
1269 apart.

1270 In closing, and to illustrate our concerns, let us take
1271 another look at the map of Goodland, Indiana. The average
1272 cost to serve the 452 households clustered in or near the
1273 town center is \$19 per line per month. The remaining
1274 households are dispersed throughout the outlying areas and
1275 the cost per line is \$266 per month. With facts like these,
1276 here is what can happen. First, a dense area can knock out
1277 support for an extremely remote area. This is particularly
1278 egregious if the dense area is hundreds of miles away on the
1279 other side of the State. Second, without the carrier-of-

1280 last-resort requirement, you run the risk of multiple
1281 carriers receiving unnecessary support to serve only the town
1282 center, creating duplication and waste. If you think about
1283 the situation like a donut and a hole, the answer is crystal
1284 clear: The hole will take care of itself. The purpose of
1285 section 254 has always been to serve the donut. We look
1286 forward to working with you on USF reform to accomplish just
1287 that.

1288 [The prepared statement of Mr. Gerke follows:]

1289 ***** INSERT 7 *****

|

1290 Mr. {Boucher.} Thank you, Mr. Gerke.

1291 Mr. Hale.

|
1292 ^STATEMENT OF GREGORY HALE

1293 } Mr. {Hale.} Thank you. Mr. Chairman, Ranking Member
1294 Stearns and subcommittee members, I thank you for the
1295 invitation to participate in today's discussion regarding the
1296 critical importance of the universal service program and how
1297 best to strengthen it for the future.

1298 I serve as general manager of Logan Telephone
1299 Cooperative in Auburn, Kentucky, and I also currently serve
1300 as the region 3 director on the board of the National
1301 Telecommunications Cooperative Association, NTCA. My remarks
1302 today are on behalf of Logan Telephone as well as NTCA and
1303 our 579 other members that serve rural areas throughout the
1304 Nation. Organized as a cooperative, Logan Telephone's top
1305 priority has always been to provide every one of our
1306 customers, who are also our owners, with the very best
1307 telecommunications and customer service possible. We serve
1308 5,961 customer lines across our 596-square-mile service area,
1309 which adds up to about 10 customers per square mile. Rural
1310 is different. We have approximately 1,100 small rural
1311 counterparts in our industry who together serve 50 percent of
1312 the Nation's land mass yet less than 10 percent of the
1313 population. Rural Americans throughout the markets of NTCA

1314 member are enjoying universal telephone service, access to
1315 broadband Internet services, access to advanced video
1316 services and enhanced emergency preparedness.

1317 Now more than ever, our country's domestic, economic and
1318 personal security needs are intricately linked to our
1319 national universal service policy. American consumers and
1320 businesses are dramatically altering their communications
1321 expectations and rural communication providers continue to
1322 respond to this challenge, but the fulfillment of our mission
1323 is not without tremendous cost. Universal service plays an
1324 integral role in helping providers that are committed to
1325 serving the Nation's economically challenging markets and
1326 consumers overcome these financial challenges.

1327 Clearly, our highest priority must center on
1328 strengthening and preserving the universal service policies.
1329 We also emphatically support proper oversight and
1330 accountability of the program yet we do not believe this is
1331 occurring as is vividly detailed in a February 12th report
1332 from USAC, which I am making available for inclusion in your
1333 hearing record. We believe it is crucial that we work
1334 together to again acknowledge the program's value in a way
1335 that restores America's communications preeminence. Our
1336 specific recommendations include the following.

1337 One, include broadband in the definition of universal

1338 service and expand the contribution base to include all
1339 broadband service providers while retaining revenues as the
1340 basis for assessing contributions. Two, reform of universal
1341 service support should focus on providing consumers with
1342 affordable and comparable services and not be used to
1343 stimulate competition. Three, allow universal service and
1344 intercarrier compensation reform to occur simultaneously by
1345 reducing or freezing access rates and allowing carriers to
1346 recover lost access revenues through supplemental ICOS or IES
1347 support. And going along with that, we should require
1348 recipients of any new supplemental ICOS or IES access cost
1349 recovery to voluntarily agree to Title II regulation of the
1350 broadband services and forego the retention of any excess
1351 earnings.

1352 During the transition from the public switch telephone
1353 network to a complete IP broadband network, we must require
1354 all providers of IPPSTN traffic including interconnected VOIP
1355 traffic to pay applicable universal service access and
1356 intercarrier compensation charges. We should require tandem
1357 switching rates and special access transport rates to be cost
1358 based, strengthen the process for securing universal service
1359 eligibility, or ETC status, eliminate the Identical Support
1360 Rule and provide support based on a carrier's own costs,
1361 reject ideas to distribute support via auctions, vouchers or

1362 any other untested means, allow the program to operate as
1363 envisioned by lifting programs caps and freezes, and remove
1364 this private program from the federal budgeting process.

1365 Advanced communications services rely upon a healthy and
1366 robust network infrastructure. The biggest issue that must
1367 be resolved to ensure the existence of such a network is cost
1368 recovery. Without adequate cost recovery, there will be no
1369 network for any communication service to reach rural
1370 consumers, be it wireline, wireless or other medium. We may
1371 well need to modify the program periodically but the key is
1372 to have the network in existence and operational in the first
1373 place. We must invest in this critical infrastructure or be
1374 left behind by the world. The words of our new President
1375 ring true when we apply it to universal service: the
1376 challenges we face are real, they are serious and they are
1377 many but the members of NTCA are ready to meet these
1378 challenges to ensure that no one is left behind. Only
1379 through your help and maintaining a strong USF program will
1380 be able to succeed.

1381 Mr. Chairman, we are excited to have someone with your
1382 knowledge of our industry and your commitment to rural
1383 America and a position to lead and develop policies that will
1384 ensure America's broadband and communications preeminence
1385 will shine once again. I thank you for the opportunity to

1386 speak here today and I look forward to answering any
1387 questions from you or the subcommittee.

1388 [The prepared statement of Mr. Hale follows:]

1389 ***** INSERT 8 *****

|
1390 Mr. {Boucher.} Thank you Mr. Hale.
1391 Mr. Wallsten.

|
1392 ^STATEMENT OF SCOTT WALLSTEN

1393 } Mr. {Wallsten.} Mr. Chairman and members of the
1394 committee, thank you for giving me the opportunity to testify
1395 here today.

1396 The current Universal Service High-Cost Fund is
1397 inefficient, inequitable and growing at an alarming rate,
1398 especially because the program is funded by taxes on
1399 telecommunications services paid by all users including low-
1400 income people, most of whom get no benefit from any part of
1401 the Universal Service Fund. The program is in urgent need of
1402 reform. The good news is that we have the tools to increase
1403 build-out, increase penetration and reduce costs. We can do
1404 it by eliminating the current system and replacing it with
1405 competitive procurement.

1406 The current high-cost mechanism is not only expensive
1407 but also discourages competition and does little to benefit
1408 consumers. A study by Gregory Roston and Bradley Wimmer, for
1409 example, concluded that completely eliminating the High-Cost
1410 Fund would decrease telephone penetration by only about one-
1411 half of 1 percent. This result is consistent with nearly
1412 every other economic study published in peer review journals.
1413 Since then the proliferation of wireless alternatives means

1414 that the effect on connections would probably be even less.
1415 The 1996 Telecommunications Act tried to address the
1416 competition problem by opening up the system to entrants
1417 called competitive eligible telecommunications carriers, or
1418 CETCs. Some contend that we can control the growth by
1419 eliminating the rule under which CETCs receive the same
1420 subsidy as the incumbents. After all, they say, most of the
1421 increase in the fund is from subsidies to competitive
1422 entrants, most of which are wireless companies that have
1423 lower costs. That is partly correct. It makes no economic
1424 sense to pay entrants with lower costs the high subsidies
1425 that incumbents currently get. But it also makes no sense to
1426 subsidize a firm's high costs when a lower cost option is
1427 available. Thus, rather than eliminating the Identical
1428 Support Rule, we should rewrite it so that all firms
1429 including the incumbent get the smallest, not the biggest,
1430 subsidy required for a firm to provide service. So, for
1431 example, if a wireless entrant can provide service in the
1432 area for only half the subsidy the incumbent receives, then
1433 all eligible carriers in the area including the incumbent
1434 should receive only that smaller subsidy.

1435 But we can do even better than that. An efficient
1436 program would provide just enough of a subsidy to make it
1437 profitable to provide the service. The problem is, how to

1438 determine what that subsidy should be, or even whether a
1439 subsidy is really necessary. Fortunately, the government has
1440 a tried-and-true method for getting the biggest bang for its
1441 buck. When the government wants a good or service, it asks
1442 for bids and generally awards the contract to the lowest
1443 bidder, all else equal. The government uses competitive
1444 bidding for buying products as simple as paper to those as
1445 complex as weapons system. Everyone understands this concept
1446 and recognizes the importance of getting multiple bids,
1447 whether it is for work on your car or for providing services
1448 to the U.S. military in Iraq. This every day commonsense
1449 approach is sometimes called a reverse auction.

1450 Universal service is just another type of government
1451 procurement. In this case, the government is buying some
1452 minimum set of telecommunications services that society
1453 believes everyone should have at a specific price. The
1454 current system, however, is akin to awarding no-bid contracts
1455 that last forever. We know that no-bids contracts are more
1456 costly and less transparent than are contracts awarded in a
1457 more open and competitive manner. For that reason, we
1458 generally don't tolerate no-bid contracts yet they have
1459 become so accepted in universal service that anything else is
1460 considered radical.

1461 But there is no reason for the no-bid perpetual-contract

1462 approach to continue. The High-Cost Fund could begin
1463 procuring universal service using the same competitive
1464 bidding approach that the government uses for almost
1465 everything else. In reverse auction for universal service,
1466 firms tell the government how much of a subsidy they would
1467 need to provide particular telecom services in particular
1468 areas. The government then chooses the firm that can provide
1469 the service for the smallest subsidy.

1470 Reverse auctions are not a new idea. Aside from the
1471 government using them for nearly all procurement, other
1472 companies have already used this method to provide
1473 telecommunications services in rural areas. This experience,
1474 which I review in a paper forthcoming in the Federal
1475 Communications Law Journal and that I am submitting as part
1476 of my testimony, has important lessons. In particular,
1477 reverse auctions for universal service are feasible and
1478 typically lead to much smaller subsidies than the incumbent
1479 and beneficiaries previously said was necessary, thus using
1480 less taxpayer money to provide more services. In some cases,
1481 the auctions revealed that firms were willing to provide
1482 service with no subsidy at all, and the very worst outcome
1483 from using reverse auctions was one that ended up with the
1484 incumbents winning everything. In other words, the worst
1485 outcome from using reverse auctions in universal service was

1486 what we accept as the status quo today.

1487 I do not, however, want to give the impression that just
1488 because reverse auctions are feasible they would be easy.

1489 The details of the auction matter a lot. For example, would
1490 you want to allow multiple winners in any given area?

1491 Allowing multiple winners would facilitate service
1492 competition but could actually increase universal service
1493 obligations at least in the short run. Another issue is how
1494 to handle the incumbent. On the one hand, the incumbent may
1495 have an advantage in an auction because it already has
1496 facilities in the area, potentially discouraging other firms
1497 from bidding. On the other hand, if the incumbent loses,
1498 could it or should it still be the carrier of last resort.

1499 These problems, however, can be solved. Auctions for
1500 spectrum too were once widely considered impractical yet the
1501 FCC successfully implemented spectrum auctions and they are
1502 now used routinely around the world. Moving from no-bid
1503 perpetual contracts to competitive bidding for universal
1504 service provision would help bring the High-Cost Fund under
1505 control. Reducing the High-Cost Fund would in turn go a long
1506 way towards facilitating an efficient and fair universal
1507 service program.

1508 Thank you. I look forward to answering your questions.

1509 [The prepared statement of Mr. Wallsten follows:]

1510 ***** INSERT 9 *****

|
1511 Mr. {Boucher.} Thank you very much, Mr. Wallsten, and
1512 thanks to all of our witnesses for their testimony here this
1513 morning. The chair recognizes himself for a first round of
1514 questions.

1515 In the recently enacted stimulus measure, fully \$7.2
1516 billion has now been made available for broadband deployment.
1517 That money will be distributed through grants, loans, loan
1518 guarantees by NTA and by the Rural Utilities Service and the
1519 U.S. Department of Agriculture, and to my way of thinking,
1520 that to some extent changes the dynamic for how we should
1521 consider universal service and specifically broadband. So my
1522 questions to any who desire to respond would be this: how
1523 should we consider the availability of that stimulus money,
1524 \$7.2 billion, as we consider, number one, making broadband an
1525 eligible expenditure for universal service funding, and
1526 potentially number two, requiring that the recipients of
1527 universal service funding provide broadband at certain
1528 minimum speeds throughout their entire service territory?
1529 Does the availability of that stimulus funding now make it
1530 feasible with a potential funding source in order to impose
1531 that requirement? And who would like to respond? Mr. Davis.

1532 Mr. {Davis.} At least I will start. Mr. Chairman,
1533 first we applaud the efforts of the Congress in the stimulus

1534 to address broadband and to create that stimulus package. We
1535 think it creates a very good starting point. When we look at
1536 the cost of deploying broadband to additional areas, rural
1537 areas of our territory, it appeared to us or we estimated
1538 that the cost of increasing our deployment from 85 percent to
1539 95 percent would have taken around \$3 billion or thereabouts.
1540 And so I think the stimulus package adopted by the Congress
1541 is a good starting point and will get us on the right path,
1542 but I think if we are talking about ubiquitous broadband
1543 across America, then I think it is a starting point but more
1544 needs to be done and that is why we suggest that universal
1545 service be extended to broadband facilities.

1546 I also think that it gives us a point to begin the
1547 discussion of what speeds are adequate with respect to
1548 deploying broadband, what is the speed that we need to meet
1549 today's needs and yet not goldplate the expenditures.

1550 Mr. {Boucher.} Let me put the question very
1551 specifically. Current law says that USF money may not be
1552 spent for broadband. I would assume there is fairly broad
1553 agreement here that we ought to modify that to at least say
1554 it is an eligible subject for expenditure. Would you agree
1555 with that, Mr. Davis?

1556 Mr. {Davis.} I would.

1557 Mr. {Boucher.} Would anyone disagree with that? There

1558 is no disagreement. The better question is whether or not as
1559 the draft that Mr. Terry and I have put forward would require
1560 that we actually impose an obligation on the recipients of
1561 universal service funding to provide broadband, to do so
1562 throughout their service territories and to do so at a
1563 certain minimum speed. It is a pretty low speed. I think we
1564 have got a megabit per second, which on today's metric is not
1565 extraordinarily high. So my question is this: Does the
1566 availability of 7.2 billion on a nationwide basis in the
1567 stimulus measure for broadband make it more feasible to
1568 impose that obligation, that if you are going to receive USF
1569 money, you have to deploy it.

1570 Mr. {Davis.} I think--

1571 Mr. {Boucher.} And Mr. Davis, I think a yes or no at
1572 this point from you, because I want to give others a chance.

1573 Mr. {Davis.} The answer would be no.

1574 Mr. {Boucher.} All right. Others care to comment on
1575 that? Yes, Mr. Gerke.

1576 Mr. {Gerke.} Thank you, Chairman. We certainly applaud
1577 the efforts in the stimulus and very much want to participate
1578 there. We definitely agree that broadband should be
1579 eligible. We have done a similar estimate to what Mr. Davis
1580 talked about, and for our part, to get us up to 100 percent,
1581 it would be about \$2 billion. That would not be economical

1582 without assistance. So what we are going to get from
1583 stimulus, and you know how that works and hopefully it get
1584 directed to unserved areas, and what we can continue under
1585 USF would not come close to fulfilling that. We would
1586 certainly commit to utilize all the money that we get to
1587 continue to fulfill our USF obligation of extending the
1588 service, maintaining it and keeping that service alive and
1589 available to those rural residents.

1590 Mr. {Boucher.} All right. Others care to comment on
1591 that question? Mr. Hale?

1592 Mr. {Hale.} I would just say that most of our members
1593 are deploying broadband in their areas but there could be
1594 extremely high-cost areas with a cap on the fund where there
1595 wouldn't be cost recovery for those areas, so there could be
1596 extreme--you know, in general, yes, we would deploy it and we
1597 are deploying it but there could be very, very small rural
1598 areas that it would be difficult to deploy with the cap on
1599 the fund.

1600 Mr. {Boucher.} I am detecting some hesitation about
1601 whether or not we should impose that requirement. Mr. Tauke?

1602 Mr. {Tauke.} There is no question but it is a stretch
1603 for a lot of carriers to be able to meet a requirement to
1604 deliver broadband even at the speeds you mentioned within the
1605 5-year period, but I think it really hard from a public

1606 policy perspective to say that we are going to indefinitely
1607 provide funding for voice services when voice services is not
1608 what the future is about. So whether it is 5 years or 7
1609 years or 4 years, I don't know the answer to that question,
1610 but I think once the mapping is completed and you have a
1611 better handle on what it is out there that is unserved, then
1612 you can begin to get a better handle on how much capital is
1613 needed in order to be able to meet those needs. Maybe there
1614 will have to be a little more capital provided besides what
1615 is in the stimulus package. But I don't think it is
1616 unreasonable to have some kind of requirement for broadband
1617 for those who are receiving those funds.

1618 Mr. {Boucher.} Thank you very much, Mr. Tauke.

1619 Mr. {Tauke.} I have one point that I would like to
1620 make, Mr. Chairman, if I could have the opportunity, is that
1621 I think it is really important that this committee provide
1622 good oversight and perhaps even direction to the
1623 Administration's agencies that are administering the stimulus
1624 funds. There are a lot of new people there, a lot of great
1625 people, but I think this committee has a lot of history and I
1626 think probably can give some good guidance the way in which
1627 these funds are administered to achieve the objective.

1628 Mr. {Boucher.} Thank you very much, Mr. Tauke, and I
1629 might comment that we are in the process of doing precisely

1630 that now through conversations with both of the grant-making
1631 agencies with the Administration and we will actually move to
1632 an oversight hearing on that very issue in the not too
1633 distant future.

1634 My time is expired. The gentleman from Florida is
1635 recognized for 5 minutes.

1636 Mr. {Stearns.} Thank you, Mr. Chairman.

1637 Mr. Wallsten, let me just ask a blunt question. I mean,
1638 obviously everybody in the room agrees that the Universal
1639 Service Fund is broken and it is not working to taxpayers'
1640 advantage and we need to do something. What about just
1641 eliminating the Universal Service Fund? Now, I say that
1642 because when AT&T started, they were the one carrier and that
1643 is how the program got started. Now you can go to--Mr.
1644 Gerke, even in my Congressional district, which you serve, is
1645 a lot of rural areas, they can get service from more than
1646 Embarq, so forget for a second broadband, just talking about
1647 Universal Service Fund for land lease lines. Why is it still
1648 necessary to do this?

1649 Mr. {Wallsten.} Well, I think that is a good point. It
1650 was originally started to make sure that we brought
1651 telecommunications services to areas and once it was there--

1652 Mr. {Stearns.} Can I just ask you, do you agree there
1653 is a possibility we don't even need Universal Service Fund

1654 for what it is doing now?

1655 Mr. {Wallsten.} I am sure there are definitely areas
1656 where that is true, and if we have reverse auctions in areas
1657 like that, if all carriers were eligible, you would find
1658 places where firms bid zero, possibly even were willing to
1659 pay.

1660 Mr. {Stearns.} In the bill that Mr. Barton and I
1661 dropped in the last Congress, we listed that we no longer
1662 have companies get reimbursed for artwork, cafeteria,
1663 lunchrooms, vending machines, charitable contributions,
1664 lobbying, public relations, janitorial service. All these
1665 were the costs that people like Mr. Gailey or Mr. Hale used
1666 in their reimbursement expenses that they would put on top
1667 and give to the FCC. And so in our bill we said, gee, we
1668 didn't think sewage or water utilities or membership fees in
1669 social and political clubs and recreational clubs were
1670 necessary to be expenses. So we said, you know, let us make
1671 sure that they don't be incurred. As Mr. Tauke said and I
1672 think Mr. Waxman is sort of looking at and which is very
1673 encouraging for me to talk about reverse auctions, and Mr.
1674 Wallsten, you had indicated that would be the key here, and
1675 particularly you talked about this Identical Support Rule and
1676 if we did away with that and we had reverse auctions, bingo,
1677 then we would be out of this business of getting reimbursed

1678 upon the membership fees and dues in social and political
1679 services. Is that correct?

1680 Mr. {Wallsten.} Yes. If these auctions were done
1681 correctly, firms are going to want to win the auction and
1682 they are not going to include costs like that because then
1683 they wouldn't win.

1684 Mr. {Stearns.} Now, Mr. Davis, I am a little concerned
1685 to hear you say when you talk about broadband the \$7.2
1686 billion that is in the stimulus package, you say that is just
1687 the beginning. So you are asking the government to continue
1688 to tax people who are getting phones lines for a lot more
1689 than the \$7.2 billion. Because you realize, if we spend that
1690 \$7.2 billion this year and the Universal Service Fund is
1691 about \$7 billion now, so if we are going to tax them next
1692 year, it is going to go from 11 percent of the bill to 22
1693 percent of the bill. So we are really working backwards. I
1694 think Mr. Gerke said we are going to spend \$2 billion in
1695 broadband and we could use the help. I think those were your
1696 words. So now you are coming here and asking us here on the
1697 committee to give you \$7.2 billion this year and more money
1698 this year, and if Mr. Gerke needs \$2 billion, then I assume
1699 you need \$2 billion, and I am sure everybody in this room
1700 including the people in the last row could use \$2 billion.

1701 So Mr. Wallsten, am I wrong? I mean, why should I tax

1702 people when AT&T just announced it plans to spend \$12 billion
1703 in capital expenditures on broadband in 2009? And I applaud
1704 them for doing that, you know, but if the private sector is
1705 going to go out and do it, I mean, I am not clear, Mr. Davis,
1706 why you are saying this is just the beginning, you want the
1707 government to continue to fund this through the Universal
1708 Service Fund. That is what you are saying.

1709 Mr. {Davis.} Mr. Congressman, what I would say first is
1710 that we believe that the size of the fund should not be
1711 increased. The size of the fund does not need--

1712 Mr. {Stearns.} But you--

1713 Mr. {Davis.} --larger for us to spend--

1714 Mr. {Stearns.} But you believe we should tax the people
1715 who use the phone for this money is what you are saying?

1716 Mr. {Davis.} I believe that we can more wisely use the
1717 fund, reform the fund without increasing the size of the
1718 fund, we can provide universal broadband service.

1719 Mr. {Stearns.} Mr. Wallsten, even if we do the reverse
1720 auction and we did away with the Identical Support Rule, and
1721 let us just talk about broadband, how in the world can we go
1722 back and ask the taxpayers to pay for this broadband when it
1723 looks like the private sector is willing to do it?

1724 Mr. {Wallsten.} Well, as you are pointing out and as
1725 others have pointed out here, there are two issues. One is

1726 how we raise the money and the other is how we distribute the
1727 funds, and the way we raise the money is especially
1728 inefficient. Every user of telecommunications services has
1729 to pay into this fund including low-income users, most of
1730 whom don't receive anything. There have been many studies on
1731 this. A paper by Jerry Houseman estimated that each dollar
1732 raised in taxes on wireless services costs the economy an
1733 extra 72 cents to \$1.14. Jerry Ellig estimated that these
1734 taxes on wireless services and interstate long distance to
1735 support universal service reduced economic welfare by about
1736 \$2 billion a year. So on raising the fund size, it is
1737 inefficient and inequitable, inefficient because it is not a
1738 good way to raise taxes. You are taxing a price-sensitive
1739 service. And it is inequitable because you are imposing the
1740 tax including low-income people, and then to turn around and
1741 use it to subsidize people who are not necessarily low
1742 income, so that is the--

1743 Mr. {Stearns.} Thank you, Mr. Chairman.

1744 Mr. {Boucher.} Thank you very much, Mr. Stearns.

1745 The gentlelady from the Virgin Islands, Ms. Christensen,
1746 is recognized for 5 minutes.

1747 Ms. {Christensen.} Thank you, Mr. Chairman. I hope my
1748 questions, well, they will probably let you know that I am
1749 new to telecommunications but I do have a few questions to

1750 ask.

1751 I will start with Mr. Tauke. You are a strong proponent
1752 of capping the High-Cost Fund, and opponents say that it
1753 could have unintended consequences that could undermine the
1754 universal service goals so how would you respond to that
1755 concern?

1756 Mr. {Tauke.} I think the key is to direct the money to
1757 the area where it is needed. Today we provide a lot of
1758 support for old technology and we provide support for
1759 multiple recipients in a given area, so using Mr. Gerke's
1760 chart before of Indiana, a lot of money is going into the
1761 hole in that donut when the need is outside in the donut
1762 itself, and so if you can redirect the funds to the area
1763 where it is needed, I think you can meet the needs without
1764 spending more money. But if you don't cap the fund, I think
1765 what will happen is, is that we will keep adding on more
1766 things, so we need to redirect, not just add on. Because
1767 consumers are paying the bill and right now the bill is, you
1768 know, hovering around 9-1/2 to 11 percent on the bottom of
1769 the bill.

1770 Ms. {Christensen.} Thank you.

1771 Mr. Davis, obviously this hearing is in part about some
1772 of the inequities in the system, and one you raise is how the
1773 rural side of your business, the services you provide to the

1774 rural areas doesn't get the support. Are you recommending
1775 the same treatment for rural and non-rural or are you just
1776 recommending that your service to your rural areas get the
1777 support even though you are not considered a rural provider?

1778 Mr. {Davis.} I am suggesting the same treatment for
1779 rural and non-rural carriers such that we look at the
1780 specific geography and whether or not it is rural and support
1781 it irrespective of whether or not the company also serves
1782 urban areas.

1783 Ms. {Christensen.} I understand.

1784 Mr. Tauke and Mr. Lubin, as I understand, both of you
1785 support going to a numbers-based system. How would you
1786 address concerns raised that this could raise the cost to
1787 consumers?

1788 Mr. {Lubin.} With regard to the question, will it raise
1789 the cost to consumers, my belief is, I believe it will reduce
1790 the overall contribution paid by the residential consumer,
1791 that the value of having a telephone number collection
1792 mechanism is first you get certainty. You know what it is.
1793 It doesn't fluctuate month by month. Sometimes you will pay
1794 50 cents because you are not making a lot of calls. The next
1795 month maybe you have some family positive life event and you
1796 make a significant amount of calls and all of a sudden you
1797 can see a USF line item for \$5 because you made a lot of

1798 calls. So you see a lot more stability but the beauty of
1799 what the coalition did that Tom Tauke talked about, which
1800 AT&T participated in, is that the actual telephone number
1801 rate when you look at it in aggregate over the residential
1802 user was paying less. In addition, that coalition exempted
1803 lifeline customers. So a lifeline customer would not pay the
1804 line item. And you heard the previous speaker highlight that
1805 in the ways in which you collect it today, customers who are
1806 on lifeline are still contributing to it on certain portions
1807 of their revenue.

1808 Mr. {Tauke.} I would reiterate everything Mr. Lubin
1809 said. Bottom line is that the number system and the way it
1810 was designed and the submission that a number of us made to
1811 the FCC slightly shifts the cost from residential to
1812 consumer, or from consumer to commercial, so from residential
1813 to commercial. So it lowers the overall costs for consumers
1814 and at the same time it takes care of the low-income
1815 consumer.

1816 Ms. {Christensen.} Mr. Wallsten, you are supportive of
1817 reverse auctions. Why not base it on carrier costs as others
1818 would suggest?

1819 Mr. {Wallsten.} The main problem with using carrier
1820 costs is that it is impossible to know what they are, and
1821 companies will always have an incentive to say that their

1822 costs are higher than they are so that they can increase
1823 their subsidy and it reduces any incentive for them to work
1824 more efficiently, because the higher their costs are, the
1825 bigger the subsidy they get and so you can end up in sort of
1826 a constant spiral of increasing subsidies.

1827 Ms. {Christensen.} Thank you, Mr. Chairman. I have no
1828 further questions.

1829 Mr. {Boucher.} Thank you very much, Ms. Christensen.

1830 The gentleman from Texas, Mr. Barton, the ranking member
1831 of the full committee, is recognized for 5 minutes.

1832 Mr. {Barton.} Well, thank you, Mr. Chairman. I commend
1833 you for rescuing me from climate change hearing fatigue. We
1834 have our second one of those of the week going on upstairs,
1835 so it is nice to come down and participate in a hearing that
1836 is on something else. It is also nice to have a hearing
1837 entitled ``Universal Service Fund: Reforming High-Cost
1838 Support.'' We have got the word ``reform'' in there, which
1839 is good; universal service, which is good. I wish instead of
1840 ``reforming'' you would have ``repealing'' but that is just
1841 wishful thinking on my part.

1842 It is ironic to me that we have a program looking for a
1843 need to continue to exist. I would have voted for universal
1844 service in the beginning back in the 1930s when my district
1845 in rural Texas had very few telephones outside of the small

1846 communities and the few cities in the district. I still
1847 support some sort of a universal service requirement, I
1848 suppose, but I am at a loss to figure out why we need to
1849 change the definition. But maybe if you can't kill the
1850 snake, it may be time to change it in such a way that we get
1851 some benefit, and I thought your question, Mr. Chairman,
1852 about a requirement if you are going to receive universal
1853 service funds you should have to provide broadband. I think
1854 that is a very good question. If you can't kill it, at least
1855 require something that is useful today, so I am intrigued by
1856 that.

1857 Mr. Tauke, I thought you gave one of the more articulate
1858 opening statements. I know that is because you used to be a
1859 member of this committee, which is not widely known and you
1860 don't talk about in polite company much more these days, but
1861 you were a member of this committee. Why would somebody
1862 oppose a reverse auction or why would somebody support a
1863 cost-based system reimbursement? If we are going to have it,
1864 why not do reverse auctions? Why not do competitive bidding?
1865 I mean, obviously that would save money and you would still
1866 have the basic requirement to provide the services.

1867 Mr. {Tauke.} I am probably not the best person to
1868 answer that question since we support reverse auctions and
1869 competitive bidding, but as I understand the arguments of

1870 those who oppose it, the first argument is that they favor
1871 having multiple carriers in a given area. Parenthetically, I
1872 guess first we don't think--just as a company it is our view
1873 that--

1874 Mr. {Barton.} Well, then go to competitive bidding.

1875 Mr. {Tauke.} If you have an unserved area, we don't see
1876 why you should support multiple carriers in that area,
1877 especially because as technology develops, those multiple
1878 carriers are going to come anyway. But for the near term,
1879 why should the government subsidize multiple players?

1880 But secondly, if you decided you really wanted multiple
1881 players, you could through a competitive bidding process
1882 provide that support to two or three carriers if you wanted
1883 to do that. But to try to have a system that is focused on
1884 determining costs, I think, is going to be counterproductive
1885 in a whole variety of ways, which I have already alluded to.

1886 Mr. {Barton.} I am going to ask the gentleman next to
1887 you, who is an advocate of classic universal service, why
1888 couldn't you exist in a world of competitive bidding or
1889 reverse auction? I thought your chart was informative. You
1890 know, I still have areas in my district that have significant
1891 rural areas. So why couldn't you exist in a competitive
1892 bidding reverse auction world?

1893 Mr. {Gerke.} I think the most critical thing to

1894 emphasize is one of the points that Mr. Wallsten made, which
1895 is you have to tie it to carrier of last resort. A lot of
1896 the proposals with respect to reverse auctions allow people
1897 to come in, identify areas and cherry-pick those and then
1898 leave me or similarly situated people to try to figure out
1899 how you make a profit on \$266 per month of cost and a \$25 or
1900 whatever receipt, and so if we can't isolate and leave behind
1901 those Americans, which is exactly what 254 was intended to
1902 stop or avoid, I think it is absolutely key that that
1903 concept--

1904 Mr. {Barton.} Well, do you accept as a carrier of last
1905 resort that you can be served in a wireless mode as opposed
1906 to a wireline mode?

1907 Mr. {Gerke.} Well, that is my point. If a wireless
1908 carrier would win, they would need to take that obligation to
1909 serve the entire area and relieve the underlying carrier so
1910 we wouldn't have that unprofitable operation separated and
1911 forced upon you.

1912 Mr. {Barton.} I know my time is expired, but if we
1913 accepted that a wireless carrier is acceptable for the
1914 carrier of last resort, and I am not saying that you have to
1915 accept that, but if you do, is it not true that the cost to
1916 serve as last resort would not be \$266 per month?

1917 Mr. {Gerke.} They would have to calculate their own

1918 costs. With our network already in the ground and because
1919 their CFOs don't have them building out to those most rural
1920 areas, I am assuming they have got a cost that doesn't make
1921 sense for them.

1922 Mr. {Barton.} Thank you, Mr. Chairman.

1923 Mr. {Boucher.} Thank you very much, Mr. Barton.

1924 The gentleman from Michigan, Mr. Stupak, is recognized
1925 for 5 minutes.

1926 Mr. {Stupak.} Thank you, Mr. Chairman.

1927 Mr. Gerke, in your testimony you mentioned about using
1928 the data that we have from a broadband inventory map as a
1929 means to retarget high-cost support either at the wire center
1930 level or even more granular. Can you explain what you mean
1931 by a more granular targeting?

1932 Mr. {Gerke.} Well, I am just open to dialog among the
1933 industry and with the committee. My thought is, you want to
1934 make sure that you separate out from providing service or
1935 pollute the calculation with numbers that, you know,
1936 represent a different market than what is really being
1937 targeted under 254, which is the rural market, and the
1938 statewide averaging does that, so the wire center is a great
1939 way to target it. I think it just was an expression of our
1940 openness to figure out what is the most laser-like manner in
1941 which we can proceed.

1942 Mr. {Stupak.} Right, but isn't the wire center at times
1943 targeting too narrow, considering the size of the rural area?

1944 Mr. {Gerke.} Well, as long as you are talking within a
1945 particular rural area, you can look at the different wire
1946 centers that are there and then calculate the cost based on
1947 that.

1948 Mr. {Stupak.} Okay. Mr. Carlson, if I may, I share
1949 some of U.S. Cellular's concern that the FCC does not have
1950 accurate mobile wireless service coverage data. What level
1951 of detail do you believe is appropriate for the Commission to
1952 have to improve their ability to administer funds, and are we
1953 talking about creating something similar to the broadband
1954 inventory map for wireless carriers?

1955 Mr. {Carlson.} Yes. I think the detail needs to go
1956 down below the zip code level, because if you work with a zip
1957 code you could have areas that were both high density and low
1958 density within the same zip code, and I think ultimately what
1959 we need to do is identify the cost characteristics of each
1960 area so that we could introduce a cost model. That would
1961 take us away from this issue of subsidizing inefficient
1962 carriers. With a cost model approach, we would be
1963 subsidizing only those areas which truly were low density and
1964 therefore for any carrier to serve them with high-quality
1965 service would have relatively high cost. So we are advocates

1966 of high-cost model system which would require us to get down
1967 to that very granular, below zip code level.

1968 Mr. {Stupak.} Okay. Thanks.

1969 Mr. Tauke, you raised an interesting proposal for the
1970 creation of the subsidy of the middle mile, the long haul
1971 between a rural Internet end user and the network. Are the
1972 costs associated with developing a connection not fully
1973 supported by the current USF because it is strictly broadband
1974 in nature?

1975 Mr. {Tauke.} The costs of the middle mile are not
1976 currently subsidized to the extent that it is necessary in
1977 order to deliver broadband services to consumers. So when we
1978 look at the challenges of delivering service to, let us say
1979 the eastern shore of Maryland or western Maryland or
1980 Congressman Boucher's district or parts of West Virginia,
1981 various areas we serve, the bottom line is that sometimes the
1982 costs of providing the last mile in a community or area is
1983 much less than the ongoing costs of the 50 miles of transport
1984 you have to build. And so that is why when we looked at this
1985 issue, we said this is an area that needs to be addressed,
1986 hopefully that some of the stimulus money would go to
1987 building that middle mile, but in the interim it seemed to us
1988 that there was a need for some kind of program to address
1989 that issue and that is why we proposed establishing a

1990 separate fund in that area. In some cases the cost is almost
1991 \$100 a month that we have seen for just the transport piece
1992 per customer.

1993 Mr. {Stupak.} Well, you mentioned the economic recovery
1994 package, that that may be some source of it. Would it go for
1995 construction then, that money? Would you say that? Or are
1996 we talking about operations and maintenance? And since you
1997 are suggesting there be a temporary support, how long should
1998 it last?

1999 Mr. {Tauke.} We believe that the primary issue is an
2000 issue of construction or capital expenditure. Two things
2001 happen over time. One is that you get more broadband
2002 penetration so you have more customers using that middle
2003 mile, and once the middle mile is developed and the customers
2004 have access to broadband, they are buying more services so
2005 therefore the revenue per customer goes up. So the
2006 combination of more customers and more revenue per customer
2007 probably would allow for the operation and some maintenance
2008 costs of the last mile and the middle mile to be supported in
2009 most instances. But the upfront capital expenditure is big.

2010 Mr. {Stupak.} So how long it would last just depends on
2011 how long that middle mile got developed, how many users got
2012 in before you could--

2013 Mr. {Tauke.} We are working on it. Maybe I will have a

2014 better answer in weeks but right now I don't have a firm
2015 answer. Our sense is that, you know, it is something that
2016 should be looked at in 5 years. You could put it in place,
2017 have the FCC review it in 5 years, something like that, but I
2018 think that we just need to do more work and maybe we will
2019 come up with a better answer for you a few weeks down the
2020 road.

2021 Mr. {Stupak.} Thanks.

2022 Mr. {Boucher.} Thank you, Mr. Stupak.

2023 The gentleman from Oregon, Mr. Walden, is recognized for
2024 a total of 7 minutes.

2025 Mr. {Walden.} Thank you, Mr. Chairman. I appreciate
2026 it, and I appreciate all the testimony of the witnesses.

2027 Mr. Carlson, I want to especially draw some attention to
2028 you because I appreciate your company's willingness to come
2029 into the great metropolis of Fossil, Oregon, where there are
2030 208 households, 469 souls as of the 2000 census. I would
2031 like you to write down the words Ione, Oregon, population
2032 321, also seeking cellular coverage for the first time in its
2033 history, and then they are approaching you and all. But I
2034 throw that out there because I know USF played a key role in
2035 serving an area. Fossil, by the way, is the county seat of
2036 Wheeler County, and there were very serious, legitimate
2037 concerns the community had about having no cell service when

2038 it gets a lot of people floating in the nearby river and
2039 there are traffic accidents and things, so I do appreciate
2040 that. Can you speak, though, a bit about the High-Cost Fund
2041 and how the wireline, the wireless industries each get out of
2042 this--what they get out and how much customers pay into the
2043 fund. How do we make this work so we get wireless service
2044 out there? What works for you and what would be detrimental
2045 to getting that first and only service out there?

2046 Mr. {Carlson.} Well, I think that today it is important
2047 to remember that wireless today, wireless is receiving only
2048 about 25 percent of the total program funds as opposed to
2049 wireline, which receives about 75 percent, and, you know, I
2050 am not smart enough to know if that is the right balance or
2051 not but what I do know is that wireless more and more is
2052 becoming, you know, the dominant form of people
2053 communicating, certainly for voice services, and I think that
2054 the data services are growing rapidly with wireless. So I
2055 would hope that the committee in its judgment would consider
2056 to think about the future for technology and not be looking
2057 backward about where technology investments have been made
2058 but look at where the country needs to go, and I believe that
2059 when you think about that, wireless will play an ever-bigger
2060 role in bringing the best service, best quality service out
2061 to rural Americans.

2062 Mr. {Walden.} And I don't disagree with that. I think
2063 there are issues related to that compensation level and the
2064 costs, and I think that is something we are all going to
2065 struggle with, and I am not sure I agree with Mr. Wallsten
2066 about once it is built you can walk away from it, and maybe I
2067 am mischaracterizing your comments, sir, but I sense that
2068 once it is out there, then whoever is cheapest at providing
2069 the service should be the one that gets reimbursed or that is
2070 the reimbursement rate, and it strikes me that that means a
2071 cellular carrier who may have a lot cheaper ability to
2072 provide cellular service might set the rate and yet a lot of
2073 people may not have cell phones but have a line into their
2074 home, and if you are out in rural Wheeler County or Morrow
2075 County, it is going to be much more expensive to have that
2076 hard wireline, and I guess my question to you is, is that
2077 what you were saying in your testimony, that we find the
2078 cheapest reimbursement, the provider that can do it cheapest,
2079 and that would become the rate?

2080 Mr. {Wallsten.} Well, you have to first define what
2081 exactly it is that you want, and then you want to find the
2082 lowest cost method of reimbursing that, and if what you want
2083 is, well, in this case we are talking the fund currently
2084 focuses on voice service, then you do want the lowest cost
2085 mechanism of doing it and you don't want to continue

2086 supporting a very high-cost approach just because it has
2087 always been there.

2088 Mr. {Walden.} So I did understand you correctly then?

2089 Mr. {Wallsten.} If they can bid and can continue
2090 offering that service at a low cost, then that would be fine.

2091 Mr. {Walden.} Okay. I want to go next to our witness
2092 from Verizon. What are the pros and cons of using actual
2093 cost versus a reverse auction or competitive bidding to
2094 determining the distribution of those amounts, Mr. Tauke?

2095 Mr. {Tauke.} First, to be clear, we favor reverse
2096 auctions for mobile carriers, not for fixed carriers, because
2097 in fixed carriers we have generally only one in a community.
2098 We think customers want both mobile and fixed in a community,
2099 and we have a mechanism in place whether we like it or not
2100 that works for determining cost for fixed carriers. For
2101 wireless carriers, the problem is that first, unlike wireline
2102 where you have an access line that goes to the home, with
2103 wireless--and you can measure how long that is, what the cost
2104 of it is and so on. With wireless, you don't have anything
2105 like that. There has been no structure in place from an
2106 auditing perspective or accounting perspective, I should say,
2107 to keep track of all the costs and how you assign them to
2108 individual residences. You have a host of other issues such
2109 as how you value the spectrum and so on would go into

2110 determining cost, so I think what I would say to you is, if
2111 you want years of legal challenges, go to a cost-based system
2112 for wireless and you will be in court for a long time, but if
2113 you want a system that will work, go to a competitive bidding
2114 system.

2115 Mr. {Walden.} But what you are suggesting is a
2116 competitive system for each type of service delivery,
2117 competitive for line if there is more than one carrier, or
2118 how do you--

2119 Mr. {Tauke.} For the time being we would stick with the
2120 cost-based system for wireline; for wireless, use the
2121 competitive.

2122 Mr. {Walden.} The question I would have, if you can
2123 figure out the cost-based system for a wireline, are you
2124 suggesting that wireless can't figure out a cost-based system
2125 for delivering their service?

2126 Mr. {Tauke.} I am saying it is much harder for wireless
2127 because you don't have dedicated facilities. If you are
2128 talking about the donut, for example, and the area around it,
2129 you don't have dedicated facilities for the area around it so
2130 you can't figure out what the cost is for the area around it
2131 versus the area in the donut. Second point that I would make
2132 is that there has been a whole history of accounting systems
2133 set up to determine cost on the wireline side. We don't have

2134 anything like that on the wireless side. And so the
2135 challenge of putting a new system in place is very
2136 significant. So trying to come up with the cost will be
2137 tough, and as soon as you come up with a method, that is
2138 going to be challenged in court by the carriers.

2139 Mr. {Walden.} Mr. Davis, should a universal service
2140 broadband program operate in the same manner as voice
2141 telephone service program or should it be structured
2142 differently?

2143 Mr. {Davis.} I would structure the broadband system
2144 differently. I have learned from what we have done in the
2145 past. I would base the broadband grants on a bidding
2146 process. The low bidder for a particular geographic area
2147 would be the only carrier that would be subsidized. We would
2148 not subsidize mobile carriers and we would through the
2149 bidding process subsidize the low-cost carrier. The other
2150 thing I would do would make it a one-time grant, a grant
2151 necessary to build out the facilities at a certain service
2152 level and price but a one-time grant, not an ongoing subsidy.

2153 Mr. {Walden.} My time is going to run out. Mr. Lubin,
2154 and then I have just one comment I want to make.

2155 Mr. {Lubin.} I just want to make the following
2156 observation, given AT&T spending \$17 billion to \$18 billion
2157 in terms of its capital budget, roughly two-thirds of it

2158 going for broadband and wireless, and the bottom line is that
2159 even with that amount of expenditure, we are going to have to
2160 figure out if you want to see broadband and wireless in high-
2161 cost areas, there is going to have to be some way to address
2162 that, and so in the broadband world, what we highlight is a
2163 competitive bidding process, one-time dollars, and only one
2164 time, underserved areas and one party gets it.

2165 Mr. {Walden.} I thank you, and Mr. Chairman, I would
2166 just conclude by saying I would take disagreement with my
2167 ranking member's position that water and sewer shouldn't be
2168 included in the reimbursement mechanism because I actually
2169 favor flush toilets over the outhouse. Thank you, Mr.
2170 Chairman.

2171 Mr. {Boucher.} Thank you very much, Mr. Walden.

2172 The gentleman from New York, Mr. Weiner, is recognized
2173 for 2 minutes.

2174 Mr. {Weiner.} It is actually news to this member that
2175 you have indoor plumbing in your district.

2176 Mr. {Walden.} Actually we do have both.

2177 Mr. {Weiner.} Let me just say it strikes me, and to
2178 some degree this is an economic question for the citizens of
2179 my district. They are not underserved. They wind up,
2180 though, being donor citizens in this program. We want it to
2181 succeed. We want broadband access and we want telephone

2182 services available. But it does beg the question that the
2183 chairman mentioned in his line of questioning. It seems if
2184 you are running pipes, if you are trying to envision how we
2185 get information, how we get technology to these homes, that
2186 we should look at it in a holistic way, especially since you
2187 have this money in the stimulus bill and we have a focus on
2188 extending broadband. It seems that we make mistakes in this
2189 Congress when we try to envision technology as it is today
2190 and write legislation for it when in fact what we should be
2191 doing is trying to create as open enough of a process that
2192 new technologies can emerge.

2193 You know, I think that the argument for the reverse
2194 auction is pretty powerful and I frankly don't see why you
2195 couldn't transition the present formula for wireline service
2196 to reverse auction as well. I mean, the ideas being we are
2197 trying to incentivize reduced costs and people think more
2198 efficiently and evolving technologies that might be able to
2199 do these things at lower cost. Let us just talk about the
2200 wireless side since that is the side that Mr. Tauke said
2201 would be the best for the reverse auction. Let me hear
2202 someone, and you can decide, someone make the best argument
2203 against the reverse auction model. Yes, sir.

2204 Mr. {Carlson.} Well, I tried to make some of that
2205 position against the reverse auction in my opening comments

2206 when I said that if you create a single winner system, what
2207 you will have will be a single wireless provider, which means
2208 that that single wireless provider would only provide the
2209 services that it chose to provide to the people.

2210 Mr. {Weiner.} Why could you not have a reverse auction
2211 that the top two bidders win or why could you not have a
2212 rolling system whereby if someone during the--look, we did
2213 something similar at the advent of cable television in places
2214 like New York City where we said listen, it is difficult, it
2215 probably doesn't make a lot of sense to have three or four
2216 people digging trenches, so let us go ahead and give one the
2217 opportunity and then as a result you then agree if you do
2218 that, you are going to be subjected to a greater regulatory
2219 regime to make sure you provide quality service and the like.

2220 Mr. {Carlson.} Well, I think that, you know, it kind of
2221 takes you back, what are you trying to create as a nation and
2222 I think that the 1996 Act recognized that monopoly provision
2223 of services was not in the interest of the Nation in an era
2224 when technology was driving huge opportunities for
2225 innovation, and by opening up to innovation we would create
2226 an immense amount of national wealth.

2227 Mr. {Weiner.} If I can interrupt here, but I mean, you
2228 are creating a straw man, are you not? Isn't the problem
2229 that we are trying to find areas that have zero service that

2230 yes, one service is definitely less advantageous than three
2231 or four but that is a false choice in the cases of most of
2232 these communities like those in Mr. Walden's district, is it
2233 not? Aren't we trying to first and foremost get a player to
2234 come in? Isn't that the purpose of the Universal Service
2235 Fund in the first place?

2236 Mr. {Carlson.} Well, we totally agree with that, that
2237 the program needs to have more targeting so that we direct
2238 more of the funds toward those areas that Congressman Walden
2239 spoke about which have no service today or very, very poor
2240 service, but we believe that that can be done within the
2241 context of the 1996 Act where there is competition. What we
2242 need is giving direction to the FCC to target the funds
2243 toward those areas while preserving competition.

2244 Mr. {Weiner.} Right, but I think I see that. I guess
2245 the question that I am trying to get to here is, once you
2246 reach the point where you say all right, we want to target
2247 this community but we also want to do it in a way that we are
2248 incentivizing whoever comes in there to give us, meaning we,
2249 the taxpayer, the best possible deal to provide that service.
2250 It doesn't seem--I mean, I think we can almost stipulate to
2251 the idea that it doesn't seem we are getting the best
2252 possible value with the way this is structured presently. So
2253 if you have a model that incentivizes the players who are

2254 represented at that table and elsewhere to say you know what,
2255 I think I can go in there and provide this community service
2256 for an average whatever dollar per household and three other
2257 firms go in there and say I wonder if we can beat that, let
2258 us figure out how we can make it more efficient. We are
2259 operating now in an environment where we are trying to
2260 apportion scarce resources in a more efficient way, and I
2261 want to just caution you all, the challenge that you face is,
2262 you have lost confidence that this fund--people are
2263 wondering, and Mr. Barton is coming at it from one economic
2264 perspective, some of us come at it from a different one. If
2265 you don't figure out a way to start incentivizing the
2266 providers to do it in a more efficient way, we are going to
2267 lose complete confidence that this fund should exist at all,
2268 and I think one of the ways you do that is to say you know
2269 what, we are going to start making the marketplace work for
2270 us for a moment here, and I don't know if there is anyone
2271 else who wants to rise to the defense of the cost model here.

2272 Can I ask one other question then? You know, voice is a
2273 relatively tiny part of what the larger conversation about
2274 information is really about at this point. I mean, most of
2275 it is data, video and everything else. Why shouldn't we just
2276 take the stimulus money, take this money, put it into a big
2277 pot and say let us figure out using a model that works, it

2278 may be the reverse auction model or another one and say let
2279 us just see what technology, what people come to us and say
2280 you know what, we can provide the full panoply of services.
2281 Why are we saying that you know what, let us create a fund to
2282 get this little sliver of the service to these communities.
2283 I think that if we are going to do this for the amount of
2284 money that we are investing, let us figure out a way to do it
2285 right. Let us try to really figure out a way to grow the
2286 marketplace for the services that come along with broadband
2287 and everything else by putting everything in one basket and
2288 saying we are going to try to plow into these communities and
2289 give them the same opportunities that my constituents have.
2290 Why shouldn't we do that? Is that too ambitious? Yes, sir,
2291 American Telephone and Telegraph.

2292 Mr. {Lubin.} On one hand I would say what you are
2293 suggesting is a clever point, and the clever point is, let us
2294 see how much of the stimulus dollars get used in unserved
2295 areas, and so Chairman Boucher asked a question in the
2296 beginning, what is the linkage between the stimulus package
2297 and universal service. For me, the linkage is at some point
2298 however this \$7 billion gets disbursed over the 2-year
2299 period, hopefully that gets used to get more broadband
2300 deployed. When that happens, you are going to have less
2301 unserved areas. My only point here is that you have money.

2302 That money is going to be put out there relatively quickly.
2303 Find out, can it work, and it is a bidding process so it is a
2304 competitive bidding process. So you will see, you will have
2305 empirical information if it works. My guess, as you heard
2306 the other speaker say, \$7 billion is not enough. Maybe they
2307 are right, maybe they are wrong, but you will get empirical
2308 information once and for all. My own particular bias--and
2309 again, it is up to you. You are the policymakers that say if
2310 you want broadband and you are the policymaker that says do
2311 you want mobility, and if the answer is yes, then my
2312 particular belief is, you shouldn't be waiting, you should be
2313 figuring out how to create the sea change, figure it out in a
2314 way which is a coherent way, and if in fact this investment
2315 gets deployed and you have less unserved areas, that is a
2316 huge win and now you are going to have whatever remains and
2317 then you go from there.

2318 Mr. {Weiner.} Thank you, Mr. Chairman.

2319 Mr. {Boucher.} Thank you very much, Mr. Weiner.

2320 The gentleman from Nebraska, Mr. Terry, is recognized
2321 for 5 minutes.

2322 Mr. {Terry.} Thank you, Mr. Chairman, and I want to
2323 thank the panel. This has been a great discussion and very
2324 helpful, I think. Every one of you have done an excellent
2325 job. A couple of points that I want to make is, first of

2326 all, we talk about advance services, and frankly, advance
2327 services a year ago are mainstream services today. I walked
2328 into the Verizon store with my wife trying to get her phone
2329 fixed for about the sixth time, but we won't go into that,
2330 but I saw their new VOIP system for homes. Very cool, nice
2331 monitor and we can do video on it and the whole nine yards.
2332 And now that is being sold with all the regular phones, a
2333 little bit more expensive right now. But the point is that
2334 in today's society what is advanced a few months ago or a few
2335 years is mainstream today and we have to think of it that
2336 way. I am pleased that Mr. Barton wants to treat the snake
2337 differently, and that is exactly the conclusion I came to is,
2338 how do we get ubiquitous rollout of broadband. Two
2339 advantages that this bill brings is, number one, we use the
2340 same pot of dollars that already exists without creating one
2341 new dollar on the taxpayer to get ubiquitous rollout within
2342 our rural America. Number two in that is that by making it
2343 mandatory, what we do is say for the Mr. Gaileys and Mr.
2344 Hales that represent really the sparsest areas, they have
2345 risen up and they provided without the help of universal
2346 service but just other revenues, they have rolled out high-
2347 speed broadband to their customers but not every rural
2348 provider has and I am not sure every rural provider would
2349 unless that is a requirement to take, and so this is the way

2350 that we really ensure that all the universal service dollars
2351 provide that universal telecommunications services that is
2352 mainstream today. But my colleagues bring up a couple of
2353 decent points about that universal service should be used in
2354 an accountable way for the services of which it is intended,
2355 whatever that service may be as determined by this committee
2356 hopefully and not the FCC.

2357 So Mr. Gailey and Mr. Hale, I want to ask you this
2358 general question of how should we go about ensuring that
2359 these tax dollars are properly used, what systems would you
2360 suggest to us--and by the way, I want to use the phrase here,
2361 that the analogy with the donut, make sure that you people
2362 that are serving that donut and not the hole, that the dough
2363 must go to the donut, okay? So Mr. Gailey first.

2364 Mr. {Gailey.} Well, the first thing I would like to say
2365 is that annually my company provides a cost--which tells them
2366 what the costs are that we have incurred in a year. That is
2367 submitted to USAC and then 2 years after we incur those costs
2368 we receive recovery on those costs. Annually we also go
2369 through an accounting audit by an independent accountant so
2370 we do have oversight over, in my opinion, my company today.
2371 Now, some of the stuff that is in the report from OIG has
2372 been contradicted in this report from USAC and we all know
2373 that some of the things that have been reported could be

2374 interpreted in one or two ways. Now, my company will go
2375 through a USAC audit in May so I can better address if there
2376 is any refinement needed to be made to that type of audit
2377 system but we haven't opposed an audit system per se. We
2378 just want to know what the rules are before we go through it.

2379 Mr. {Hale.} We think that audits should be performed.
2380 The ways that they are being performed are the problems that
2381 we have the current system. In the past--I haven't been in
2382 the business as long as some of our other folks here but in
2383 the past there are cost models and those things have been
2384 looked at. It is just very difficult. At some point it
2385 always came to embedded costs because our membership, we are
2386 not alike. Sometimes someone looks at rural and says we are
2387 all rural but we are a very diverse membership that serves a
2388 lot of different geographic areas, so it is difficult, but I
2389 mean, we would be open to discussing those things, I think,
2390 but it is very difficult to do that with a model or that type
2391 of thing.

2392 Mr. {Terry.} My time is up but I will predict that will
2393 be one of the things that Rick and I work on for our last
2394 draft.

2395 Mr. {Boucher.} Thank you very much, Mr. Terry.

2396 The gentleman from Illinois, Mr. Rush, is recognized for
2397 7 minutes.

2398 Mr. {Rush.} Thank you, Mr. Chairman. First of all, Mr.
2399 Chairman, I want to just take a moment to welcome my friend
2400 from Chicago, Mr. Carlson, who is president of U.S. Cellular.
2401 We worked together on many issues and I am so glad to see you
2402 here as a part of this panel, and I want to extend a
2403 heartfelt welcome to you as well as to all the other
2404 panelists.

2405 Mr. Chairman, this panel and this hearing will not touch
2406 upon an area that I am intensely interested in, and that is
2407 the area of access to telephone services and the lessening of
2408 the burden that the cost of telephone services has been
2409 placed on low-income families, especially for those who are
2410 incarcerated. It is not the subject of this hearing, but Mr.
2411 Chairman, I do want us to at least take that up as a part of
2412 our future deliberations on the reforming of the Universal
2413 Service Fund. I do have a bill that I have introduced, H.R.
2414 1133, the Family Telephone Connection Protection Act, that
2415 would require the FCC to regulate the rates so that they are
2416 reasonable. There are a lot of families who now are
2417 immensely overburdened because of the high cost that the
2418 telephone companies are charging incarcerated prisoners and
2419 their families to communicate with them, and so that will be
2420 a part of the discussion that I want to engage in in the
2421 future. It is not the subject right here.

2422 Mr. {Boucher.} Would the gentleman yield to me for a
2423 moment?

2424 Mr. {Rush.} Yes, Mr. Chairman.

2425 Mr. {Boucher.} I thank the gentleman for yielding. I
2426 share the gentleman's concern, and this is a matter that I
2427 also would like to look at and I look forward to working with
2428 the gentleman as we try to find a constructive way to address
2429 it.

2430 Mr. {Rush.} Thank you, Mr. Chairman, and with that I
2431 also just want to say hello to my friend, Charlie Sullivan,
2432 over there who has been a proponent of this for the last few
2433 years, for a lot of years, really.

2434 Mr. Chairman, I do have a number of questions. First of
2435 all, I want to ask all the panel for the limited time that I
2436 have remaining, I want to ask the panel to answer this first
2437 question with either a response of yes or no. We can go down
2438 the line. The question, is broadband really a universal
2439 service? Is it so essential to everyday life like
2440 electricity was a century ago that we should ensure that all
2441 Americans have access to broadband? Either yes or no.

2442 Mr. {Davis.} Yes.

2443 Mr. {Lubin.} Yes.

2444 Mr. {Carlson.} Yes, and I would add, it should be also
2445 mobile broadband.

2446 Mr. {Gailey.} I agree, yes, it should be.

2447 Mr. {Turner.} Yes, absolutely.

2448 Mr. {Tauke.} Yes.

2449 Mr. {Gerke.} Yes.

2450 Mr. {Hale.} Yes.

2451 Mr. {Wallsten.} As the economist, I will say it
2452 depends. I think our resources are limited and I would much
2453 prefer to first see things like health care be available to
2454 everybody.

2455 Mr. {Rush.} All right. So after we get the health
2456 care, then we get the broadband. Is that what you are
2457 saying? All right.

2458 Section 254 of the 1996 Telecom Act states that
2459 universal service policies shall promote, one, the
2460 availability of quality services at just, reasonable and
2461 affordable rates, and two, access to advanced
2462 telecommunications and information services in all regions of
2463 the Nation. Mr. Turner and the rest of the panel, do you
2464 think our universal service policies have achieved these
2465 goals?

2466 Mr. {Turner.} Not directly, sir. The problem is, is
2467 that the FCC has not updated its definitions of what services
2468 are supported to include broadband. However, through the
2469 magic of accounting, lots of USF-supported carriers have

2470 actually used the money that they are getting to deploy
2471 broadband services so I think instead of doing this funny and
2472 tricky accounting we should just make it explicit and
2473 actually recognize that broadband is already being supported
2474 by the fund and let us make it explicit and let us cost it
2475 out and let us see what support would actually be needed to
2476 bring it into the areas that don't currently have it.

2477 Mr. {Rush.} Is there anybody else on the panel that
2478 wants to respond?

2479 Mr. {Hale.} I think we are still working on the goal.
2480 I think there is a misconception that when we draw money from
2481 the fund the networks are paid for. Most of our companies or
2482 a lot of our companies are financing these networks through
2483 RUS loans and the amount of USF money they receive is based
2484 on the depreciation of that plant 2 years prior. So we still
2485 have debt service to do on the networks that we built for
2486 universal service, so I still think it is work in progress.

2487 Mr. {Rush.} Mr. Gerke?

2488 Mr. {Gerke.} Yes, Congressman. I agree it is a work in
2489 progress. I do think we have shown that we can deliver
2490 universal voice and have done a good job on it. I think the
2491 targeting that is suggested in this bill to get the money
2492 where it needs to go is important. I am very encouraged by
2493 people understanding the connection to the carrier-of-last-

2494 resort obligation and making that part of the discussion.
2495 Broadband's inclusion I think is a big plus and can move us
2496 forward. I agree with those comments. And last, I would
2497 echo that we are out every day making investment in new
2498 plants based on an understanding of the USF support that is
2499 there. We have maintenance, we have enhancement, words that
2500 come from 254 that we have to live up to, and we have
2501 shareholders who are expecting that when we make those kind
2502 of investments in a stable enough environment that it is
2503 predictable for them. The lack of stability sometimes really
2504 creates a challenge for us to move forward. Thank you,
2505 Congressman.

2506 Mr. {Rush.} Does anybody else want to comment on this?

2507 Mr. {Carlson.} I know that many members here, you know,
2508 don't want to talk about expanding the program but there was
2509 one element of the program that was not properly implemented
2510 by the FCC, and that was when the cap was imposed there were
2511 a number of States, and I could list some of them that we are
2512 familiar with, North Carolina, Nebraska, Virginia, Tennessee,
2513 Michigan, Oregon and Washington and a smaller amount in
2514 Illinois, States that were unfairly treated in the way in
2515 which the cap was imposed, and fixing that would cost about
2516 \$350 million additional to the fund which would raise the
2517 contribution level from today 9-1/2 percent to 10 percent, a

2518 very modest increase which would make it fair across America.

2519 Mr. {Rush.} Mr. Chairman, I see my time is up but I

2520 want to thank you for this opportunity.

2521 Mr. {Boucher.} Thank you very much, Mr. Rush.

2522 The gentleman from Illinois, Mr. Shimkus, is recognized

2523 for 5 minutes.

2524 Mr. {Shimkus.} Thank you, Mr. Chairman. I was picking

2525 on you upstairs. You got the televised hearing. Climate

2526 change and the ending of the world did not, so kudos for you.

2527 Mr. {Boucher.} Thank you. We deserve a few pats on the

2528 back here today.

2529 Mr. {Shimkus.} You have more people at the panel by

2530 two. I have been bouncing back and forth. I apologize for

2531 that. I know the chairman would like to but he has to manage

2532 the chair here.

2533 Rural America, many of you know my district. We have

2534 benefited from USF. There are challenges. Let me just ask,

2535 as we look at USF funds to facilitate broadband deployment,

2536 does wireless broadband have a role, a practical application,

2537 and if we can just go quickly Mr. Davis through Mr. Wallsten.

2538 Mr. {Davis.} I think the broadband support should be

2539 technology-neutral, so I think that once we determine what

2540 the speed, the level of service and the price should be, it

2541 shouldn't depend--that any technology should be available.

2542 Mr. {Shimkus.} Thank you.

2543 Mr. {Lubin.} I also think it should be technology-
2544 neutral but I also think clearly the policymakers, namely
2545 yourselves, need to decide whether mobility, advanced
2546 mobility is important as well as fixed broadband, and if they
2547 are, then you need to figure out what is a rational plan for
2548 both.

2549 Mr. {Shimkus.} Because I have successfully tried to
2550 stay on the fence in this process so far so I am trying to
2551 figure it all out.

2552 Mr. Carlson?

2553 Mr. {Carlson.} Yes, I think both are important. I think
2554 the speed that is capable in a wired system is higher than it
2555 is in a mobile system so that target speed for mobility
2556 should be set a level that is different than the target speed
2557 for wireless.

2558 Mr. {Shimkus.} Mr. Gailey?

2559 Mr. {Gailey.} I would agree with Mr. Carlson that wired
2560 can provide bigger pipes to a residence. The mobile can
2561 provide a smaller pipe that you can carry with you to
2562 different locations.

2563 Mr. {Shimkus.} Keep going.

2564 Mr. {Turner.} I think they both have their utility.
2565 Wireless is definitely going to play a role in the areas that

2566 are most extremely high cost to service but wireless will
2567 always have the advantage of having more capacity and not
2568 being a shared medium. So I think we really need to look at
2569 that. I am not sure at this point that checking your
2570 Facebook while driving 70 miles down the road is an essential
2571 service that should be subsidized.

2572 Mr. {Shimkus.} You haven't talked to my son yet.

2573 Mr. {Tauke.} Just to be clear, I think it should be
2574 fixed versus mobile, and fixed should be reimbursed as it is
2575 today and generally we call that wireline but it also can be
2576 fixed wireless, and the other is mobile and I think Americans
2577 today see mobile as essential.

2578 Mr. {Shimkus.} Well, I think that is a good point
2579 because I tell you, in a rural community that has a couple
2580 hundred residents, wire, hooking it up versus have a tower
2581 that is fixed wireless is a different ballgame than checking
2582 your Facebook as you are driving down the road.

2583 Mr. Gerke.

2584 Mr. {Gerke.} Yes, I think it is real important as
2585 mentioned before to define exactly the criteria you are going
2586 after. I think generally the wireline plan is what is going
2587 to get you there and then making sure that that obligation is
2588 to serve the entire donut that you don't just serve part of
2589 it but you have that carrier-of-last-resort obligation to

2590 serve all of it.

2591 Mr. {Shimkus.} And being in rural America, there are
2592 problems with line of sight and terrain and stuff, and I
2593 understand that also.

2594 Mr. Hale?

2595 Mr. {Hale.} I believe it should be technology-neutral.
2596 I don't think we can imagine tomorrow's technology, what we
2597 are going to ask to use for broadband deployment. As long as
2598 the minimum speeds and those standards are high enough to
2599 support what we need for the future of the country,
2600 technology shouldn't play a role.

2601 Mr. {Shimkus.} Mr. Wallsten?

2602 Mr. {Wallsten.} I mean, once you decide what type of
2603 service it is that you want to guarantee, then it should be,
2604 as everyone has said, basically be technology-neutral. I
2605 think the key is to make sure that you don't define the
2606 service in a way that arbitrarily benefits one type of
2607 provider just in order to benefit that provider.

2608 Mr. {Shimkus.} Thank you. Two final questions just to
2609 one panelist, Mr. Chairman, if I may.

2610 Mr. Turner, Ranking Member Barton has a credible beef of
2611 some of the abuse of the USF and that is going to cause a lot
2612 of challenge for us in this committee. Have you identified
2613 in the way high-cost funding is currently distributed to

2614 wireline or wireless carriers or what excesses have you
2615 identified?

2616 Mr. {Turner.} Well, I think one of the most important
2617 things that hasn't come up in this hearing is, is a lot of
2618 these rural carriers are supported based on historical cost
2619 when the most efficient way of supporting them should be a
2620 forward-looking cost if we are going to use cost models. The
2621 often talked about \$970 million in overpayments identified by
2622 the FCC OIG, it is not that there was actually \$970 million
2623 in overpayments, it is that these companies didn't keep good
2624 historical records of their costs and the audit triggered
2625 that being an overpayment. I think going forward with
2626 forward-looking costs is the best way to go. It is
2627 economical. I certainly would like to be able to recover the
2628 historical cost for my house that I bought 2 years ago but
2629 unfortunately that is not what the market will bear today.

2630 Mr. {Gerke.} Congressman?

2631 Mr. {Boucher.} Mr. Gerke, go ahead.

2632 Mr. {Gerke.} I just want to make sure I get on the
2633 record, we absolutely encourage transparency and we are
2634 willing to make sure that we do whatever is necessary so that
2635 you can see that these dollars are spent exactly the way they
2636 should be. In 2008 we had seven audits. No material
2637 weakness, deficiencies. We weren't penalized, no consent

2638 agreements. There was \$92,000 more that should have been
2639 paid to us. There was \$18,000 more that we should have paid
2640 in, so net we were shorted \$74,000. We are not looking for
2641 that. But it shows up as a \$110,000 mistake the way it is
2642 counted, and so I don't know how much of those eight audits
2643 go into the 23 percent but I suspect whatever those dollars
2644 were, they actually were in our favor and the costs we incur,
2645 we want transparency, let us do it in a manner that doesn't
2646 drive costs that way, way exceed the numbers that we are
2647 talking about. Thank you very much.

2648 Mr. {Shimkus.} Thank you, Mr. Chairman. I would just
2649 end by saying, I wonder how much the actual audits cost.

2650 Mr. {Boucher.} Thank you very much, Mr. Shimkus, and I
2651 am glad you raised the question of the legitimacy of the
2652 audit itself because I think there are some substantial
2653 questions about the methodology that it used, and that is a
2654 matter into which we will inquire further at the proper time.

2655 The gentleman from North Carolina, Mr. Butterfield, is
2656 recognized for 5 minutes.

2657 Mr. {Butterfield.} Thank you, Mr. Chairman, for
2658 convening this very important hearing and I will try not to
2659 consume my entire 5 minutes. Like John Shimkus, I would like
2660 to apologize to you for being late for your hearing. We have
2661 been bouncing between two subcommittees both in this

2662 building, but thank you very much. I thank the witnesses for
2663 your testimony today.

2664 Mr. Chairman, I look forward to working with you as you
2665 chair this committee. You and I are friends and we have
2666 similar Congressional districts and I pledge to you my
2667 complete support as we go forward with this subcommittee.

2668 Mr. Chairman, according to a recent analysis from the
2669 2007 American Community Survey, my district in eastern North
2670 Carolina now has the fourth lowest median household income
2671 out of all 435 Congressional districts in the House. That
2672 figure along with the sprawling, very rural geographic
2673 characteristics of my Congressional district make issues like
2674 this very important to me. While there is no question that
2675 an escalating contribution factor is rightfully a concern for
2676 carriers and policymakers and certainly the FCC, I remain
2677 confident that a sensible resolution can be achieved that
2678 recognizes and upholds the universal service concept, makes
2679 advanced telecommunication service including broadband a part
2680 of the universal service scope and oppose those principles
2681 outlined in section 254, and so thank you very much for
2682 convening this hearing today. I thank the witnesses for
2683 coming including my good friend, Tom Gerke, who represents
2684 Embarq, who is a good corporate citizen in my district, and
2685 thank you for all that you do.

2686 I have one brief question and then I will close. Let me
2687 address this to my friend from Verizon, the former member of
2688 this body, Mr. Tauke. There have been proposals floated to
2689 allow the lifeline and linkup program to help lower-income
2690 people purchase computers so they can access the Internet.
2691 There were also proposals to allow the program to pay for
2692 broadband. Are these good ideas? Should the government be
2693 looking at other ways to increase computer ownership and
2694 subsidize monthly broadband access for low-income consumers?

2695 Mr. {Tauke.} First, on the issue of subsidizing
2696 broadband access for low-income consumers, we believe it is
2697 appropriate to look at the feasibility of having a lifeline-
2698 type program for broadband access. We don't have a specific
2699 proposal. I think there are issues that need to be addressed
2700 relating to it. But I think that it is something worth
2701 looking at and also that it should be done at the federal
2702 level since broadband services are federally regulated.

2703 On the issue of computers, I don't think we would look
2704 to use the Universal Service Fund to support computers
2705 because the Universal Service Fund is paid for, as Mr.
2706 Carlson noted, is really consumers' money that we collect and
2707 it is consumers of communication services, so while we would
2708 feel comfortable using that funding for communication
2709 services, I don't know that we would agree that it should be

2710 used for computers. However, if you ask my boss, the CEO of
2711 Verizon, what could we do to encourage broadband deployment,
2712 he would say the most important thing you can do is to
2713 increase demand and the most important way to increase demand
2714 is to get a computer in the hands of every kid in America.
2715 So I think we recognize that that is very valuable.

2716 Mr. {Butterfield.} Thank you. Would AT&T associate
2717 itself with those comments in substance?

2718 Mr. {Lubin.} Yes. In fact, AT&T has been looking and
2719 recently shared some thoughts in terms of how to potentially
2720 have a lifeline program on broadband and we would be glad to
2721 share that with you.

2722 Mr. {Butterfield.} Thank you very much.

2723 And speaking of association, Mr. Chairman, I also want
2724 to associate myself with the comments of Chairman Rush a few
2725 minutes ago about H.R. 1133. That is a very significant
2726 piece of legislation. Before I had a life in this body, I
2727 served as a judge and I received very heartbreaking letters
2728 from families about the expensive cost of long-distance phone
2729 calls for their loved ones in prison. It is an issue that we
2730 need to talk about and come to a sensible solution.

2731 I yield back.

2732 Mr. {Boucher.} Thank you very much, Mr. Butterfield,
2733 and I share the concerns you and Mr. Rush have expressed

2734 about that matter as well.

2735 I want to ask unanimous consent that there be included
2736 in the record a written statement from the Mercatus Center at
2737 George Mason University and a written statement of testimony
2738 from the American Homeowners Grassroots Alliance. Without
2739 objection, so ordered.

2740 [The information follows:]

2741 ***** COMMITTEE INSERT *****

|
2742 Mr. {Boucher.} The record of this hearing will remain
2743 open for a reasonable period until members can submit written
2744 questions to our panel of witnesses. When they are received
2745 by you, I hope you will respond promptly, and with the
2746 chair's thanks for what has been, I think an interesting and
2747 stimulating discussion today. We appreciate your being with
2748 us and sharing your very useful information.

2749 This hearing is adjourned.

2750 [Whereupon, at 12:35 p.m., the subcommittee was
2751 adjourned.]