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HEARING ON A DISCUSSION DRAFT OF THE  
UNIVERSAL SERVICE REFORM ACT OF 2009  
TUESDAY, NOVEMBER 17, 2009  
House of Representatives,  
Subcommittee on Communications, Technology,  
and the Internet,  
Committee on Energy and Commerce,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:39 a.m., in Room 2123, Rayburn House Office Building, Hon. Rick Boucher [chairman of the subcommittee] presiding.

Present: Representatives Boucher, Markey, Eshoo, Stupak, Doyle, Inslee, Butterfield, Matsui, Christensen, Castor, Space, McNerney, Welch, Dingell, Stearns, Shimkus, Blunt, Buyer, Walden, Terry, Blackburn, and Barton (ex officio).

Staff Present: Roger Sherman, Chief Counsel; Greg Guice, Counsel; Shawn Chang, Counsel; Amy Levine, Counsel; Pat Delgado, Waxman Chief of Staff; Phil Barnett, Staff Director; Bruce Wolpe, Senior Advisor; and Sarah Fisher, Special Assistant.

Mr. Boucher. The subcommittee will come to order.

Good morning to everyone, and thank you for your attendance today.

This morning, our hearing focuses on the Universal Service High-Cost Fund and the reforms to it that are proposed in a legislative discussion draft that is now before us.

Having affordable telephone rates for all Americans is essential to our national wellbeing. At a time when electronic commerce and communications are central to national economic performance, keeping all Americans connected should be a priority for rural and metropolitan residents alike.

While the universal service support is largely targeted to the rural areas where costs are high because of terrain, low-population density, and the long distances the communications lines have to traverse, the benefits of having everyone connected flow to urban and rural areas alike. And I hope that members will not lose sight of that reality as we consider the reforms that are needed to ensure the sustainability of the Universal Service Fund.

It is now under tremendous pressure, and a comprehensive reform is clearly called for, and I think it is urgently needed. New technologies and business models that make local and long-distance telephone traffic essentially indistinguishable are combining to diminish the long-distance revenues that are relied upon to support universal service.

Since the universal service long-distance surcharge is being imposed on a declining revenue base, the surcharge rates are rapidly raising. Today, the contribution rate is 12 percent of long-distance revenues. And, in January, that contribution rate is set to rise to a record-breaking 14.2 percent. And unless we enact comprehensive reforms, further escalation will continue after that.

This status quo is simply not acceptable and sustainable. New controls must be placed on costs so that the level of universal service support can be contained. The bill before us caps the High-Cost Fund. It requires competitive bidding for the provision of support to wireless carriers. It imposes rigorous auditing and reporting requirements on the carriers that receive support. We also expand the contribution base to intrastate services and to all entities that provide a connection to the network as a means of relieving pressure on the declining-revenue long-distance base. These changes on both the contribution and the expenditure sides should produce a sustainable Universal Service Fund.

The bipartisan discussion draft that we now have before us I circulated with our colleague from Nebraska, Mr. Terry. And it results from almost 4 years of consultations that Mr. Terry and I have undertaken with literally dozens of stakeholders having competing interests with respect to universal service. We have sought and now we have achieved a consensus among these parties

that have competing views with regard to universal service.

Our draft bridges the divide on universal service issues between large carriers, such as Verizon and AT&T, that are net contributors into the Universal Service Fund and the smaller rural carriers that are net recipients of universal service funding. As we will hear from our witnesses this morning, stakeholders on both sides of this classic divide are now united in their support for the bill before us.

The draft makes a broad range of other changes, such as qualifying broadband as an eligible subject for universal service expenditures for the first time. Other elements in our measure include a better targeting of support to high-cost areas by switching from statewide to wire center averaging; fixing the phantom traffic problem by requiring carriers to pass through call identifying information; eliminating traffic pumping, which has become a major problem of late, by prohibiting carriers from sharing access charges with third parties that offer free or reduced-cost services; making rural exchanges more marketable for telephone companies that desire to sell them by eliminating the parent trap; and making permanent the Antideficiency Act exemption for universal service so that annual waivers are not required on appropriations bills on an ongoing basis.

We welcome this morning the views of our witnesses and members of the subcommittee as we seek to broaden the consensus on the reforms that are needed in order to make sustainable the

Universal Service Fund.

That completes my opening statement, And I am pleased to recognize at this time for 2 minutes the gentleman from Nebraska, Mr. Terry, for his opening statement.

I might just note, if you will excuse me for a moment, Mr. Terry, for the benefit of our witnesses that our Republican colleagues are having a conference at the moment, and that is urgent business for them, I am sure. And that accounts for the fact that on our side of the aisle we are somewhat better represented here than on the Republican side. But they are embarked, I am sure, on a good mission.

Mr. Terry is recognized for 2 minutes.

Mr. Terry. Thank you, Mr. Chairman, for everything.

Reform of the Universal Service Fund has been a long time coming, and, under your leadership and dedication to this issue, I am confident that meaningful reform is within the consumers' reach.

Over 4 years ago, when we set out to introduce the first comprehensive universal service reform bill since 1996, we agreed that the principles and goals of universal service are still as relevant today as they were in the 1930s. However, the USF has failed to keep up with the changing telecommunications landscape, and today's draft legislation is needed more than any time before.

Our draft legislation improves many of the existing USF mechanisms. Specifically, we target USF support to high-cost

areas to ensure that USF is meeting its goal of making telecommunication services available to all rural high-cost consumers. The targeting provision is especially important to address the equity issue of ensuring that all customers living in rural America receive the benefits of USF regardless of the carrier that serves them.

The draft legislation also makes broadband a supported service. Including broadband as a supported service is commonsense and brings the fund into the 21st century. For those that fear adding broadband as a support service will subsidize competition, I would like to highlight that the targeting provision in our legislation will move support outside the town centers into the high-cost areas where support is needed the most.

And, finally, I would like to highlight that the draft legislation addresses important issues of cost, accountability, and fairness. The draft legislation broadens the base of contributors while placing a cap on the overall High-Cost Fund. I recognize that the cap has caused some heartburn with some of our witnesses and appreciate your support throughout the process. As the process moves forward, it is my hope that we can continue to work together.

I yield back.

Mr. Boucher. Thank you, Mr. Terry.

The chairman emeritus of the full Energy and Commerce Committee, the gentleman from Michigan, Mr. Dingell, is recognized

for 5 minutes.

Mr. Dingell. Mr. Chairman, I thank you. I commend you for holding today's hearing -- it is important -- and also for you and Mr. Terry in your fine work on the discussion draft of the Universal Service Reform Act of 2009. This is an important piece of legislation.

Due to the explosive growth in the use of Internet and wireless services for communications, the revenues of telecommunications subject to universal service fees have declined, thus leading to increased fees on consumers to allow companies to meet their required universal service contributions.

Lamentably, the Universal Service Fund has not been modified to reflect this market dynamic. And, further, by reason of this inaction, the fund has within denied the necessary streams of revenue that could be derived from assessments on nontraditional communication providers, such as Voice over Internet Protocol, VoIP, which are now competitive players in the telecommunications industry.

Consequently, now, more than ever, it is incumbent on the Congress to make the necessary changes to the Universal Service Fund's structure so as to preserve as well as to modernize its ability to facilitate the provision for high-quality telecommunication services at affordable rates to all Americans regardless of geography or income.

As I have pointed out in the past, I believe that three

principles should guide our efforts in this matter. First, all providers of telecommunications should contribute equitably to support universal service. Second, all communications, and not simply interstate and foreign communications, should be subject to assessments to support universal service. Finally, we should not play favorites with new communications technologies when it comes to Universal Service Fund contribution requirements. This would have the undesirable effect of shortchanging the fund, to which I have just alluded, as well as picking winners and losers in the marketplace. Indeed, it would constitute an exercise in unfairness.

I am pleased that your draft, the Boucher-Terry draft legislation, incorporates these principles. Moreover, in keeping with Chairman Waxman's and my belief that reform in this area should be forward-looking, the draft bill recognizes broadband as a universal service and makes provisions to support the expansion of its infrastructure. In brief, this legislation is a much-needed step in the right direction for universal service reform, and I am proud to extend my support for it.

Mr. Chairman, I thank you for your courtesy, and I commend you for the congenial, bipartisan process that has produced this bill pending before the committee's consideration today. This matter of collaboration has always been a hallmark of this committee's finest work, and I look forward to further improvement to this legislation under your auspices and under these

principles.

Thank you, Mr. Chairman, and I yield back the balance of my time.

Mr. Boucher. Thank you very much, Chairman Dingell.

The gentleman from Florida, Mr. Stearns, the ranking Republican member of our subcommittee, is recognized for 5 minutes.

Mr. Stearns. Good morning. And thank you, Mr. Chairman. This is a very important hearing. It is nice to see a lot of folks here, a very distinguished group of witnesses here.

I am encouraged that your view towards reforming the broken Universal Service Fund is a high priority. There are many different ideas on how to best achieve this, as we can see from the number of witnesses we have today, so I look forward to their testimony.

The Universal Service Fund needs to be reformed, and quickly, if possible. We can all, perhaps, agree on that one point. The system is fraught with waste, fraud, and abuse. A major overhaul is necessary. So the question before us is, what are the appropriate goals of the program and, obviously, how do we best achieve that?

The 1996 Telecom Act codified universal service, but the concept goes back decades earlier to a time when there was only one phone company. Now the landscape looks a whole lot different, yet the fund is still administered by outdated rules.

Among the impacts of the growth of the Universal Service Fund have been the growing universal service fees. This contribution factor is a percentage of interstate end-user revenue that telecom companies must pay and changes quarterly, depending upon the needs of the program. Now, in the second quarter of 2000, the fee was 5.7 percent. It has since grown to 12.3 percent. That means that consumers are paying fees in excess of 12 percent of their monthly phone bills. And that fee is expected to go up to 14 percent next year.

Accordingly, there is a need to reform the program away from subsidies that may no longer be necessary as technology and services improve and, of course, become more widespread. Instead, we need to move towards a solution that ensures the goals of universal services but minimizes consumer cost. Throwing additional money at this crumbling program makes little sense at this time.

The purpose of this hearing is to examine the discussion draft of the Universal Service Reform Act of 2009. This draft takes several positive steps towards reform, but it also contains some questionable direction. In particular, it is not clear that this draft restrains costs in any real significant way. In fact, the size of the fund, perhaps, will ultimately increase.

More can and should be done to rein in costs and to improve transparency. First, we need to impose a firm cap to prevent uncontrolled growth in the fund. While this draft bill would cap

the high-cost portion of the fund, the cap is subject to several significant exceptions that would grow the fund, in my opinion.

These exceptions include: an annual growth factor; changes to increase support for certain nonrural carriers and carriers that buy other local carriers; and an upward adjustment if the FCC adopts an alternative recovery mechanism for intercarrier compensation revenues that increases demand for Universal Service Fund support.

So, it is not clear how much these exceptions would cost the fund and consumers. The FCC and other sources have given us, recently, an estimate that the changes to nonrural support alone range from an increase of \$200 million to \$700 million. This is only if no additional carriers request this type of support and if the support is for voice service, not broadband service.

In addition, reforming intercarrier compensation, as this draft would require, could cost upwards of \$1 billion. While some of that increase would be offset, I understand, by reductions in other charges, some customers are likely to see their overall phone bills obviously go up.

I think we ought to know the price tag before we start handing out subsidies. So I question the reform that is proposed, and I am hoping that we can find out from our witnesses today how this would work.

Moreover, we need to institute competitive bidding procedures that apply to all carriers. This type of process will help ensure

that we are getting the most out of the subsidies. Otherwise, we will continue to see an inefficient use of consumers' money.

We also need to target the money to the places and the people who obviously really need it. Cable companies, for example, suggest that we eliminate subsidies anywhere there is an unsubsidized wireline provider. It certainly seems to make good sense that we eliminate subsidies where the market has demonstrated clearly service can be offered without subsidies.

So, again, thank you, Mr. Chairman, for holding this hearing. It is important to examine the goals, and I look forward to hearing from our witnesses.

Mr. Boucher. Thank you, Mr. Stearns.

The gentleman from Massachusetts, Mr. Markey, is recognized for 2 minutes.

Mr. Markey. Thank you, Mr. Chairman.

It is long overdue that we fix the bloated system that likely overpays eligible telecommunications carriers more than what is warranted. When approaching reform proposals, I believe that we should harness advances in technologies and insist on administrative efficiencies to first drive down costs and create savings wherever and whenever possible. And, second, we must also shift over time to more rational, stable sources of funding while embracing broadband as a supported service.

Broadband will be indispensable in the 21st century. It will provide our ability to be able to manage energy-efficiency

technologies, lower health-care costs, along with other social and economic benefits. And that is why I successfully amended the American Recovery and Reinvestment Act in February and required the FCC to develop a national broadband plan for the country that is due next February.

While the U.S. lags behind other countries in the world in several key broadband metrics, there is one area where the United States leads the world: connections to classrooms. Why? Well, because in the 1996 Telecom Act we had a plan. As the primary House author of the E-Rate program in that landmark bill, I have seen firsthand what we can do when we actually have a plan. And the 90-percent-plus of classrooms today connected to the Internet is testimony to a forward-leading approach.

With the national telecommunications broadband plan, the Federal Communications Commission has a chance to give the country a blueprint for our broadband future. I urge the Commission to give a plan to us that is practical but consistent with our history of tackling the big infrastructure challenges with big ideas and a commitment to action.

Without question, any national broadband plan focused on deployment to all Americans and on addressing affordability must include universal service and related issues of intercarrier compensation as a key ingredient. I congratulate Chairman Boucher and Mr. Terry for their work on this issue.

And I yield back the balance of my time.

Mr. Boucher. Thank you very much, Mr. Markey.

The gentleman from Illinois, Mr. Shimkus, is recognized for 2 minutes.

Mr. Shimkus. Thank you, Mr. Chairman.

It is good to see so many friends here. And I applaud you and Lee for your bulldogged approach to this.

The Universal Service Fund should always be about the customers, not the companies. And I focus on bringing broadband to the rural areas, and I think there has been a lot of support for that. I agree, we need to target waste, fraud, and abuse. And we need to legislate, and we do not need the FCC to regulate on this.

On a side note, I don't want to throw a wrench in this whole debate, but, as we focus on pushing out, I hope, broadband connectivity to places that don't have it, or high-speed, this Net neutrality debate could come in here because it could change the business plan. And so, it is not explicitly written in this bill, but it is of concern that if we cannot make a decision on issues like telemedicine, then you have another problem with the whole Net neutrality debate.

And I yield back my time.

Mr. Boucher. Thank you very much, Mr. Shimkus.

The gentlelady from California, Ms. Eshoo, is recognized for 2 minutes.

Ms. Eshoo. Thank you, Mr. Chairman, for holding this hearing

and providing us with your discussion draft of the Universal Service Reform Act of 2009.

The draft is a springboard for a healthy discourse on the next step for the fund. And we have held more than a few hearings on this subject, and I think that it is time to develop a workable piece of legislation.

I welcome all the witnesses and, certainly, Mr. Rosston, who is a constituent and a good friend. It is wonderful to see you here.

There are myriad range of problems with the Universal Service Fund based, in part, on changes in the telecommunications industry. In 1996 -- which is only 13 years ago in regular years, but in telecommunications years it might as well be a century. During that time, we have seen a virtual explosion of new services and products.

The current system reflects the mid-20th century's telecommunications economy, when long-distance calls were defined as distinct from local calls and classified as a more expensive service. This is the age of broadband and mobile telephony, and national and international packages have made this system a relic fit for the national history museum.

The program as it now stands is inefficient and fragmented, with episodes of corruption. But we know that the fund would cost too much even if its administrative problems are solved because the ways it collects revenue and compensates vendors doesn't make

sense anymore.

We heard arguments at our last hearing about the need for change and whether that change should come in the form of a reverse auction or request for proposals when picking recipients. We heard ideas about how to fix intercarrier compensation and the identical support rule. A discussion draft should take us to the next level, to concrete solutions. I think it is time to integrate broadband into the fund base for contribution purposes, and I am pleased that the draft bill does so.

But I am concerned about issues related to minimum speed and broadband rollout. I signed on to Congresswoman Matsui's bill because I want to discuss the next steps for utilizing the fund to support broadband access. Unfortunately, the bill before us does not address the Low-Income Lifeline Program that would support universal broadband deployment under Ms. Matsui's bill. So I am interested in alternative methods that you would have for addressing this issue.

It also does not discuss the Schools and Libraries Program. That leaves a lot out of the equation. Schools and libraries are our anchor institutions, and I have voiced my concern for funding their broadband access. And the last mile of broadband needs to go to urban as well as rural areas quickly, both in terms of time and speed.

So I look forward to working on the bill, Mr. Chairman, with you and Mr. Terry, on developing this important piece of

legislation that, I believe, needs to be comprehensive and holistic in its approach.

And I yield back.

Mr. Boucher. Thank you very much, Ms. Eshoo.

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

Mr. Barton. Thank you, Mr. Chairman.

I want to thank all of our witnesses.

I think we need a few more, Mr. Chairman. I don't think you have quite covered the total spectrum. My next-door neighbor wasn't invited, and we need to get them out here.

I am going to submit my opening statement for the record.

To put it in terms that average people understand, I like the bill. I am ready to take you to the prom, but I am not ready to marry you. You know? There is still work that needs to be done, cosmetic touchups, you know, a little better attitude maybe. But you are on the right track, Mr. Chairman.

It is obvious that the fund is broken. I mean, you know, more people have cell phones than have hardline phones. The United States is the most wired country in the world. Those of us that have all the ideocentric laws that we have to deal with have two BlackBerrys, three cell phones, plus all the hardline phones.

At my condo here in Washington, in Virginia, I basically just have a phone there to have a phone in case there is some emergency or something. My USF fee is probably 20 to 30 percent of my bill

because I pay the absolute minimum each month. I just think that is not appropriate.

You and Mr. Terry's bill, which you have worked with me on and Mr. Terry has worked with me on, I really, really want to support. But it does concern me that, under this bill, the size of the fund could actually increase and not decrease. I think we need a firm cap. Obviously, that is something that we need to work on or discuss.

There are some things that we could do that are not in the bill to make it more competitive in the service fund. I think it is ridiculous that some areas have 30 different phone companies that get subsidies. I don't buy that. I can buy two, maybe, or three for competitive purposes, but 30? I just think that is wrong.

And while you and I have discussed this at some length, having a mandate is a difficult concept for somebody like me to swallow for broadband. I am not saying it is -- it may not be appropriate, but it is something that I have to think about.

So, overall, great prom date, marriage proposal possible.

And, with that, I yield back, Mr. Chairman.

[The prepared statement of Mr. Barton follows:]

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Mr. Boucher. Well, thank you very much, Mr. Barton. Given the distance that we have traveled, a prom date is good enough for today, and I am happy to get the invitation.

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

Mr. Doyle. Thank you, Mr. Chairman. I am still trying to get that image of Mr. Barton taking you out to the prom out of my head.

Mr. Barton. That is just metaphysical. It is not literal.

Mr. Doyle. Even that is scary.

Thank you, Mr. Chairman, for holding this hearing. I am pleased that you are holding a hearing on your bill to reform the Universal Service Fund.

I think we have to rethink what "universal service" means and how the Universal Service Fund implements these goals. I have said many, many times that we need an overhaul for the broadband age, a "Universal 2.0." "Universal Service 2.0" shouldn't build on the current structure just because it is what we have. That structure should undergo a thorough review to make sure that every dollar spent is a dollar that the private sector isn't competing against and that every dollar spent enables low-income consumers to choose the communication services they need.

I think the bill takes a number of steps in the right direction, but I have some concerns that I believe have to be

addressed before I can support it. Today, my constituents pay a lot of money into that fund, and I want to make sure that the fund just doesn't take from those in urban areas just to hand it over to rural areas who are capable of paying for themselves.

I think that Ms. Matsui's bill that allows for low-income Americans to qualify for a broadband lifeline subsidy is a good start, and I intend to add my name as a cosponsor.

However, although it is critically important in many cases, monthly price isn't always the biggest reason that people aren't online at home. There is the other program, Link-Up, that needs to be addressed also in "Universal Service 2.0," because there are other barriers, like access to a computer or even a lack of understanding the benefits of broadband.

Some people suggest that we shouldn't be subsidize telephone service for upper-income communities in areas like Aspen, Colorado. Perhaps we need to consider legislation that will move the Universal Service Fund to a voucher system for low-income consumers that will allow them to communicate in the ways that they want to. I am interested in learning if that is a viable solution to meet the goals of "Universal Service 2.0."

I look forward to hearing from our panelists today, and I look forward to asking some questions, Mr. Chairman. Thank you.

Mr. Boucher. Thank you very much. I appreciate your comments this morning.

The gentlelady from Tennessee, Mrs. Blackburn, is recognized

for 2 minutes.

Mrs. Blackburn. Thank you, Mr. Chairman. I do thank you for the hearing. I know that you and Mr. Terry are hard at work on this issue.

And I want to say welcome to all of our visitors here today. It looks like, with the large number of you, we are going to be spending the day together talking about this issue. But I am glad that you are here.

And I hope that, as we go through this hearing today, that we are going to touch on a number of issues that really need to be addressed: the intercarrier compensation, competitive bidding, caps on the USF distribution, the reverse auctioning, cost of this to the consumer. Several of us have mentioned these, and, as you know, they are of concern to us.

I am concerned that the legislation in its current form is -- we are not really addressing hitting the problems that we are hearing from our constituents. We are just not hitting them head-on. And I think the American people have grown ill and fatigued of lots of talk. They want to see some action on some issues.

I am hearing from some of my constituents who would be affected by this, why is it not going to dramatically increase access or improve access? Exactly what is going to happen with the broadband plan and expansion; how are you going to handle that?

Mr. Shimkus mentioned Net neutrality. I term it "fairness doctrine for the Internet." Indeed, there is concern about complications and how that would be handled.

People are concerned that we put taxes on the books and then we don't take taxes off the books, but we cannot always define what is a better use or a fair distribution for those taxes.

So there is plenty for us to look at and talk about. And I do hope we are going to have some good common sense coming from all of you.

I want to say a special welcome, Mr. Chairman, if I may, to Mr. Greer, who is from Tennessee and is someone that I enjoy my conversations with when we talk about how this affects our rural areas and as we look at the telecommunications issues in the rural areas.

I also want to say a special welcome to Mr. Graham, who graduated from Mississippi State University and, like me, a fellow bulldog. Looking at you, I can tell you were there much later in life than was I and that you probably graduated many years after I had left. But welcome. We are glad you are here.

I yield back.

Mr. Boucher. Thank you, Mrs. Blackburn.

The gentlelady from California, Ms. Matsui, is recognized for 2 minutes.

Ms. Matsui. Thank you, Mr. Chairman. And thank you very much for holding this hearing today on reforming the Universal

Service Fund. I would also like to commend your efforts to expand broadband access to more Americans in your draft USF reform legislation.

And I would like to thank the witnesses for joining us today.

I would also like to thank Ms. Eshoo and Mr. Doyle for their supportive comments on my Broadband Affordability Act.

In today's economy, the Internet has become a necessity, not a luxury. Americans need it to obtain emergency information for educational purposes, to find low-cost health-care options, and to seek employment assistance. In fact, about 75 percent of all large U.S. employers now require applicants to apply online, creating a significant disadvantage for those without broadband.

We need to not only expand broadband access but also to address the fact that millions of Americans simply cannot afford to pay up to \$60 a month for broadband. A recent ITIF study found that 96 percent of Americans have access to broadband services, while less than 65 percent actually subscribe.

Other current prominent studies by the Pew Institute and PPIC have strongly suggested that broadband adoption rates are largely associated with income. Lower-income families in urban and rural areas are severely disadvantaged in large part by the lack of access to affordable broadband services.

To help close the digital divide, I have introduced the "Broadband Affordability Act," which would direct the FCC to create a program for universal broadband adoption similar to the

current USF Lifeline assistance program. The bill will ensure that lower-income Americans living in urban and suburban and rural areas all have access to affordable broadband services. In doing so, households who currently possess broadband options but have not subscribed because of cost would no longer be unserved or underserved.

It is my hope that any USF reform legislation helps bridge this Nation's digital divide by addressing affordability barriers.

I look forward to working with Mr. Chairman and Mr. Terry and all my colleagues, looking forward. And I yield back the balance of my time.

Mr. Boucher. Thank you very much, Ms. Matsui.

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

Mr. Walden. Thank you very much, Mr. Chairman.

The topic of today's hearing, Universal Service Fund reform, is one that it appears everyone has something to say about, judging by the panel of 10 witnesses. And we welcome you all. This is a complex matter, So I appreciate your assembling such a thorough complement of witnesses, Mr. Chairman. This should be most helpful.

It isn't often that there are two Oregonians in the room for one of our subcommittee hearings, but today is one of those times. And I welcome my friend, Ray Baum, who is commissioner with the Oregon Public Utility Commission and chair of the National

Association of Regulatory Utility Commissioners' Committee on Telecommunications.

Wearing both these hats and as the State chair of the FCC's Joint Board on Universal Service, Ray will share his insight with us on USF reform. And I appreciate his testimony, which I read through last night.

During my years as a State legislator, I worked alongside Ray, and I found his perspective to be both thoughtful and comprehensive. And I am pleased that he is here to help this subcommittee in its efforts to reform the USF.

Congress continues to discuss the issue of ubiquitous broadband deployment and how best to achieve it. The FCC, USDA, and Commerce Department are engaged in this topic, as well. With the Nation's unemployment rate at a 26-year high, Oregon's unemployment rate at 11.3 percent, and some counties in my district pushing 20 percent, the economic development potential that broadband service provides cannot come fast enough.

I am interested to learn more about the implications, however, of using USF to support broadband service. I would like to hear from our witnesses about how this would functionally work in a district as rural as mine that has several counties with population densities less than one person per square mile. If you overlaid my district over the East Coast, it would start at the Atlantic and end in Ohio.

I realize that none of our witnesses here today can speak to

specific problems within, for example, the USF Schools and Libraries Program. However, I would like the hearing record to reflect that we should address the challenges that applicants face in navigating this very complex program. My office has been working with the Baker County, Oregon, library district for a year and a half on delays it has experienced with receiving E-Rate funds. If it is the intent of the USF program to support schools and libraries through the E-Rate program, then let's make sure it functions properly and remove roadblocks which cause applicants to give up completely on that program.

So I welcome the witnesses here today, and I yield back my time.

Mr. Boucher. Thank you very much, Mr. Walden.

The gentlelady from the Virgin Islands, Mrs. Christensen, is recognized for 2 minutes.

Mrs. Christensen. Thank you, Chairman Boucher. And thank you and Ranking Member Stearns for holding this hearing to receive testimony on the draft of the Universal Service Fund act.

I also want to commend you, Mr. Chairman and Congressman Terry, for your work in drafting the bill and your long-term legislative efforts to try to keep the Universal Service Fund program in sync with a rapidly changing technology landscape.

I am pleased that today we will have an opportunity to have a meaningful discussion of the issues that are important to reforming the USF, including the overall budget for the High-Cost

Fund, new contribution methodology, and expanding the USF support broadband adoption, among others.

I think everyone is in agreement on the need for reform but also on preserving the intent codified in the 1996 act, which is to provide affordable telecommunication services across the United States.

As a representative of a district that is a high-cost, insular area which reportedly received an estimated \$22.5 million in high-cost support in 2007, we have benefited from the program. However, in some areas, like the Virgin Islands, funding has been declining for wireline carriers, which represents a serious threat to the need for increased investment in the telecommunications infrastructure in rural areas. It is important that places like the Virgin Islands, rural areas with minimal-level competition and a small market, that they are not left out or left behind or underserved by this critical industry.

So I look forward to our discussion today on challenges to reforming and taking the USF into the 21st century. And I want to welcome the panelists, and look forward to the testimony and their views on the bill.

Thank you.

Mr. Boucher. Thank you very much, Mrs. Christensen.

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

Mr. Blunt. Thank you, Mr. Chairman.

I have a statement for the record. Let me just quickly summarize that statement, which is really: How do we bring down the rapidly growing cost to customers, to consumers here? The whole topic of unserved versus underserved is of concern to me. And how do we control the cost of the program? And is the definition of "underserved" and "served" part of that?

And I will submit my full statement for the record, Mr. Chairman. And thank you.

[The prepared statement of Mr. Blunt follows:]

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Mr. Boucher. Thank you very much, Mr. Blunt.

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

Ms. Castor. Good morning. Thank you, Mr. Chairman, for holding this important hearing and for the progress that you and Representative Terry have made in beginning to craft a bill.

My State of Florida has a particular interest in universal service reform because, out of all the States in the Union, Florida is the single largest contributor to the fund. In 2007, Florida consumers made a net contribution of \$297 million to the Universal Service Fund. Floridians paid in about \$480 million and received \$180 million of that back in support, largely, for schools and libraries.

The overriding goal of the USF is laudable, but it is unclear that the draft adequately addresses inequities in distribution or modernizes the USF with concepts like those contained in Congresswoman Matsui's bill relating to broadband and low-income consumers.

Florida's disproportionate contribution has only been exacerbated by the out-of-control growth in the High-Cost Fund. So I am pleased that the discussion draft contains a cap on the High-Cost Fund and other measures to hold down the growth in the fund.

I am interested in the witnesses' opinions regarding the

auction mechanisms and whether such auctions will be effective in reducing the growth in wasteful and duplicative spending that has been driven by the identical support rule.

And, Mr. Chairman, prior to markup, it would be helpful to see an analysis, monetarily, of the effect of these changes. Several of the changes proposed in this bill have the potential to further grow the fund. And, while I understand the importance of some of these changes, I do not believe we should expand the fund except in the context of a solution to the inequities in the contribution and distribution methodologies that exists today.

Thank you, and I look forward to the testimony of the panel.

Mr. Boucher. Thank you very much, Ms. Castor.

Is Mr. Buyer here? No, he has not arrived.

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

Mr. Stupak. Mr. Chairman, I will waive and ask for an extra 2 minutes for questions.

Mr. Boucher. Thank you, Mr. Stupak. Two minutes will be added to your questioning time.

The gentleman from Ohio, Mr. Space, is recognized for 2 minutes.

Mr. Space. Thank you, Chairman Boucher and Ranking Member Stearns, for convening today's hearing.

I would also like to thank our witnesses for taking their time to be here today, as well.

Mr. Chairman, I applaud your efforts, along with those of Mr. Terry, to reform the Universal Service Fund through the draft legislation that we are considering today. As I have shared many times before, the 18th Congressional District is largely rural. Fourteen of my 16 counties are within Appalachian proper. And, that said, we are the poster child for the Universal Service Fund support.

Many of our towns are small, insular, and expensive for providers to serve, and much of my district, consequently, lacks access to broadband. And as my colleague from Oregon stated, this has an extremely significant effect on our economic development and the potential afforded by the advent of new and diverse technology.

It also has an extremely detrimental effect on our ability to deliver health care and education. What we are seeing now is really the beginning of the integration of technology into those processes, and we can no longer afford to remain so far behind in such a vital area.

I am extremely pleased to see that Chairman Boucher and Congressman Terry's draft bill explicitly authorizes the coverage of broadband under the Universal High-Cost Fund. I believe that, coupled with the investment we have made through the American Recovery and Reinvestment Act, we are on the path to ensuring that Americans everywhere, regardless of how rural their hometown is, may have equitable access to vital infrastructure.

I further support the efforts of my colleagues to restore some accountability and cost containment to the Universal Service Fund through sensible auditing and oversight provisions and through capping the fund with built-in accommodations for future changes.

I look forward to continuing to work on Universal Service Fund reform with my colleagues on this committee. And I think we all agree that such reform is long past overdue and that rural areas of our country have, in the meantime, gone shortchanged.

Thank you, and I yield back.

Mr. Boucher. Thank you, Mr. Space.

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

Mr. Welch. Thank you. I am going to reserve my time.

Mr. Boucher. That is fine. Thank you, Mr. Welch.

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

Mr. McNerney. Thank you, Mr. Chairman. I will waive my opening statement.

Mr. Boucher. Thank you, Mr. McNerney.

The gentleman from North Carolina, Mr. Butterfield, is recognized for 2 minutes.

Mr. Butterfield. Let me thank you, Mr. Chairman, for your outstanding work on this issue and for the work you and your staff have put into developing your Universal Service Reform Act

discussion draft.

As a member of this committee who represents a particularly rural district in my State of North Carolina, I am acutely aware of the need for the USF and to ensure telecommunication services are made available to the high-cost remote areas of our country. At the same time, should we do nothing to reform USF, we put ourselves on an unsustainable path, a path that already projects the contribution factor rising to over 14 percent in the coming year.

I am pleased to see much-needed provisions addressed in the Boucher-Terry universal service draft, including requiring USF recipients to include broadband Internet access; broadening the base of contributors to help bring down the rising contribution factor; directing the FCC to address the intercarrier compensation system; and targeting support to rural wire centers as opposed to a formula based on statewide averaging. And these are steps in the right direction. And I look forward to hearing the comments from the witnesses before us today and also from my colleagues about these and other proposals.

Finally, I remain particularly interested in the comments of Dr. Rheuban regarding much-needed reforms in the Rural Health Care Program. That is very special to me. We have not been able to achieve the full effectiveness of this program, and I look forward to discussing how the addition of broadband services in USF will potentially enhance broadband telehealth infrastructure and

deployment in the Rural Health Care Program. I have been an advocate of telehealth and telemedicine, and I believe these health-care delivery tools will be vital in rural communities across America.

And so I want to thank the 10 witnesses. I sat here and counted all of you. I want to thank the 10 witnesses on the panel, and I look forward to hearing your testimonies today.

I yield back.

Mr. Boucher. Thank you, Mr. Butterfield.

The gentleman from Washington State, Mr. Inslee, is recognized for 2 minutes.

Mr. Inslee. Thank you. And I will pass. Thank you, Mr. Chair.

Mr. Boucher. Thank you, Mr. Inslee.

All members now having had an opportunity for opening statements, we welcome our panel of witnesses. And we thank each of you for taking time to join us here this morning.

I will say just a brief word of introduction about our witnesses today.

Mr. Peter Davidson is senior vice president of public affairs, policy, and communications for Verizon.

Mr. Leslie Greer is the chief executive officer of DTC Communications, testifying this morning on behalf of the National Telecommunications Cooperative Association, a very large organization representing rural carriers.

Mr. Michael Rhoda is the senior vice president for government affairs at Windstream Communications.

Mr. Joel Lubin is a vice president of public policy for AT&T Services, Incorporated.

Ms. Catherine Moyer is the director of legal and regulatory affairs for Pioneer Communications, testifying today on behalf of OPATSCO.

The Honorable Ray Baum is a commissioner of the Oregon Public Utility Commission, testifying today on behalf of NARUC.

Kyle McSllarrow is president and chief executive officer of the Cable Television Association.

Mr. Eric Graham is vice president of government relations at Cellular South, Incorporated, testifying today on behalf of the Rural Cellular Association.

Dr. Karen Rheuban is a professor of pediatrics and the medical director of the Office of Telemedicine at the University of Virginia Health Systems. She also serves as president of the American Telemedicine Association and as board chair of the Virginia Telehealth Network.

Mr. Gregory Rosston is a deputy director at the Stanford Institute for Economic Policy Research at Stanford University.

Without objection, all of your opening statements will be made a part of the record, and we would encourage your oral summaries. And, given the number of you this morning, we would ask that you try to hold those statements to approximately 5

minutes.

Mr. Davidson, we will be happy to begin with you.

STATEMENTS OF PETER DAVIDSON, SENIOR VICE PRESIDENT OF PUBLIC AFFAIRS, POLICY, AND COMMUNICATIONS, VERIZON; LESLIE GREER, CHIEF EXECUTIVE OFFICER, DTC COMMUNICATIONS; MICHAEL RHODA, SENIOR VICE PRESIDENT FOR GOVERNMENT AFFAIRS, WINDSTREAM COMMUNICATIONS, INC.; JOEL LUBIN, VICE PRESIDENT OF PUBLIC POLICY, AT&T SERVICES, INC.; CATHERINE MOYER, DIRECTOR, LEGAL AND REGULATORY AFFAIRS, PIONEER COMMUNICATIONS; HON. RAY BAUM, CHAIRMAN, NARUC COMMITTEE ON TELECOMMUNICATIONS, STATE CHAIR, FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE, COMMISSIONER, OREGON PUBLIC UTILITY COMMISSION; KYLE MCCLARROW, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL CABLE AND TELECOMMUNICATIONS ASSOCIATION; ERIC GRAHAM, VICE PRESIDENT OF GOVERNMENT RELATIONS, CELLULAR SOUTH, INC.; KAREN RHEUBAN, SENIOR ASSOCIATE DEAN FOR CME AND EXTERNAL AFFAIRS MEDICAL DIRECTOR, OFFICE OF TELEMEDICINE, UNIVERSITY OF VIRGINIA; AND GREGORY ROSSTON, DEPUTY DIRECTOR, STANFORD INSTITUTE FOR ECONOMIC POLICY RESEARCH

STATEMENT OF PETER B. DAVIDSON

Mr. Davidson. Thank you. Good morning, everyone. Thank you, Chairman Boucher, Ranking Member Stearns, and members of the committee. Thank you for the opportunity to address the committee this morning on the new Universal Service Reform Act of 2009 circulated recently by Chairman Boucher and Mr. Terry.

This committee has always been a leading voice on universal

service reform, and today we endorse the Boucher-Terry legislation because we believe it embraces policies to reform and sustain the fund. It directs funds to meet the true communications needs of consumers. We will continue to work with the sponsors and this committee to ensure that this legislation accomplishes the objectives of modernizing the universal service program so that it meets the needs of Americans in the 21st century.

In the past decade, the communications industry has invested hundreds of billions of dollars in private capital to deploy new, innovative broadband technologies. Recently, Congress passed mapping legislation, funded broadband grants for unserved areas, and now we have a full complement of FCC commissioners focusing on broadband adoption and deployment policies.

Encouraging deployment and adoption of next-generation networks will keep America competitive in our global economy and will help address some of our most pressing challenges, such as health-care reform, education, and energy conservation.

We also believe that there should be a role for the Universal Service Fund related to broadband. But right now the fund is in trouble and, left unchanged, is in no shape to contribute to the broadband solution. The USF contribution factor is near an all-time high and, just to pay the fund at today's levels, as everyone has noted this morning, is projected to rise again next year to more than 14 percent. When added to other communications charges and fees, these assessments really hit consumers hard,

especially in these economic times, and this trend is simply unsustainable.

The problem with universal service is not that we spend too little money; it is that we do not spend it on the right services in the right places. We cannot put off any longer the tough choices on major issues. We must fix the broken universal service framework before layering on additional priorities.

Verizon supports the draft Universal Service Reform Act because it takes a big step toward addressing five of the most pressing issues: one, an overall budget for the High-Cost Fund; two, a contribution methodology; three, competitive bidding for wireless support; four, a date certain for related reform of intercarrier compensation; and, five, an end to traffic pumping.

Allow me to briefly -- and I will be brief -- address each of these points.

First, the bill recognizes the need to set an overall budget for the High-Cost Fund. This is important because consumers pay for the fund, and consumers have limited resources. The High-Cost Fund is already at a tipping point, having grown to about \$4.5 billion from less than \$3.5 billion only 5 years ago while the assessable revenue base declines rapidly. Without some restraint, the USF contribution factor will surely rise to 15 percent, perhaps even 20 percent or more. We simply must have the discipline at the outset of any overhaul of the High-Cost Fund to define some reasonable funding boundaries.

Second, the way that we fund the fund, through an assessment on interstate revenues, is a mess. This system may have worked in the days of one network and only two services -- local and long-distance calls -- but it is not practical with the converged, any-distance services consumers expect today. The draft bill acknowledges the need to update the universal service contribution system and would commit the FCC to take a hard look at an alternative contribution system. For many reasons, the best contribution method is one mentioned in the bill, a flat charge on each working phone number, to pay for all or part of the USF contribution base.

Third, a competitive bidding system is the best way to distribute high-cost support to wireless carriers. The draft bill recognizes the benefits of this market-based approach and sensibly puts in place a forward-looking competitive bidding system to support and expand the reach of wireless networks. The FCC will need to address quality-of-service requirements and rules in a competitive bidding system, but that is manageable through legally enforceable contracts signed with those wireless carriers that win the bid to provide service in high-cost areas, just as the Federal Government does in hundreds of procurement areas to ensure quality of goods and services.

Fourth, we must fix the broken intercarrier compensation system at the same time that we update the Universal Service Fund. All that is needed is the resolve to get this done. And the draft

Universal Service Reform Act requires the FCC to act on intercarrier compensation reform within 1 year. That is certainly workable.

And, fifth, we have to stop the so-called "traffic-pumping schemes" that have plagued the industry the last several years. The draft Universal Service Reform Act would help do that by making it illegal for traffic pumpers to charge other carriers for access on traffic subject to those revenue-sharing agreements.

Mr. Chairman, with your and the committee's leadership, the Universal Service Reform Act, we can get the fund back on the path of sustainability and focused on meeting the telecommunications needs of our country. And I thank you for the opportunity testify here this morning.

[The prepared statement of Mr. Davidson follows:]

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Mr. Boucher. Thank you very much, Mr. Davidson.

Mr. Greer?

#### STATEMENT OF LESLIE GREER

Mr. Greer. Chairman Boucher, Ranking Member Stearns, members of the subcommittee, good morning, and thank you for the invitation to participate in today's discussion regarding the Universal Service Reform Act of 2009.

My name is Leslie Greer. I am the CEO of DTC Communications in Alexandria, Tennessee. As a resident of Tennessee, I would like to take this unique opportunity to thank Representative Gordon and Representative Blackburn for their service on the subcommittee and to our great State.

My remarks today are on behalf of DTC Communication, as well as NTCA and its other 580-plus community-based members that serve rural areas throughout our Nation. NTCA would like to recognize Chairman Boucher and Representative Terry for their longstanding focus and awareness of the critical need for continued universal service support for our Nation's telecommunication network, which will help usher in the new era of advanced communication.

The Universal Service Reform Act contains many program modifications we have advocated for many years. I will briefly outline our position on some of the most critical positions of the

bill from a rural provider's perspective. However, I would like to remind the subcommittee that further analysis of these provisions and others can be found in my written testimony.

Government policies and programs, including universal service, are instrumental to the realization of affordable and comparable telephone service for all. The United States public switched telecommunication network remains the envy of the world. The same should be true for the United States national broadband network.

The Universal Service Reform Act takes many important steps toward making this a reality. However, to achieve truly ubiquitous broadband, much more needs to be done. Therefore, NTCA looks forward to continue working with the FCC in the coming months to develop a national broadband plan to meet the needs of broadband networks in high-cost rural areas throughout the country to ensure Americans living in these areas are not denied the opportunity to realize the full promise of the Internet.

The bill would expand assessments of contributions. NTCA supports this change and believes all broadband access providers should contribute to the Universal Service Fund. This change alone will dramatically reduce the quarterly contribution factor on all providers while simultaneously ensuring that all those who utilize and benefit from the network are, in fact, supporting it.

The bill gives the FCC the authority to determine whether to use a contribution methodology based on revenues, numbers, or a

combination of the two and requires a study and findings in support of the method chosen.

Telephone numbers have nothing to do with broadband Internet access, which will be the basis for all communication services in the future. With this in mind, as well as other provisions that ensure all revenues may be assessed, it is clear the FCC study will have to arrive at the correct conclusion that the tested and proven revenues approach must be used.

NTCA recognizes the fundamental roles audits play in the oversight of policies and programs if they are conducted appropriately. Unfortunately, the audit process has mostly been a failure. Therefore, we support efforts by Congress and the provisions included in this bill to ensure the FCC uses appropriate audit methodologies.

RPTS COCHRAN

DCMN ROSEN

[10:38 a.m.]

Mr. Greer. The solution for intercarrier compensation is a simple one. If a service provider uses another provider's network, that service provider must compensate the other provider for such use at an appropriate rate. We fully support the bill's provisions directing the FCC to reform intercarrier compensation within 1 year.

The Universal Service Reform Act requires carriers to identify all traffic on their network and to pass through traffic identification details. NTCA supports this provision to eliminate phantom traffic, which has become one of the most pervasive problems facing the telecommunications industry today.

NTCA supports the elimination of the FCC's long-standing, arcane and nonsensical identical support rule that allows a competitor in a given market to receive support based on the incumbent's embedded costs, even though the competitor's costs are usually far less because they have not been required to serve all customers throughout the market areas as incumbents have to.

The draft contains other provisions that will help ensure this program's effective operations, including primary line and Antideficiency Act prohibitions, removal of the parent trap, and allowances to accommodate potential future regulatory shifts of

intercarrier compensation or access charges within the universal service system.

With these things in mind, we support passage of this bill.

Thank you, and I look forward to answering any questions you may have.

Mr. Boucher. Thank you very much, Mr. Greer.

[The prepared statement of Mr. Greer follows:]

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Mr. Boucher. Mr. Rhoda.

**STATEMENT OF MICHAEL RHODA**

Mr. Rhoda. Chairman Boucher, Ranking Member Stearns and members of the subcommittee, thank you for this opportunity this morning to discuss our views on the draft text of the Universal Service Fund Act of 2009. My name is Mike Rhoda, and I am the Senior Vice President For Government Affairs at Windstream, which provides communications and entertainment services to consumers in 16 States.

Windstream serves more than 3 million voice customers and more than 1 million high speed Internet customers. We provide affordable broadband services at speeds of at least three megs to virtually every community in our service territory and we have deployed high speed Internet access to more than 90 percent of our voice customers. Windstream's service areas are primarily rural, with an average density of 19 customers per square mile.

Mr. Chairman, let me say that I have great respect for your and Mr. Terry's work, and thanks to your bipartisan leadership, the draft bill fairly balances the many conflicting interests in this complex area. Windstream supports passage of this bill.

Unlike other rural carriers, Windstream receives relatively little high cost support on a per line basis. Instead, Windstream

must implicitly subsidize service for customers in remote high cost areas with revenues from its customers in larger, more densely populated towns.

More than a decade ago, Congress recognized in Section 254 of the Communications Act that such implicit subsidies would be unsustainable in a competitive telecommunications marketplace, and, unfortunately, universal service regulations remain virtually unchanged since that time.

We have seen the programming's shortcomings up close. A good example is one of our customers residing in rural Nebraska who recently contacted us to ask why he could not purchase broadband at speeds comparable to his rural neighbors down the road. His neighbors are served by a smaller company whose network has been modernized by universal service. His frustration is understandable.

Windstream's commitment to deploying affordable broadband in rural America is undeniable, but existing universal service mechanisms have created drastic imbalances in rural Nebraska and rural America at large. Some high cost areas receive arguably too much support, while many others receive far too little or no support at all. While the neighboring companies in this example receive an average of \$800 annually per line in support, Windstream's Nebraska operations receive approximately \$10 per line annually.

The Boucher-Terry bill takes a large step toward eliminating

these disparities in high cost rural areas by narrowly targeting support to those areas that need it most. The bill's use of targeting eliminates two significant shortcomings of the current system.

First, under the rule mechanism, price kept carriers costs are averaged across study areas, which can cover vast geographies. A single Windstream study area stretches the full width of Texas, a distance of more than 700 miles, and contains more than 200 exchanges, ranging in size from 44,000 customers to 47. With competitive pressures mounting and lower costs and more densely populated areas, severe strains are placed on a carrier's operations because low cost wire centers no longer generate sufficient revenues to offset costs in remote higher cost areas.

The second problem lies with the non-rural mechanism's classification of entire States as either eligible or not eligible based on statewide average costs. This limitation disqualifies rural areas in a State like California from receiving support, no matter how small, how remote or how costly a community is to serve.

The Boucher-Terry draft establishes a sensible transition path for incorporating broadband into universal service. The strength of the Boucher-Terry draft is that it sets the Nation on a path to universal broadband, but with recognition of the significant costs to achieve this goal and an opportunity to amortize those costs over time.

Finally, Windstream strongly supports the bill's recognition of the important role that revenues from the existing intercarrier compensation mechanisms play in offsetting the high costs in rural areas.

Many on this subcommittee remember that one year ago, the FCC considered a proposal to eliminate most intercarrier compensation revenues. That proposal would have been disastrous for consumers and businesses in high cost rural areas. Windstream recognizes that the current rates and arcane rules of intercarrier compensation are unsustainable and the company has presented practical alternatives to the FCC that would not hobble the ability of mid-sized carriers to serve rural consumers.

In closing, Mr. Chairman, I would like to assure all members of this subcommittee that there is broad agreement within the telecom industry on the need for significant universal service reform and that that reform is long overdue. While reforms carry certain risks, the larger risk is to stand by and watch well-documented problems continue to pull down communities and consumers residing in rural America. Significant change is the only way to save this program and position it to fulfill its mission.

Thank you.

Mr. Boucher. Thank you very much, Mr. Rhoda.

[The prepared statement of Mr. Rhoda follows:]

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Mr. Boucher. Mr. Lubin.

#### STATEMENT OF JOEL LUBIN

Mr. Lubin. Good morning. Thank you, Chairman Boucher, Ranking Member Stearns and other members of the subcommittee, for again including AT&T in this continuing dialogue of universal service reform. AT&T is the largest provider of telephone service to rural America.

This is the second time I have had the opportunity to address this subcommittee this year. The first time was in March of 2009. At that point in time, when we were talking about high cost universal service reform, AT&T identified three critical areas that needed to be addressed.

The first one was contribution reform. Contribution reform is so important because it is all about what customers pay and which customers pay.

The second was intercarrier compensation. Intercarrier compensation is critical because it is just another form of subsidization to rural America.

The third is, once and for all, to identify an explicit endorsement for the use of high cost universal service mechanisms to promote the deployment of next generation broadband and expanded and improved wireless in rural areas.

Mr. Chairman and Representative Terry, I wish to congratulate you, for this legislation when introduced and enacted will address the three items that AT&T highlighted in March of 2009. We support and endorse this legislation.

From AT&T's perspective, universal service, as it exists today at both the Federal and State levels, is fundamentally grounded on a dying business model and a dying regulatory model which no longer serves the foundation of sustainable social policy. The plain old telephone service, POTS, by which local exchange providers provide basic local exchange service with inter-exchange access to long distance service will soon go by the way of a slide rule, an earlier casualty of digital technology.

In today's communication marketplace, the only thing falling faster than subscribers on local basic service called POTS is the switched access minutes on these collective networks. In these circumstances, no government could hope to prop up the POTS model for long, even if it wanted to, in order to sustain universal service. Instead, universal service reform must be forward looking and policymakers must continue to work on comprehensive national universal service reform policies in order to promote and advance universal service objectives for the 21st century.

The Universal Service Reform Act of 2009 both appropriately reflects the insights of its sponsors and the committee leadership and recognizes the reality of the rapidly eroding implicit subsidies in the disappearing switched access world, as well as

the need to establish explicit funding mechanisms in order to ensure universal service objectives are met for the 21st century.

Let me return to the three pressing areas of reform that I described before.

First is with respect to contribution reform. The importance of this provision cannot be overemphasized. According to the preliminary numbers submitted by the Universal Service Administration Company to the FCC a few weeks ago, the assessment rate could approach and exceed over 14 percent of interstate telecommunications revenues. When I was here in March of 2009, that factor was 9.5 percent. In less than a year, we see a 50 percent increase.

We have asked the FCC to act on a long-standing proposal by AT&T and Verizon, which is supported by a number of individual companies and individual associations, to implement a telephone numbers-based contribution mechanism that would address the problem posed by the overall reduction of interstate revenues, which is the basis for the universal service contribution base. This would create a more stable, robust collection mechanism for universal service. This is of critical importance to the goal of providing more explicit support for a broadband deployment.

Second is the section on intercarrier compensation reform, which is also critical for the transition to full deployment of broadband, which will accelerate the complete, underlining the word "complete," complete elimination of access charges as a

source of universal service funding. We can debate what the rate is, but a rate times zero minutes is going to generate zero dollars. And ultimately the question is, if that was supporting universal service, how does it work in a broadband world? We have needed intercarrier compensation reform for years, and the importance of this draft measures requirement that the Commission act within one year to complete reform initiatives cannot be overstated.

Further, the bill makes access stimulation charge, some people call it access pumping, an unreasonable practice under the Communications Act and prohibits local exchange carriers from assessing access stimulation or traffic pumping charges.

Third, AT&T is pleased that the bill creates a statutory framework that, once and for all, removes any doubt that it is the policy of the United States that the Federal high cost funding mechanism be used to promote deployment of broadband and expanded and improved wireless in rural areas.

We look forward to hearing from the other panelists and answering your questions. Thank you.

Mr. Boucher. Thank you very much, Mr. Lubin.

[The prepared statement of Mr. Lubin follows:]

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Mr. Boucher. Ms. Moyer.

**STATEMENT OF CATHERINE MOYER**

Ms. Moyer. Chairman Boucher, Ranking Member Stearns and members of the subcommittee, thank you for inviting me to appear before you today. I am Catherine Moyer, Director of Legal and Regulatory Affairs for Pioneer Communications. Pioneer Communications is a rural telephone company headquartered in Ulysses, Kansas.

Mr. Boucher. Ms. Moyer, let me get you to move that microphone just a little bit closer and maybe tilt it up a little bit so that you are speaking directly into it. Thank you.

Ms. Moyer. Pioneer provides local telephone service to approximately 14,000 access lines within a 5,000 square mile service area. Of these 5,000 square miles, only about 15 square miles could be considered town. The remainder of our area is truly rural. In addition to phone service, Pioneer Communications provides cable television service, Internet access and wireless phone service.

I testify today as first vice chairman of the Organization for the Promotion and Advancement of Small Telecommunications Companies. OPASTCO represents more than 530 independently-owned local exchange carriers in 47 States. The companies and

cooperatives represented by this association provide numerous services to their communities, including voice, broadband Internet access, video and wireless.

First of all, let me state our appreciation to Chairman Boucher and to Congressman Terry for the leadership that both have shown on the reform of the Universal Service Fund. This program has a successful history of assisting communications and network providers in their service to rural and low income consumers. We look forward to working with Congress and the Federal Communications Commission to make the USF a part of a forward looking solution in the ever changing communications arena.

The goal of universal service policy has been to ensure that every American, regardless of their location, has affordable, high quality access to the public switch network and thereby benefits from a variety of telecommunications and information services.

The provision of a robust telecommunications infrastructure in rural America would never have been possible were it not for the Nation's long-established policy of universal service and the Federal USF. To rural incumbent local exchange carriers, high cost universal service support is a cost recovery program designed to promote infrastructure investment in areas where it would not otherwise be feasible for carriers to provide quality service at rates that are affordable and reasonably comparable to urban areas of the country.

I come before you today to endorse and support the draft

legislation offered by Chairman Boucher and Congressman Terry. While the membership of OPASTCO has concerns about some of the specifics contained in the text, the draft is a forward looking document. We commend Congressmen Boucher and Terry for their understanding of the ongoing revenue stream the USF provides and how it benefits consumers in rural and hard to reach areas of our country. This ongoing revenue stream keeps rates affordable for rural consumers as carriers utilize it to pay for switching, transport and network maintenance. This draft transitions the plain old telephone support fund into a new and modern broadband support fund.

The drafts continues the call for universal service support that allows consumers in rural, insular or high cost areas to have services and rates reasonably comparable to those provided in urban areas. Its contribution mechanisms will allow for the continued support of schools and libraries, rural health care and low income consumers.

This draft expands universal service support to include high speed broadband service and any other service that is determined to be a universal service by the FCC.

We applaud this forward-looking move to provide support for the broadband platform. Broadband is rapidly becoming the mode of delivery for practically everything consumers may need or want regarding communications, voice, data, education, health care and entertainment, just to list a few.

Recipients of the high cost fund support would be required to provide high speed broadband service defined as a download rate of 1.5 megabytes per second. This draft mandates that the FCC review that speed requirement by annually and make necessary adjustments. OPASTCO suggests that the FCC also review the USF funding level and ensure that the amount allows for the adjusted speed requirements.

Additionally, OPASTCO supports the eligibility criteria and waiver process included in the draft which takes into consideration the many difficulties experienced by communications providers in rural and hard-to-reach areas.

Additionally, OPASTCO supports, one, broadening the base of contributors to the Universal Service Fund. Expanding this base recognizes our modern broadband world. A broadband network with the most possible connections, regardless of technology, is the most valuable network.

Two, the cost controls included with the limitation of the number of competitive carriers that receive support.

Three, the recognition of the importance of intercarrier compensation and its contribution to the USF with the mandate that the FCC act on intercarrier comp reform within one year.

Four, the permanent exemption ever the USF from the Antideficiency Act.

Five, the prohibition of the primary line rule.

And six, the audit procedures, performance measures and

reports to Congress.

In closing, OPASTCO endorses and supports draft legislation offered by Chairman Boucher and Congressman Terry. OPASTCO and its members look forward to working with Congressmen Boucher and Terry, members of the subcommittee and Members of Congress to ensure that consumers in rural America are not left behind and that they have access to services and rates that are reasonably comparable to those provided in urban areas.

I look forward to your questions.

Mr. Boucher. Thank you very much, Ms. Moyer.

[The prepared statement of Ms. Moyer follows:]

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Mr. Boucher. Commissioner Baum.

#### STATEMENT OF RAY BAUM

Mr. Baum. Chairman Boucher, Ranking Member Stearns, I appreciate the opportunity to testify in front of the committee today.

I want to do a little side note. When Commissioner Walden and I were serving in the Oregon legislature, we were so young we were known as the "pablum twins."

Mr. Walden. Thanks for sharing that, Ray.

Mr. Baum. We have grown up, as you can tell.

Mr. Chairman, I would like to thank you and Congressman Terry for your leadership on this important issue. I am here today in my capacity as a member of the Oregon Public Utility Commission and chair of the NARUC Telecommunications Committee and State chair of the Federal State Joint Board on Universal Service.

It is my personal belief that broadband deployment is essential to the economic development and quality of life for the rural communities of America. Those rural communities who don't have adequate broadband will be just as disadvantaged economically as those rural communities in the first half the 20th Century that didn't have access to electricity or paved highways. Reform of intercarrier comp and USF is essential to that broadband

deployment.

I begin by testifying on behalf of NARUC. NARUC specifically endorses the following provisions of the bill: The provision that protects the States' ability to assess USF funds. That that fund generates \$1.3 billion for States in 23 different States through that contribution base. We are grateful for the opportunity to continue to assess that.

We also support the Antideficiency Act exemptions. We also support the continued role of the Federal State Joint Board on Universal Service in recommending USF reform and designating supportive services. We would suggest that after the initial 18-month period that the bill requires the FCC to act, that you add an additional 1-year time clock on the FCC to act on any further joint board recommendations.

We are very pleased with the language requiring compliance with applicable State and Federal consumer protections and service quality standards. This is key to consumer protection and it keeps the State consumer cops on the beat.

We do have some concerns about the preemption language in interstate rate setting. We would propose that we use a more cooperative approach, conditioning receipt of USF funds in States that mirror the interstate rate, and in return for the foregone interstate revenues, those funds would be transferred to the Federal fund. In any case, we are committed to working with you on modifying this provision of the bill.

The remaining issues NARUC has not taken a position on, so I will speak to them based on my own opinion as my experience as Chair of the Universal Service Joint Board and as former chairman of the NARUC Intercarrier Compensation Task Force. I note that the draft legislation echoes many of the provisions in the Joint Board's recommendation of 2 years ago. I applaud you for designating broadband as a supported service. Two years ago this month, the Joint Board made that same recommendation.

I would encourage you to make sure that deployment of broadband should be a condition of receiving universal service funding. The high cost fund should be transitioned to a broadband fund and it should focus on unserved areas and anchor institutions.

Mr. Chairman, I believe your 1.5 megabytes is a good start, but let me just suggest to you it might be better to realize what is coming in the future. I want to kind of up the ante. I think that 3 to 5 megabytes for residential customers and 20 to 50 megabytes for anchor institutions has to be the minimum if we are going to face the new broadband world, with appropriate waivers for certain unserved areas. These service levels are already standard in most urban areas and should be comparatively available in check chest as required in the draft legislation.

The wireless auction provisions of the bill are a positive step in the right direction. It is a de facto repeal of the identical support rule. However, there is a seismic shift in the

wireless broadband looming on the horizon in open networks. It will be the communication device of choice. People want to be mobile and want to have broadband. This is a looming reality. It is coming upon us and it involves huge amounts of spectrum and exponential increases in backbone capacity.

I would urge you too to encourage the FCC to transition intercarrier compensation rates to zero in a 5- to 7-year period. They are going away anyway and we might as well plan for it, and it won't work at all in the broadband world. We need to focus on the efficient use of the funds.

I also want to add my support to the provisions on phantom traffic, traffic pumping, auditing, capping the fund, which the Joint Board originally recommended, subject to appropriate adjustments based on intercarrier compensation reform, and the repeal of the parent trap. The Universal Service Fund should be based as much as possible on forward-looking cost models and based on a wire center basis as we go forward.

Mr. Chairman, expeditious implementations the major provisions of this draft legislation will greatly mitigate the digital divide that exists today between urban and rural American and will prevent that divide from becoming an irreversible chasm.

I personally support the major provisions of your bill. We cannot address these issues soon enough. The Joint Board is committed to working with you and the FCC in achieving these goals. We thank you again for your leadership.

Mr. Boucher. Thank you very much, Commissioner Baum.

[The prepared statement of Mr. Baum follows:]

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Mr. Boucher. Mr. McSlarrow.

**STATEMENT OF KYLE McSLARROW**

Mr. McSlarrow. Mr. Chairman, Mr. Stearns, distinguished members of the subcommittee, thank you for having me here.

Mr. Chairman, I fully appreciate the difficulty in assembling this jigsaw puzzle known as Universal Service Fund reform, and I congratulate you and Mr. Terry on producing a discussion draft which, I think, is a valuable step toward addressing issues like cost containment, injecting notions of competitive neutrality, both on the distribution side and on the contribution side.

I want to just in the time I have focus on one area where I think the draft might be improved with a proposal that I think compliments the direction that you and Mr. Terry are taking, these reforms, and it is to note, I know that members of the subcommittee are aware that the cable industry offers broadband service to 92 percent of American households.

Less well-known, perhaps, is that we offer phone service, competitive phone service, to 80 percent of American households, and I am told it is going to actually reach 90 percent by the end of this year. In less than a decade, we have gone from less than 1 million phone customers to over 20 million, and, with very few exceptions, cable-digital phone service is unsubsidized by the

Universal Service Fund reform.

So our view is that that change in the competitive landscape as you think about the future of universal service ought to mean something.

Our proposal is this: That in the rural study areas, for example, that receive high cost support today, we already know that 40 percent of those rural study areas have a wire line unsubsidized competitor, usually a cable company, but not necessarily. We don't actually know the answer in those other areas. Because of statewide averaging, it is harder to know for the non-rural local exchange carriers.

But in those markets, in those areas where we would say there is a competitive unsubsidized wire line phone service to more than 75 percent of the households, we would say Universal Service Fund, high cost Universal Service Fund support, should cease in that marketplace.

The alternative is in those regions or States where the State legislature has itself determined that the level of competition means that the retail rates of an incumbent carrier should be priced to regulated, we also say that would be evidence there is extant competition such that Universal Service Fund support should cease.

So a proposal that we would submit respectfully for your consideration is that we set up a process at the FCC where people can make a showing with one of those two triggers, either evidence

of significant competition, evidence of deregulation by the States, and set up a process where people can figure out how to focus on those noncompetitive areas where there indeed might still be requirements for high cost support.

Every member of this subcommittee today I think has in one way or another suggested that they want to put more dollars on target in the most efficient way possible. I think injecting notions of the changed competitive landscape will help you toward that goal.

I look forward to answering your questions on that or other parts of the discussion draft.

Mr. Boucher. Thank you very much, Mr. McSlarrow.

[The prepared statement of Mr. McSlarrow follows:]

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Mr. Boucher. Mr. Graham.

**STATEMENT OF ERIC GRAHAM**

Mr. Graham. Mr. Chairman, good morning, and thank you for the opportunity to be here today to present testimony on behalf of Cellular South and as a carrier member of the Rural Cellular Association. RCA's nearly 100 carrier members provide commercial wireless services covering approximately 83 percent of the Nation's geography. As you would expect, much of this territory is in rural areas, and therefore many RCA members, including Cellular South, are eligible to participate in the Federal Universal Service Program. These carriers are using support to build high quality networks in some of the most rural areas of the country.

I cannot emphasize enough that for many rural areas, universal service support is the difference between high quality wireless service and no coverage at all. Today, citizens in thousands of places across the country, such as Floyd, Virginia, Spray, Oregon, Garnavillo, Maine, Bunker Hill, Illinois, and many others are receiving wireless service as a result of the Universal Service Fund program.

For its part, Cellular South has a long history of serving rural areas and has used universal service support to provide

service in places like Ellisville, Mississippi, that similar would not coverage otherwise. This program has allowed Cellular South to build a network that covers over 90 percent of the state of Mississippi, and upon which cities, counties and state agencies depend for reliable wireless services.

RCA believes in rural America and its members value the people who live there. In Cellular South's 20 years of serving rural areas, we have come to understand what rural consumers want in their wireless service. It is very simple. They want the same things that people in Washington, D.C., Boston, Massachusetts, Los Angeles California and New York City want; quality coverage, modern technology, the latest devices and the ability to access compatible networks wherever they go.

While Congress works to modernize and otherwise reform the Universal Service Fund, it is critical to keep in mind that device exclusivity and data roaming issues must also be resolved if Congress still believes that rural Americans should have services that are reasonably comparable to those in urban areas.

Today, consumers demand broadband and mobility. Policymakers and those of us in the telecom industry have seen this coming for years, and everyone in this room has acknowledged need for more broadband services. Yet, since 2001, the FCC has not released an order that would promote rural consumers access to these services.

Between 2000 and 2008, the FCC subsidized wire line voice service to the tune of approximately \$26.3 billion while funding

wireless voice services at approximately \$4.6 billion. Broadband services received zero.

The universal service mechanism cannot continue to support fixed voice service, 19th century technology, at a rate of over \$3 billion per year. As the world evolves toward broadband and mobile services, so too should the funds to distribution mechanisms.

Accordingly, RCA supports Chairman Boucher's proposal to include broadband as a supported service within the Universal Service Fund. However, it is absolutely critical that the distribution of universal service support is competitively neutral. In other words, the distribution mechanism must not favor or disfavor any technology or class of carrier. More than that, it should not protect any technology or class of carrier. Support should be portable, and new entrants and incumbents alike should be allowed to compete for customers. This puts consumers in charge by increasing choices and consumer choice increases service quality and lowers prices.

RCA is not convinced that reverse options for just one class of carrier are consistent with the principles of competitive neutrality. To be clear, RCA fully accepts the need to sustain the fund. However, we do not believe that reverse auctions are the solution, because they sacrifice the goals of universal service in the name of sustainability.

There are a number of structural issues that must be overcome

before competitive bidding can be a realistic option. First and foremost, we have not seen an auction mechanism proposed that eliminates the opportunity for USF opponents to game the system by submitting artificially low bids in order to drive out competition.

Assuming you could avoid that problem, the proposed auction system would limit support in an area to a maximum of two providers for a period of up to 10 years. This ensures that no new providers will enter that area and it forces policymakers into the position of regulating an artificial marketplace, a monopoly or duopoly.

Furthermore, if the goal of reverse auctions is to lessen support in a given area and thereby reduce the size of the fund, there is no certainty that it will happen under reverse auctions.

Finally, as proposed, reverse auctions exempt the largest category of recipients from the high cost portion of the Universal Service Fund.

In conclusion, RCA believes that support in a high cost areas should be fixed at the amount needed to deliver reasonably comparable, high quality services to consumers, with support only being awarded when a carrier gets a customer and with that support being taken away when the carrier loses a customer. We believe that no one should be insulated from competition, and we believe that new entrants should be allow into markets to maximize competition and improve choices and service for consumers.

Thank you again for the opportunity to participate today, and I look forward to your questions.

Mr. Boucher. Thank you very much, Mr. Graham.

[The prepared statement of Mr. Graham follows:]

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Mr. Boucher. We have several provisions in the draft that address the Rural Health Care Fund, and Dr. Rheuban and her comments will address those provision. Dr. Rheuban.

**STATEMENT OF KAREN RHEUBAN, M.D.**

Dr. Rheuban. Good morning, and thank you, Chairman Boucher, Ranking Member Stearns and other distinguished subcommittee members. My name is Dr. Karen Rheuban, and I am a practicing pediatric cardiologist and Medical Director of the Office of Telemedicine and the University of Virginia. I am also honored to serve as president of the American Telemedicine Association. Thank you for this opportunity to testify and support the draft universal service reform bill.

The health reform debate has galvanized our Nation. The powerful tools of telemedicine and health information technologies are key to a transition from care delivered episodically in a balkanized model to an integrated systems approach. Sound policies must facilitate ubiquitous and affordable access to the broadband infrastructure to support access to health care using advanced technologies, especially for our rural Americans.

The need for access to care is greater than ever before. Our Nation faces a critical shortage of physicians, with a projected deficit of 200,000 doctors by 2020. The aging of our population

has created increasing demands for health care services. Access to speciality care is inadequate for many Americans.

Telemedicine programs can be found in every State offering clinical services that span the entire spectrum of health care. At UVA, we have been privileged to work with Chairman Boucher to deploy an extensive telemedicine network connecting more than 30 federally-qualified health centers, clinics, hospitals, school and correctional facilities in his district, in addition to other regions of the Commonwealth.

Medical specialty societies have endorsed tele-health as an effective tool for the delivery of care. As an example, during an acute stroke, life-saving, clot-busting therapies administered by stroke neurologists through telemedicine have been proven to reduce the morbidity, mortality, burden and cost of stroke.

Telemedicine programs improve access to prenatal care. The University of Arkansas now reports a 26 percent reduction in neonatal mortality attributable to their high risk obstetrics telemedicine program.

Telemedicine plays an important role in chronic disease management. The VA's care coordination and home tele-health program has resulted in a 19 percent reduction in readmission to the hospital and 25 percent reduction in hospital days.

Each tele-health application relies on broadband communication services that meet the need of the specific clinical service required. Surgical mentoring requires high definition and

higher bandwidth, as do the transfer of large medical image files and video teleconferencing. Remote monitoring and home tele-health require less bandwidth.

Regardless of the clinical application, affordable, reliable, secure quality of service is imperative. The rural health care program has been critical to tele-health networks nationwide. However, statutory and regulatory barriers have severely undermined the programs' effectiveness.

As of June 30, 2009, USAC reports a total disbursement over 12 years, total, of only \$249 million, which is only 5 percent of the originally authorized amount.

For the rural health care program to succeed as intended, a number of areas need to be corrected that have been addressed in your draft bill. Statutory barriers limit the eligible consult origination sites, excluding such important entities as nursing homes, EMS providers, and even for-profit rural hospitals. For purposes of emergency preparedness or for access to emergency care there is no question that rural for-profit hospitals serve the public interest.

The program is bound by definitions of "rural" that fail to take into account our serious maldistribution of specialty health care providers. An expansion of the "rural" definition would align universal service support with these specialty workforce shortages.

Other administrative barriers, including allowing only 25

percent support for Internet services, are counter-intuitive in an era where most tele-health programs deploy IT-based technologies. All communications providers should be eligible to participate in the program.

In 2007, the FCC launched the rural health care pilot program, recognizing 69 entities, including UVA, as eligible to receive more than \$400 million in funds to expand the communications infrastructure for health care. As of June 30th, beginning the third year of the program, less than \$1 million had been disbursed.

This program, albeit well intended, is equally fraught with significant barriers. Eligible providers are restricted, no funds are available for project management, and yet we have applicants who are asked to provide letters of agency from each remote site, secure 15 percent in cash as matching funds, provide detailed quarterly reporting, even in the absence of funding, and sign 5-year contracts for service for purposes of sustainability. These obstacles have hindered the program.

Tele-health services both drive demand for broadband adoption and increase access to acute care and chronic disease management through networks that include hospitals, clinics, physician offices, nursing homes, ambulances, the workplace and the home. Broadband provided over wire line, wireless, cable, satellite, power lines and other emerging technologies provide the communications infrastructure that supports the transformation of

health care delivery.

As you have addressed in this bill, our universal service programs must be modernized with a closer alignment with our health care needs so that one major value proposition of our investment in universal service can be achieved -- that is an improvement in the health of all Americans.

Thank you.

Mr. Boucher. Thank you very much, Dr. Rheuban.

[The prepared statement of Dr. Rheuban follows:]

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Mr. Boucher. Mr. Rosston.

**STATEMENT OF GREGORY ROSSTON**

Mr. Rosston. Good morning. Thank you. My boss has always told me in order to do a good job, you should pick your predecessor. Unfortunately, I have failed in that today, but I am going to go ahead with my testimony anyway.

I would like to thank Chairman Boucher, Ranking Member Stearns and members of the subcommittee, with special recognition for my representative, Congressman Eshoo, for the opportunity to appear before you here on this very important matter.

Before I start, I want to recognize my colleagues, Brad Wimmer of the University of Nevada Las Vegas for his work on this testimony and our research over the past decade on universal service.

I serve now as Deputy Director of the Stanford Institute for Economic Policy Research and have studied universal service for more than 10 years.

We are pleased that you have put forth legislation to reform the current universal service program. As with any program, it is important to implement universal service in as efficient a manner as possible.

The current discussion draft includes some provisions that

likely increase the efficiency of the universal service program, but changes are possible that could decrease the costs substantially without sacrificing coverage or quality. The committee should implement legislation that makes revenue raising as efficient as possible and harnesses the power of the market to drive down subsidies and increase competition for consumers.

First I will address the revenue side. The charges to raise money for universal service distort customer behavior and can be very costly. The best way to minimize these distortions are to have a low tax rate which can be achieved by keeping the size of the program relatively small and then deriving the revenues from a broad base.

It is good that the proposed legislation broadens the funding base. That should reduce distortion, if the lower tax rates do not induce increased spending. Using general tax revenues would be a better way to fund universal service. While such an approach may not be politically feasible at this point in time, it should be considered.

The discussion draft has several provisions; declaring broadband to be universal service, using wire center averaging, the primary line rule, and eliminating the so-called parent trap, that have to the potential to increase the size of the Universal Service Fund; and some draft provisions have the potential to compound harm by decreasing efficiency without any offsetting benefits.

So now I want to move on to service provision. The primary reason that a household does not connect to the communication network is because the household is not willing or able to pay as much for telecommunication services as the price charged. The Lifeline and Linkup programs provide subsidies to low income households in an attempt to increase subscriptions rates among poorer households.

Representative Matsui has introduced a bill that would extend the Lifeline and Linkup programs to cover broadband service. We think such a program has the potential to increase broadband subscriptions rates among low-income populations, although more study is needed before any firm conclusions can be drawn.

The results of our recent research indicate that moving money from the Lifeline program to the Linkup side has the potential to increase the penetration rate without increasing the program size, because Linkup is targeted to households not connected and because low-income households face high barriers in upfront costs to getting connected.

The high cost fund subsidizes the companies that provide services in the high cost areas. The majority of these subsidies are given to the incumbent local exchange carriers, or ILECS, and the discussion draft includes several proposals that appear to insulate the ILECS from competition for subsidies, which, in turn, insulates them from competition.

It would be best to distribute subsidies to rural customers

themselves, not to the companies that serve them. Extending a program like Lifeline with costs in income based vouchers to rural customers and urban customers could accomplish this goal, as Mr. Doyle discussed.

Every dollar in the USF program comes from someone else's pocket, so it is important to be careful on how this is spent. The rural high cost fund has increased substantially over the past several years, but one cause of this, competition, provides an indication that the current system is broken and that there is room to reduce instead of increase subsidies. Competition should drive down subsidies not increase them.

The discussion draft is a plan to use subsidy auctions, but only in very limited circumstances and not for all providers. Instead, subsidy auctions should be used pervasively. There should be subsidy auctions when there are two or more providers of any type, and all providers should participate in a subsidy auction. Such expansion of the subsidy auction plan could help drive down subsidy payments substantially while at the same time protecting consumers.

The most important feature of the subsidy auctions is that the incumbent local exchange providers would be subject to competitive discipline in the amount of subsidy that they receive for providing service.

If it truly costs a lot of money to serve households in rural areas, companies serving the consumers in those high cost areas

will end up with relatively high subsidy payments through the auction system. But if there are ways to serve the customers more efficiently, as Mr. McSlarrow has stated, the auction system will reveal it.

The current system and the system in the current draft do not have these critical features. There is little incentive to reduce costs or the overall size of the Universal Service Fund. Obviously, the design of subsidy auctions needs to be considered carefully. But the experience with subsidy auctions in other countries and the success with spectrum auctions in its United States shows that we can implement such a system in a pro-competitive manner.

Major concern that we have overall is that there not only be mechanisms to reduce the growth of the fund, but that there also be mechanisms to make the fund as small as possible while still satisfying the goal will of connectivity.

We think that the current bill makes a very good move towards broadening the base of support to minimize distortion and arbitrage incentives. We also think that it could be improved substantially if it were to set up a framework to allow competition to reduce the size of the subsidize, because that would be in the interests of all consumers. More detail is in our written testimony.

Thank you for having me here today. I am happy to answer any questions.

Mr. Boucher. Thank you, Mr. Rosston.

[The prepared statement of Mr. Rosston follows:]

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Mr. Boucher. Our thanks to all of our witnesses for their very thoughtful comments here this morning, and particularly for the broad consensus in support of the draft legislation that you have expressed today.

I am going to direct several questions to our rural representatives, Ms. Moyer and Mr. Greer, and I am going to begin by referencing the recommendations made by Mr. McSlarrow, where he says that the principles of competitive neutrality may be violated where you have wire line voice competition with one wire line carrier receiving support and competing with a wire line carrier that does not.

On its face, I think his argument has merit, and I am wondering what your response to that is? If we were to consider a provision that would prohibit support being provided in those instances where you have actual voice competition by wire line, limiting the unavailability of support just to the precise areas where the competition actually exists, what would be your response to that?

I realize it may be a question of first impression, and if you don't have a definitive answer today, that is certainly acceptable. But I wanted to pose that to you and get your thoughts, at least for the record, this morning.

Mr. Greer.

Mr. Greer. Yes, Chairman Boucher. On the surface, we do

have some concerns with the competitive bidding between the two.

Mr. Boucher. It wouldn't necessarily -- let me just interrupt to say -- be a competitive bidding. I think his proposal doesn't actually relate to competitive bidding. It relates to simply saying that support would not be available where you have a carrier that is offering voice service without support.

In theory, where you have a carrier that is offering the service in that particular study area without support, it suggests that support is not necessary in order to sustain a service. So he is suggesting that you not have competitive bidding. You just deny the support under that circumstance.

Mr. Greer?

Mr. Greer. I would like to think on that for just a moment real quick.

Mr. Boucher. That is fine.

Ms. Moyer?

Ms. Moyer. I guess I would like to point out that one of the problems with our service area with 5,000 square miles is that roughly only 15 of those square miles would be what I consider town. Within those 15 square miles, there is a cable company that serves. It actually belongs to us because no one else wanted to come in and provide cable service. But the problem being within that 15 square miles, the majority, over 90 percent of our population is going to reside in those areas.

So when we get outside of those areas, we are talking about

very few customers and a very large service area that would need to be served. Thus, you are talking about dollars that are going to be exponentially related to those very few customers.

Obviously, I have read NCTA's proposal here just last week, but we would be more than happy to submit something further to you on the record in writing.

Mr. Boucher. Well, let me encourage you to think about it and to engage with us on that subject. I think a number of members are going to have those interests.

Mr. Greer, would you like to respond further?

Mr. Greer. Yes, sir. Thank you, Chairman Boucher.

In those areas to where there is wireless and wire line competition, when we look at our USF and how we average our costs, we average it over our whole service area. So if you just eliminated a portion of that, then our costs in those other areas that are unaveraged will actually go up. That is one of the concerns we would have, is they may serve a portion of our service area, but it doesn't do a complete coverage, so it will actually drive up our costs, because we average that through our service territory.

But we also want to get back to you with further comments.

Mr. Boucher. That is fine. I thank both of you for that. Frankly, I would have been somewhat surprised if you had just immediately agreed with the entire recommendation.

Let me pose another question to you. Some have suggested

that the high cost fund, approximately \$4.5 billion per year, be repurposed in whole or in part in order to provide broadband services. My understanding is that that \$4.5 billion each year is spoken for. That funding is presently fully subscribed in order for you to offer the telephone services that you are offering. That money is subscribed for equipment, for maintenance, for your normal operations.

My question to you is what response do you have to the idea that some repurposing could take place, with money devoted today to those needs being devoted tomorrow to broadband? What would happen in your exchanges if that were to occur?

Ms. Moyer?

Ms. Moyer. One of the issues is that 2-year lag, the 2 years in between when we actually put money in the ground and 2 years later we actually receive the support or the cost recovery for those dollars we have already spent. So part of that problem going forward is the issue of what happens to what I spent in 2009 if in 2010 the entire fund is repurposed.

There are ongoing maintenance costs that are always going to be there. My company is in southwest Kansas. We are several hundred miles from any major metropolitan area. That transport to any major metropolitan area is huge, not just to mention just meeting up with carriers at tandems. So those costs, those dollars have already been spent. Then to recover those, there needs to be, if in fact we are going to repurpose the fund, there

seems to be some attention paid to the fact of the 2 year lag.

Mr. Boucher. Very quickly, Mr. Greer.

Mr. Greer. We concur with those comments as well.

Currently, the costs that we spend, we are not reimbursed until 2 years down the road anyway.

Mr. Boucher. So you do agree that those monies are fully subscribed?

Mr. Greer. They are fully subscribed.

Mr. Boucher. And there is nothing available really to support broadband deployment within the size of the existing fund without surrendering the low cost, the affordable telephone service that you presently provide?

Mr. Greer. That is correct.

Mr. Boucher. Thank you very much. My time has expired. The gentleman from Florida, Mr. Stearns, is recognized for 5 minutes.

Mr. Stearns. Thank you, Mr. Chairman.

Mr. Lubin, Vice President of Public Policy, AT&T Services. You are probably a good one to answer this, and I have limited time so if you could just answer in a very small amount of time by the word "increase" or "decrease" can the key terms to use.

Could you estimate whether each of the following provisions is more likely to increase or decrease the size of the fund. Or, if it is unclear to you, could you please tell us what additional information you would need to provide a cost estimate.

The first one is moving from a geographic to wire-center

averaging. Does it increase or decrease the fund? That is moving from geographic to wire center averaging. Just your humble opinion. Just move the mike close to you, if you could.

Mr. Lubin. It sounds like a simple question, and I will give you a simple answer.

Mr. Stearns. Just does it increase or decrease?

Mr. Lubin. My guess it is going to increase. However, it is a function of what model you use, and the current language in the bill says 2.75.

Mr. Stearns. Using that modeling, would it increase or decrease?

Mr. Lubin. When you say "using that modeling," it is not clear to me what model which are using in the bill.

Mr. Stearns. That is a good point. That goes to the idea that you need additional information before you could say increase or decrease. At this point you are saying at your first hand blush, it increases.

Mr. Lubin. That particular piece.

Mr. Stearns. The next one is eliminating the parent trap rule. I had that explained to me. I wasn't sure what that is, but now I do, and I think you know what the parent trap rule is. So would it increase or decrease the fund, eliminating the parent trap rule?

Mr. Lubin. The potential is it would increase. It is a function of how many exchanges and lines get sold.

Mr. Stearns. Creating an alternative recovery mechanism for intercarrier compensation revenues.

Let me repeat that. Creating an alternative recovery mechanism for intercarrier compensation revenues. Will that increase the size of the fund or decrease it in your opinion?

Mr. Lubin. That has the potential for increasing. Again, it is a function of how and what the benchmarking means.

Mr. Stearns. Okay. So in this question I have given you three areas, and it looks like to me in all three areas you said it would increase.

Mr. Lubin. I said the potential is there.

Mr. Stearns. Potential. Okay. Let me have Verizon. Do they have any disagreement on this?

Mr. Greer. No disagreement on that, Representative Stearns. I think you are probably getting to the second half of the question, which is are there other aspects of the legislation that could potentially decrease the size of the fund as well.

Mr. Stearns. I am happy with the decrease. I am just concentrating this morning on what areas that I think might increase, just so we have an understanding where the worst case scenario would be.

Mr. Rosston, is there anything you might want to comment on this relative to Mr. Lubin's answers?

Mr. Rosston. No, I agree that I think those all three provisions would increase, are likely to increase the size.

Mr. Stearns. Likely increase. Mr. Lubin has indicated in some cases he would need additional information to provide a real cost estimate. Do you think you can emphatically say, more so than he, he sort of has some qualifying points here. Do you feel pretty much that all three of them will increase in your mind?

Mr. Rosston. Mr. Lubin has studied this in much, much more detail than I have. But, for example, the parent trap would have no almost no chance of decreasing the fund, and any sales would probably increase the size of the fund, as one example. The same would be true of intercarrier compensation.

Mr. Stearns. Let me go to Mr. McSllarrow. You recommended targeting support for broadband services to areas to areas and consumers that currently lack service. I guess the first question is, do we know those areas and consumers, where they are today? Do we know where they are?

Mr. McSllarrow. I think by and large we do, so I think we do have the ability to target support where it is most needed.

Mr. Stearns. Shouldn't we wait on the results of the 7.2 billion broadband stimulus and the broadband mapping efforts that are currently underway before paying companies even more to provide broadband service in areas that may already have it?

Mr. McSllarrow. I think the answer is yes, but I think it is going to happen. I mean, the timeline here, we are already in November of 2009. The mapping will get done next year, and any plausible scenario where this legislation moves, I think it will

match up so we have that data.

Mr. Stearns. So in your opinion, we shouldn't wait?

Mr. McSlarrow. No, I am not suggesting we wait. What I am suggesting is the mapping I think will get done --

Mr. Stearns. Before the bill passes?

Mr. McSlarrow. Yes.

Mr. Stearns. Dr. Rosston, isn't it true that a tax on broadband could decrease broadband subscription and inhibit adoption?

RPTS KESTERSON

DCMN HOFSTAD

[11:35 a.m.]

Mr. Rosston. Yes. Increasing taxes on broadband to pay for -- as I said earlier, every dollar you spend comes from someone else's pocket. So that would increase the price for other people, and they would possibly respond by reducing their subscriptions.

Mr. Stearns. Okay.

Ms. Moyer, do you think in your heart of hearts that the bill, as drafted right now, would lower a consumer's bill? I mean, would you put your money on it?

Ms. Moyer. My own money?

Mr. Stearns. Your own money.

Ms. Moyer. I truly believe that, by expanding the contribution base, yes, it would.

Mr. Stearns. So in your heart of hearts, you would put your own money on this then?

Ms. Moyer. I guess that is what I am saying.

Mr. Stearns. Okay. Well, you have some skin in the game, so I respect your opinion. Thank you.

Ms. Moyer. Thank you.

Mr. Boucher. Thank you very much, Mr. Stearns.

The gentlelady from California, Ms. Eshoo, is recognized for

5 minutes.

Ms. Eshoo. Thank you, Mr. Chairman.

And thank you to all of the witnesses.

I have made a point in other hearings and in my communications with the NTIA, the FCC, and RUS that high-speed should be a primary goal for broadband rollout. I think that this legislation sets the floor too low. It defines broadband as 1.5 megabits downstream without any upstream requirement, and it locks in this speed for 6 very long years. And, as I said in my opening statement, you know, I mean, everything has changed and continues to change so quickly. Six years is a very long time.

People in rural America deserve, I think, high-speed access, as well. And I don't think we should lowball them as part of the overall reform efforts. I think we need to keep in mind that we have no idea what will be happening in 6 years.

Telecommunications develops so quickly that this speed might be considered a relic by then. So why lock this in for 6 years?

In the broadband bill that I had put forward, we set forth a 50 megabit down and 20 up requirement, which I believed would drive investment and spur adoption. But who knows? That might even be too slow. So I think we need to use the broadband map to determine which speeds are appropriate for a given market.

So my question to you, the panelists, is, how can we use the broadband map to help guide our policy, especially on determining the appropriate speed? Do we really need one speed for the whole

country?

And I am also concerned about the bill essentially maintaining the status quo for the High-Cost Fund. Recipients of the fund are not required to provide broadband services, which I think is a huge mistake. I mean, I think that we are ignoring our future. I think we are ignoring the present, much less the future. So I think that there is a big hole in the bill in this area.

And so my second question is, shouldn't the bill require the FCC to utilize the new broadband map to determine if an area is already served by a provider that may not receive any, you know, fund support?

Is there any sense how much could be saved if we first determine which areas -- and I think Mr. McSlarrow spoke to this, and maybe some others did, as well. Is there any sense how much could be saved if we first determined which areas are already served by a provider offering voice, video, and data today and not receiving any government support?

And, lastly, if there is anyone that would like to comment on Ms. Matsui's bill, which will use the Lifeline Program as a base for broadband accessibility for the unserved and the underserved populations.

So those are my three questions, and whomever would like to start the ball rolling.

Good. AT&T is first.

Mr. Lubin. To me, those are three very important --

Ms. Eshoo. Can you get closer to the microphone so we can hear you? Thanks.

Mr. Lubin. Three very important questions. The first question about speed, and I want to link that question --

Ms. Eshoo. Can you be as concise as possible, since I asked three and I want to get as many answers in as possible? Thanks.

Mr. Lubin. Okay. The issue of speed is all about how much are we willing to pay into the fund; meaning, how big is the fund? The higher the speed, more the size of the fund will be. So that is a tradeoff for the policymakers if you want it to end up being --

Ms. Eshoo. But what is AT&T's position in this, though?

Mr. Lubin. AT&T's position with regard to speed, with regard to USF, is, if you take USF, then you have to meet whatever speed requirement is in the bill, and you are going to ultimately be a form of making a commitment to provide all comers with that speed. And so our concern with going -- even 1.5 megabit is potentially too high when you start looking at what the size of the fund would be. So that is our concern with regard to the first question.

With regard to the second question on unserved areas in terms of the mapping, we think that is a very important issue to be addressed. And AT&T, April 18, 2008, made a filing tteing up this point, where we should focus on unserved areas, thus possibly being able to control the size of the fund. So having focused on

unserved is a very important aspect.

But I would like to highlight to you, once you do that, in particular for the RLECs, if you start looking at the very high-cost areas, the presumption is you may reduce the size of the fund. I think Ms. Moyer hit right on the head, is that once you do that, you may, in fact, start to increase the size of the fund.

With regard to Lifeline, we think as we transition from this POTS world to a broadband world, we think a lifeline is going to be absolutely critical in a broadband world. Our bottom line with regard to Lifeline is we think the whole Lifeline plan --

Ms. Eshoo. How long do you think it is going to take to get us to what you are describing, though? Do you think we should set this down, the lowest numbers for 6 years, 6 long years? Do you think that is good policy for the country?

Mr. Lubin. Again, it is a question back to how much are you willing to fund, how big will it cause the fund -- I have already heard issues about what the concern of the growth of the fund will be. I think if you make it much greater than 1.5, that question is on the table.

If you want to suggest less than 6 years, I think that is a valid thing to say. Let's look at it shorter than 6 years. But listening to this conversation, clearly, the higher it is, the bigger the size of the fund. That is the linkage and the issue.

Mr. Boucher. Thank you very much, Ms. Eshoo and Mr. Lubin.

The gentleman from Texas, Mr. Barton, is recognized for 5

minutes.

Mr. Barton. Thank you, Mr. Chairman.

I was watching the hearing in my office, so I heard everyone's testimony, and I heard your questions and Mr. Stearns's question. So I haven't been present, but I have been observant while I have been multitasking.

I brought my bill. I just got my Verizon bill. And for services I pay \$26.53. For taxes -- actually, it says "taxes, fees, and other Verizon charges," whatever that is, \$10.49. So I am paying 40 percent of my basic phone service in Virginia is taxes, fees, and other Verizon charges.

It seems like -- although I did find out that the universal service portion of this is fairly minimal because I don't make any long-distance charges. Although Virginia does charge me a Virginia Federal Universal Service Fund surcharge, Mr. Boucher, of 76 cents. And I hope you can do something about that.

If I wanted to ask a trick question, I would ask Mr. Davidson what a sensible minute is. Verizon charges me \$2 a month for a sensible minute. I have no clue what a sensible minute is.

Mr. Davidson. We will have to get back to you on that, Mr. Barton, on the sensible minute. But I doubt it was our idea.

Mr. Barton. Yeah.

My first question is a rhetorical question. Anybody on the panel can answer. When did we first pass universal service? When did it become a mandate that there be a universal service charge?

Anybody know? I would assume in the 1930s. Does anybody on the dais know? And I don't --

Mr. Boucher. Would the gentleman yield for just a moment?

Mr. Barton. Yeah.

Mr. Boucher. Universal service has been inherent in the structure of the telephone network essentially since its inception. And it wasn't until the Telecom Act of 1996 that we made the universal service subsidies explicit.

Mr. Barton. But when did we first start charging universal service --

Mr. Boucher. Well, that has been inherent in the structure of the flow of revenues essentially ever since we began --

Mr. Barton. But it wasn't a Federal mandate --

Mr. Boucher. It was not a mandate. It was just done within the industry, where urban residents and users of long distance wound up paying somewhat more in order to keep telephone service affordable elsewhere.

Mr. Barton. Okay.

Well, my first question, I am going to ask this to the gentleman from Stanford, Dr. Rosston. Is broadband today the equivalent of basic telephone service in the 1930s?

Mr. Rosston. I think that is not an economics question that I would answer as an economist. It is probably much -- if you look at the data, broadband is much more pervasively adopted today than telephone service was in the 1930s. Whether you are asking

that as a values question, I can't answer that. But just, sort of, the data shows that broadband has been adopted much more rapidly than telephone service was and it is much more pervasive than it was in the 1930s.

Mr. Barton. Well, the reason I ask that is because one of the apparent premises of the Boucher-Terry draft is that broadband should be equivalent to basic phone service, that it is almost an entitlement and should be treated as such. And I am not quite ready to go there yet.

I think broadband is an improvement, I think it is an enhancement, I think it is a good thing to have. But if I choose to live in very rural America by choice, I like that lifestyle, I don't know that -- one of the witnesses from one of the smaller phone companies basically said, "People that live in rural America expect to have the same services," la di da di da, "as people that live in urban America."

And I am not sure -- I mean, I think you make a value decision, if you have a choice of where you live. If you choose that rural lifestyle, I don't know that you automatically are entitled to the enhancements that require more critical mass and a greater population density.

So that is one of the things I want to work with Mr. Boucher and Mr. Terry on, is this broadband mandate.

My time has expired. I am going to ask one question to Mr. McSlarrow. Does the cable industry currently pay a universal

service charge?

Mr. McSlarrow. Yes.

Mr. Barton. You do. Do you support the concept in the Boucher-Terry draft that expands the base of who pays the tax?

Mr. McSlarrow. Yes.

Mr. Barton. You do. Okay.

Thank you, Mr. Chairman.

That is not the answer I wanted, but thank you.

Mr. Boucher. It is the answer that I am glad he gave. Thank you very much, Mr. Barton.

The gentleman from Pennsylvania, Mr. Doyle, is recognized for 5 minutes.

Mr. Doyle. Thank you, Mr. Chairman.

Mr. Rosston, in your testimony, you said you believe that subsidies should follow consumers, not companies, to increase competition and choice. Do you think, is a reverse auction the only way to accomplish that, or could a voucher work? And are there any other ways, as well? And what are some of the pros and cons of those approaches?

Mr. Rosston. So, what I said in the testimony is, if you had a voucher system that, in my view, would be low-income vouchers that were cost-adjusted -- so a low-income household in a dense, urban area would get a smaller voucher because the company would be charging a lower price in that area, and a higher voucher in a rural area so that they could afford it in a rural area -- you

could do that. And the voucher could be income-tested and cost-tested, sort of like health-care vouchers might be adjusted for people's age and health conditions, that you would have a voucher for telephone service or broadband service.

And that could be done without an auction, and it would cause the consumers to have the ability to choose their provider. And the providers would have to compete for the service. Whether they wanted 1.5-megabit service or 5-megabit or 10-megabit or portable service so that they could use it on their wireless phone as opposed to at their home, they would have this ability to have companies compete for their business.

Mr. Doyle. Thank you.

Mr. McSillarow, what do you think about those ideas?

Mr. McSillarow. I didn't hear the question.

Mr. Doyle. What do you think about the idea of a voucher system or --

Mr. McSillarow. I mean, in economic terms, I agree with that. And I think any system where we can put more money in the hands of the consumers themselves and let them make the choices is probably a better system.

Mr. Doyle. And I also want to give you the opportunity -- I know that several of the testimonies from the phone companies talked about some of the concerns they had with your proposal. And I wanted to give you an opportunity to maybe address some of those concerns that were brought up about your proposal.

Mr. McSlarrow. Thank you.

The first thing I would say is that what we are proposing is, in essence, a framework. There is no automatic reduction of high-cost support. What we are saying is that you apply two tests. One is a regulatory test; one is a market competition test. If it shows that you have that kind of competition, it still allows the incumbent who is receiving support to come forward and say, "Here are all the reasons why, if you took out support in a competitive area, my revenues can't cover my costs." So they still have an opportunity to make a showing for some level of support.

And Ms. Eshoo actually asked a question; I didn't get a chance to answer you. Our analysis is that there is about \$2 billion that we would at least, under our proposal, take a look at. We are not saying \$2 billion goes away. People have the opportunity to make those showings back and forth.

Mr. Doyle. Very good.

That is all I have, Mr. Chairman. Thank you. I will yield back.

Mr. Boucher. Thank you very much, Mr. Doyle.

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

Mr. Terry. Thank you, Mr. Chairman.

And, Mr. Lubin, let's continue this exercise. Assume the cap is put in place. Will the fund go up or down?

Thank you for your answer.

And Cliff did a great job of, kind of, hitting on what the main issue is here. We understand that, with some of these reforms, that the costs will have additional pressures. The pressures from those items that were brought up, other than ICC, which I think is a different issue than what this base bill addresses today, would make the fund increase.

The reason why our rural friends have had a difficult time embracing this bill is because of the cap. And I think that is an important point to make here, is with the cap, that keeps it status quo, albeit with an FCC traditional inflation rate.

So, with the cap, do you think that that is an adequate measure to hold down the explosive costs of high-cost USF?

Mr. Lubin. With the way in which this bill structures the cap and the way in which you just removed three of the items, I would say yes.

Mr. Terry. Okay.

Mr. Lubin. I would also highlight that how you handled the wireless issue, with the competitive bidding, there you have the opportunity that the aggregate dollars would come down.

Mr. Terry. And that was my next question. Thank you. You just eliminated that for me. I appreciate that.

But, yeah, there are actually cost-cutting measures in here. For example, limiting new entrants, especially on the wireless side. And we appreciate Verizon and the others helping

participate in brokering that deal. Limiting new entrants, going to actual costs. Is that something that would relieve pressure on -- the upward pressures on the fund?

Mr. Lubin. That remains to be seen.

Mr. Terry. Okay.

The gentleman from Stanford, Doctor -- what was your last name again?

Mr. Rosston. Rosston.

Mr. Terry. Rosston. Economist. Based on your experience as an economist, let me throw this scenario out. University of Nebraska beats Kansas State. We go to the Holiday Bowl and play Stanford. Who wins?

Mr. Rosston. I will have to get back to you on that.

Mr. Terry. Okay. Good answer.

But getting to a more serious question, you brought up the distortion in the pool. And that is that, as the pool of payers grows smaller -- and we have heard testimony here -- since those that pay the universal service fee into the system, they just get billed every, what, 6 months or something by USAC. And now it could go as high as 14 to 15 percent. I mean, that is something that was unfathomable a year or so ago.

So, broadening the pool of payers is one of the founding principles of this bill. So at least that principle you think economically is sound?

Mr. Rosston. Yes, I think broadening the base of the tax

will help to reduce distortions from the tax.

Mr. Terry. And the distortions here have been, I think, well set out by the ranking member, former Chairman Barton, when he talks about the impact on his bill. Although the USF impact is hidden within the charges, and it is not explicit. But the fact of the matter is, he is one of those left standing paying, and if you broaden the base, his bill could actually go down?

Mr. Rosston. Well, I think that depends on how many bills he has and --

Mr. Terry. And also assuming the cap is in place.

Mr. Rosston. Well, the cap is -- I think it is -- it could be -- it is a question of how effective the cap is at reining in spending, as well, because there are provisions about whether the cap would be effective, I think, about it adjusts for working loops as well as inflation. I think those things could be tightened down a little bit, as well.

Mr. Terry. Well, we can look at that. I am going to interrupt because I only have a few seconds left.

And, Ms. Moyer, one of the items that I think will help control the costs is having professional, skilled audits done. Do you support that? And give us examples of how the audit process works today.

Ms. Moyer. Yes, we fully support that.

Today's audit procedure, especially at the FCC's OIG office, the most recent three rounds of audits have unfortunately been

performed by auditors who don't know much about telecom bookkeeping and finances and, I think, led to some erroneous results, many of which USAC has refuted since then.

But to actually do something that is based on FCC methodology and with some trained auditors would be welcomed.

Mr. Boucher. Thank you very much, Mr. Terry.

The gentlelady from California, Ms. Matsui, is recognized for 5 minutes.

Ms. Matsui. Thank you, Mr. Chairman.

As I mentioned before in my opening statement, there have been several recent reports that strongly suggest that adoption rates are largely associated with income. I would like to highlight one study that particularly affects my home State of California.

According to the Public Policy Institute of California, only 58 percent of Californians earning under \$40,000 a year subscribe to broadband at home, but, in contrast, 97 percent of those earning over \$80,000 or more a year subscribe.

I would like to ask a question of Mr. Rosston, the Californian there. It is my understanding that you have conducted extensive research on the USF Lifeline/Link-Up program. As you know, the price of broadband is not cheap these days, usually ranging from \$40 to \$60 a month. In your studies, is there strong evidence to suggest that the price of broadband is a determining subscribership factor of many low-income Americans in urban and

rural areas?

Mr. Rosston. So, my research is focused on Lifeline and Link-Up for telephone service and not necessarily for broadband, but it would be sacrilegious, as an economist, not to say that price matters.

For low-income households, I think we should study this and make sure that any program we have we can figure out, what is the impact of price on low-income households? The evidence, in our research, is that -- there are two programs, Lifeline and Link-Up. In our view, we found in our research -- we didn't go into this thinking about it, but that Link-Up turned out to be much more effective because of the high cost for telephone service just paying the connection fee. For broadband service, you need to not only pay the connection fee, but you also need to have a computer and knowledge of how it might work and how it might benefit you.

So, Link-Up targeting those who are not already online is probably a very effective way of doing this.

Ms. Matsui. So you believe that if you had a program similar to the Link-Up program, that if it was created for the universal broadband, that it would be an effective vehicle to expand increased broadband adoption rates?

Mr. Rosston. Yes, I think the Lifeline and Link-Up program would increase broadband adoption rates.

Ms. Matsui. Okay. And your analysis of the current Lifeline/Link-Up program, would be it accurate to assume that any

expansion of the program for broadband adoption would be just as beneficial for rural consumers as it would be for urban consumers?

Mr. Rosston. Yes, I think so. I think that poor people live both in urban and rural areas, and so Lifeline and Link-Up would be beneficial in both areas.

Ms. Matsui. Okay. Thank you.

I have a question for Ms. Moyer and Mr. Rhoda.

Ms. Moyer, I would like to begin with you. It is well-noted that one of the barriers to further broadband deployment in rural areas is getting more households to subscribe to broadband.

In your view, would a program for broadband adoption similar to the current Lifeline Program help increase adoption rates in the communities in which you serve and other rural areas across the country? And would it help further the goal of broadband deployment in current unserved rural areas?

Ms. Moyer. Yes, I do agree. And I believe that your legislation would spur that adoption, as well as education.

Ms. Matsui. Okay. Thank you.

And, Mr. Rhoda, could you briefly address the same question?

Mr. Rhoda. We agree, as well.

As far back as 2006, we talked to the FCC about adoption programs. We have been in recently to do the same. And I think they need to cover the cost of the device, the laptop, the computer. I think that they need to cover education. Some people just clearly don't understand the benefits that broadband will

bring to them. And then they also, finally, need to cover the cost for those that can't handle the monthly service in some respect.

So we are fully supportive of your efforts.

Ms. Matsui. Okay. Thank you.

And I have a question for Mr. Baum. Deployment of broadband has reached 96 percent, but subscribership rates have lagged far behind, in both urban and rural areas.

Do you believe Lifeline for broadband would improve subscribership rates? And at what price point do you believe or do you think would be reasonably affordable?

Mr. Baum. First of all, the NARUC board of directors passed today a resolution supporting your Lifeline bill.

Ms. Matsui. Oh, thank you.

Mr. Baum. And we think it is difficult to put the benchmark out there, but I would take a wild guess, would be \$25, \$20, something in that neighborhood.

Ms. Matsui. \$25, \$20.

Mr. Baum. But I would probably defer to my colleagues in the industry that actually run the models and do this kind of thing.

Ms. Matsui. Does somebody else have a comment on that?

Mr. Baum. But, yeah.

Ms. Matsui. Okay. Thank you.

I was actually thinking maybe in the \$30 range or so, so it is probably quite close to what you are thinking. And so that

really sounds like maybe a \$10 to \$15 per month subsidy, which is in line with the reimbursement under the current Lifeline Program. Would you consider that to be about right?

Mr. Baum. If we had broadband as a supported service, the benchmark for that service would be in the \$30, heading towards \$40 in the future, because that simply is the basic cost out there for that 1.5-megabit service is in that range.

Ms. Matsui. Okay.

Thank you very much, and I yield back my time.

Mr. Boucher. Thank you very much, Ms. Matsui.

The gentlelady from Tennessee, Mrs. Blackburn, is recognized for 5 minutes.

Mrs. Blackburn. Thank you, Mr. Chairman.

And I thank you all for your patience and your indulgence. I know you have been here for quite a while.

I got just a couple of questions that I want to ask. And let me start, Mr. Davidson, with you. And let's just go down, if you all have something to add on this.

If you could change one part of this bill, if you think we are getting it wrong in one area, if you wanted to change one section of this, what would you change and why?

And quickly, we will start with you, sir.

Mr. Davidson. Sure. I think probably the first thing that we would look at is -- and this is actually a suggestion that is in the bill, but it is directed in the bill, and that would be

going to the numbers contribution formulation. I think that is the most efficient way in the modern world of the various means --

Mrs. Blackburn. Okay, so let me interrupt you right there. The contribution formulation, just to give some specifics on that, to define it.

Mr. Davidson. Sure. So today, as I mentioned in my testimony --

Mrs. Blackburn. No, I mean, in the language. You are just saying --

Mr. Davidson. Oh, well, it would just specify in the language that the FCC should follow a numbers-based approach for contributions.

Mrs. Blackburn. Great.

Mr. Greer?

Mr. Greer. We have concerns with the cap. But we look forward to working with the FCC on the national broadband plan when it comes out next year.

Mrs. Blackburn. Okay, great.

Mr. Rhoda. From Windstream's perspective, it would be driving efficient costs across the board. Some of the mechanisms in today's environment don't necessarily force carriers to be efficient and yet still get reimbursement. There is a number of measurements in this bill that do drive efficiency, but it is not across the board.

Mrs. Blackburn. Thank you.

Mr. Lubin. I would highlight the issue of speed. I am concerned about the level of speed, not that it is too high -- I am sorry, that it potentially is too high. And the issue of concern is if you can -- now, I am focused on rural area, I am focused on if there is an alternative technology that can get it out there in a cost effective way. And that is a way to control the size of the aggregate fund.

Mrs. Blackburn. Excellent.

Ms. Moyer?

Ms. Moyer. The rural ILECs have concerns with the cap language.

Mrs. Blackburn. Okay.

Mr. Baum. Well, NARUC has concerns about the preemption language. But, on a personal basis, I think the speed needs to be realistic as to what we really need in the economy.

And we have to also acknowledge that there are a lot of rural constituencies that produce the food and fiber for the country that need access to this kind of broadband technology. And it is not a choice for them to live there; it is how we feed ourselves. And their hospitals and schools have to have that same access to broadband.

Mr. McSlarrow. Since I have already talked about my proposal and Peter talked about numbers, I am going to cheat and add a third, which is ensuring that if we are going to have support for broadband, that it be restricted to truly unserved America.

Mr. Graham. Thank you for your kind comments earlier. I appreciate that.

RCA would change the reverse auction provision. It is simply not a silver bullet for USF reform. Reverse auctions encourage a race to the bottom. They do not guarantee a reduction in cost. And they discourage new entrants.

However, if we move forward with reverse auctions, they absolutely should apply to everyone participating in the USF fund and not only wireless providers. If wireless providers are subject to it as part of a greenfield build, surely wireline providers who have depreciated plant in the ground over a number of years could compete as well.

Dr. Rheuban. For purposes of telemedicine, we are very supportive of the bill in its current status.

The one thing we might add is to ensure upstream bandwidth, as well, because for telemedicine we are trying to get feedback from the patient or from the hospital. So it should be bidirectional.

Mr. Rosston. So I would change the whole system to be vouchers to low-income households. But, given that that is not going to change in this bill, I would say extend auctions, set a time limit for the FCC, and put them in in the next 6 to 12 months and go ahead. They are not a silver bullet, but they are better than the current system.

Mrs. Blackburn. Thank you very much.

And I have 23 seconds left. Mr. McSlarrow, I will come back to you and not take the committee's time right now. But I think we need to look at how quickly we are moving to an IP world and VoIP as a primary technology. And as we looked at the reauthorization of the 1996 Telecom Act, one of the things we heard from all of you was, "Well, the bill is arcane, the bill has outlived its usefulness, technology changes so fast." And I think that one of the things that we need to look at is what we can do to ensure that the universal service mechanisms work in a changing environment, in a VoIP environment, and making certain that this bill is going to work in an IP world.

And I know I am out of time, but I would appreciate your response to that question in writing as we move forward or at a later date.

And I yield back, Mr. Chairman. Thank you.

Mr. Boucher. Thank you very much, Mrs. Blackburn.

The gentlelady from the Virgin Islands, Mrs. Christensen, is recognized for 5 minutes.

Mrs. Christensen. Thank you, Mr. Chairman.

I will direct my first question, not surprisingly, to Dr. Rheuban. But I wanted to thank you for some of the recommendations that you have made, realizing how much we are relying on telemedicine and health-care reform and to improve outcomes and reduce costs. So I appreciate the recommendations that you made.

The USF Reform Act requires that universal fund recipients offer high-speed broadband services with a download rate of at least 1.5 megabytes per second. In your testimony, you spoke to different broadband needs for different services. And I wanted to know if the speed that we are recommending of at least 1.5 megabytes per second is adequate for what is required to support all of the services.

Dr. Rheuban. I think for HD and surgical mentoring it is not sufficient. I think it is sufficient for a clinic operation or, certainly, for the home. You know, home telehealth wouldn't require quite as much bandwidth as some of the more sophisticated applications.

And if you have multiple users providing health-care services in a hospital, you can imagine that the demand for the bandwidth would be significantly greater. So, again, 1.54 is good for some applications but not for others.

Mrs. Christensen. Thank you.

I guess I would ask this question to Mr. Baum and Mr. Rosston, but if anyone else wanted to jump in, it would be fine.

Section 104 on eligible recipients of universal service support exempts existing recipients of the USF funds, primarily rural telecos, from the requirement to deploy and provide high-speed broadband service for 5 years. The FCC may also grant a 3-year waiver of this provision if the provider demonstrates that it is not technically feasible or would materially impair its

ability to continue to provide local exchange service. That waiver is renewable for every 3 years.

Ubiquitous broadband deployment is a primary goal of the administration and this Congress, this committee. Currently, the FCC is working on a new national broadband plan. Even the discussion draft requires new providers who are eligible to receive USF support to deploy high-speed broadband service and provide it.

So why should we exempt existing recipients of USF? Do you agree with that exemption or waiver?

Mr. Baum. What that refers to is the fact that some of these areas are so remote and so expensive to serve that we really probably need to have a satellite option there. There will be some really remote pockets of population and even single-family dwellings that simply are too far out in the rural areas of America to be receiving broadband by a fixed basis. So either their service is either some kind of wireless broadband or, in this instance, it would be satellite.

We simply can't get everywhere in the country. We might get to 98 percent, we might get to 96 percent somewhere. And, also, remember that we never got phone service beyond about 95 percent of the population. Some people just don't want to hook up, and some people are just too far out, and it would be too expensive to serve them. And they will have to do a satellite.

Mrs. Christensen. Mr. Rosston, did you want to add anything?

Mr. Rosston. No. Just, the satellite option is an important safety valve, in that it covers pretty much most everywhere and especially the high-cost areas. That would be a safety valve in this.

Mrs. Christensen. Well, let me ask you, Mr. Rosston. One of your main points is that you suggested subsidies should go to consumers, not companies, to increase competition and choice.

Could you elaborate on that? It sounds very attractive. It sounds like it may be a major upheaval, though. Could you elaborate on that recommendation?

Mr. Rosston. Sure. It is generally a way of giving consumers choice in what they want. If you decide that the best service for your house is a wireless service because you work outside a lot of the time and need to be accessible, that you would have the chance to use the subsidy to provide you service that gets you outside.

Or if you move around, if you are a plumber that does jobs and you need to look up stuff and you don't need 20 megabits a second to watch videos but you need to look up parts for your job, you would be able to do that and use the different kinds of services that are tailored to what you want to do.

So I think that this would then give consumers the choice to pick the service that best suits their needs.

Mrs. Christensen. Thank you.

Mr. Davidson, you, in your testimony, said the problem is not

spending too little but spending it in the wrong places. How would you redistribute the funds? And does the bill adequately address that change?

Mr. Davidson. Thank you for the question.

Yes, I think that is right. I mean, the question is of finding out right now where the true needs of consumers are. And I would also go back and focus the panel on the needs of the consumer, too, which I think has been a great part of this hearing. We have spent a lot of time talking about that.

So the mechanisms that the Boucher-Terry bill use to figure out where the services are needed and where they aren't I think are very important. So, the competitive bidding portion. Again, I mentioned the numbers formulation before. And --

Mrs. Christensen. So you think we are adequately addressing that issue in the bill?

Mr. Davidson. I think they are, yes. I think the bill has many provisions in it that are trying to prioritize where the scarce resources should be directed. So there are many aspects of the bill that are directed towards doing that.

And there have been some other ideas raised on the panel here, as well. Mr. McSlarrow's idea is interesting, and others as well. So I think those should be examined to make sure that we are prioritizing the funds.

Mrs. Christensen. Thank you.

Thank you, Mr. Chairman.

Mr. Boucher. Thank you very much, Mrs. Christensen.

The gentleman from Oregon, Mr. Walden, is recognized for 5 minutes.

Mr. Walden. Thank you very much, Mr. Chairman.

I want to thank all the witnesses for their testimony today on this very important piece of legislation.

I want to go to Mr. Baum. In Oregon, where certain nationwide service providers are shedding their remaining rural lines, can you outline for us how the parent trap may impact other carriers' decisions to step in to provide phone service to the rural constituents I have?

Mr. Baum. Well, the reality is that the Regional Bell Operating Companies have been unable to do an adequate job of deploying broadband in their high-cost rural areas. That is because they face competition in their urban areas, and their business model just simply doesn't allow them to do that.

The RLECs, rural companies, in contrast, do receive better subsidies from the Universal Service Fund, which allows them to deploy broadband. So their broadband is out there about 92 percent, and, depending on the company, the RBOCs are anywhere from the low 70s to the high 80s.

They just don't have a business model that works. So the parent trap would allow some of the midsized and small companies to come into those areas and to refurbish them and get the subsidy that they would receive as RLECs to refurbish some of those areas

and deploy broadband.

It would be important to have that dealt with in some way because, really, the failure to deploy broadband in rural high-cost areas is largely a Regional Bell Operating Company's issue and affects about 50 percent of the country. And we simply have to address that issue. And that is why it is important that we do something in that regard about the parent trap.

It is also important that we focus some of this money, if there is some, on the unserved areas in those RBOC areas. And that could be done by auction; it could be done by requests for proposal. But we need to have infrastructure built out there so that those communities can have the same benefits that the communities have that are served by the rural local exchange carriers.

Mr. Walden. Let me switch gears, since we are on the broadband build-out. And when the stimulus bill was debated before this committee, there was a significant amount of money put forward to engage in broadband build-out. And we had rather extensive discussions here about the money getting out there before the mapping was completed and the debate over underserved versus unserved.

Now I understand they are compressing the second and third wave of funding. And I just wonder, from your position at NARUC and as a commissioner, what you are seeing in terms of where this money is going. Because it seems to me that, with the taxpayer

dollars involved or the USF dollars involved, it should go into areas that have no service to begin with if we are going to knit this country together in a broadband world.

Mr. Baum. One of the problems of the current broadband stimulus package is some of the bigger companies have declined to apply because of some issues over Net neutrality and not certain about what those strings mean to the deployment of dollars. So half of the country's areas, they don't have the major ILEC in that area even applying in the high-cost areas.

Now, there are some other people that are applying, kind of, a little bit of an over-built fashion. Some of them are other areas. You know, we have a -- for instance, in Oregon, Bend Cable is also applying to roll out broadband in an area that is served by Qwest. And they are trying to go outside of town and serve unserved areas, but unfortunately when you try to serve any area, you are going to serve the populated area as well. And so it is difficult to truly target an unserved area.

So there will be some improvements in the broadband stimulus. It will deploy some things in some unserved areas. But we still have major players out there who aren't in the game.

Mr. Walden. And, Mr. McSlarrow's, Kyle's comment, his suggestion about a different way to look at the whole model. And, Kyle, I believe you indicated that it be in an area that is 75 percent served? Would then be in a competitive --

Mr. McSlarrow. Yeah, we are proposing, essentially, two

tests. One would be in a rural study area, say, where there is significant competition, which we are defining as 75 percent or more of the households can receive a competitive unsubsidized service, or a situation where the State has actually deregulated prices, on the theory that competition is present.

Mr. Walden. So I guess my question would be -- and, again, I have a district that is 75,000 square miles. So you could have the urban area, to the extent we have them, in a very large geographic area and probably serve 75 percent of the population.

My concern is, what happens to that other 25 percent that is out in the area? And so, how do you define that circle, if you will, in which you score the 75 percent penetration?

Mr. McSlarrow. It is a good question, I think. And, actually, this goes to one of the proposals in the bill. I think moving to wireline centers actually helps. I think the smaller you can make a certain area, the less you are going to run into that problem.

But, remember, under our proposal, you still have the ability, if, in fact, there is some other area that isn't being covered, to make a showing that USF high-cost port is still appropriate --

Mr. Walden. So if you have an area that is 100 percent and 75 percent is the area that is served and would meet your test, do you have that ability, under your proposal, to go after that remaining 25 percent in that area and be subsidized to reach it?

Mr. McSlarrow. Yes. The incumbent can come make a showing that there is 25 percent that is not covered by competition and that there is still a need for high-cost support.

Mr. Walden. All right. My time has expired, but I appreciate your generosity with the time.

And, again, thank you to the panelists.

Mr. Boucher. Thank you very much, Mr. Walden.

The gentleman from Michigan, Mr. Stupak, is recognized for 7 minutes.

Mr. Stupak. Thank you, Mr. Chairman.

And thank you for our witnesses for being here.

Mr. Baum, let me ask you this question, if I may. A little different twist here. Do you believe that, as we reform USF, that we should consider the telecommunication needs of public safety? And, if so, how would you go about doing that?

Mr. Baum. Well, you are aware that public safety is one of the applications that is eligible under the broadband stimulus.

Mr. Stupak. On the stimulus, right.

Mr. Baum. Yes. And there is also those 700-megahertz applications that some of the local jurisdictions are applying for waivers to get from the public safety trust. So that is moving ahead on that front. So there is, kind of, some things moving ahead.

But right now, for instance, in Oregon, we have a \$440 million bonded project to build out a microwave public safety

network. And those are our local State efforts. So, nationally, there is some funding available through the Department of Homeland Security, there is some stimulus money there. It is, obviously, not going to do the trick.

But we judge our applications for stimulus based on how many of these proposals they serve, whether they provide public safety application in their proposal, telehealth, distance learning. All of those things are part of the application process that we are encouraging companies to make under the broadband stimulus, to make sure they satisfy those criteria.

Mr. Stupak. Right. But what about under USF? Should we use law enforcement as one of them? Especially, when we talk about interoperability, I mean, rural areas just cannot keep up with the high cost of technology.

Mr. Baum. In my perfect world, we would focus on those unserved areas, and anchor institutions would include law enforcement, schools, libraries, medical facilities. And from there you could build it out and spider-web it out to the residences. But you need to have that for the public safety network, as well.

Mr. Stupak. Correct. Okay.

Mr. Graham, do you want to jump in on that?

Mr. Graham. Yes, thank you.

The easiest way to deploy broadband for public service, at least within the State of Mississippi, is to make broadband a

supported service immediately. We are in the process of preplanning some applications with the Mississippi Highway Patrol which would allow officers to have an E-ticket program with a wireless connection. It would also allow them to input accident data into their laptop --

Mr. Stupak. Sure, but that is basically for State employees, right? How do you get your local police chiefs, the sheriff's departments in the same system so it is interoperable so you do have a seamless flow of communication? It seems like we are going to have a dedication of funds that is somewhere between \$20 billion and \$40 billion, and every time we try to do a trust fund so law enforcement will have the money we never seem to get anywhere.

Mr. Graham. In one of our metro counties, we have already launched this with the sheriff's department, a similar program. They have broadband connectivity from their cars. Applications are easy to envision where they will have realtime video late at night on a county road. And you can easily extend that into paramedics and emergency responders like that.

Mr. Stupak. Sure. The county may have it, but what about the municipalities within there? Are they part of that same system?

Mr. Graham. They are not part of that same system yet. They could be part of that system.

Mr. Stupak. Could be, would be, want to be. Lack of money,

right?

Mr. Graham. As long as the services -- as long as the cloud is there, the broadband cloud is there, they can access it.

Mr. Stupak. Let me ask you this, then, Mr. Graham. Based on your testimony, since 2000, USF has provided, like, \$26 billion in subsidies, landline, and 4,000 for wireless. The FCC capped the wireless fund to control costs, but we still have an increased contribution rate somewhere around -- it went from about 10 percent to 14 percent.

So we have increased the contribution that consumers are paying, yet we capped the wireless. It seems like we are getting less for more. So Joe Barton, when he comes in with his telephone bill, he is paying more, but yet we have less than we did 2 years later for wireless communication.

Isn't that really the way we are going?

Mr. Graham. We completely agree with that. We are going in the wrong direction, capping wireless. Wireless may have seen growth, but it is because we have gone from zero funding to the funding we receive today. We continue to subsidize 1876 technology at cost level. Whatever it costs them to build the network, they get the money.

Mr. Stupak. Okay. The draft bill contemplates capping USF support for high-cost areas. And, in your testimony, you assert that the bill would allow certain high-cost carriers to receive support indefinitely. Do we run the risk of freezing investment,

much like what has occurred with rural wireless?

Mr. Graham. We do run that risk and, in some areas, curtail investment and, in other areas, if the cap continues to run indefinitely --

Mr. Stupak. What would you propose for changes, then, in the current legislation?

Mr. Graham. Well, we would target the support to areas where it is absolutely necessary. We think a thorough review by the expert agency must be undertaken. That has not been done. No one has ever sat down and figured out exactly where the support really and truly needs to go.

Mr. Stupak. Okay.

Mr. Lubin, let me ask you, because, in your testimony, you also urge a bit of caution about how we utilize a cap to contain costs. Does AT&T believe a cap may run the risk of freezing investment in rural areas?

Mr. Lubin. Yes, there is that risk.

Mr. Stupak. So, same thing, identifying, mapping?

Mr. Lubin. For us, the bottom line is, if you have that cap, you have potentially constrained how much investment in the high-cost areas. And that is a dilemma. That links back into a lot of the different things we have discussed this morning.

Mr. Stupak. Okay.

Mr. McSlarrow, let me ask you this one. I am looking at your map here that you submitted. How did you identify these areas,

excess high-cost support funding? And what was the data for your economic analysis on this to come up with this map?

Mr. McSlarrow. The data that we use is the data that is produced by the rural study areas within the High-Cost Program itself. So what we essentially did was we took all of the rural study areas and looked at the support that was going to each of them. Then we overlaid that on top of what we knew about where unsubsidized competition was.

Mr. Stupak. All right. So you get that 75 percent area, then you get the uncompensated competition or unregulated --

Mr. McSlarrow. Yeah. And I should just point out: In our proposal, we actually made what we believe is the most conservative case. We are not even taking into account wireless. We are just saying if there is another unsubsidized wireline competitor, that that is the case for taking a fresh look.

Mr. Stupak. Okay.

Let me ask you this. It is my understanding you are concerned with broadband network connections being assessed for contribution into the USF. How would you propose to ensure that contribution mechanisms are there long-term? Again, we capped off wireless, but yet we have spent -- it has received more money. How do we do it long-term --

Mr. McSlarrow. In terms of the contribution side?

Mr. Stupak. Yes.

Mr. McSlarrow. Well, like a lot of folks, we support a

numbers approach. But that is just a proxy for saying a connection.

Mr. Stupak. Correct.

Mr. McSlarrow. Our concern about broadband revenues is simply this. All the other services are highly penetrated. They are at the 90-plus level. Broadband, as we have all been talking about, still has some adoption challenges. So we are a little leery of putting another assessment or fee on the cost of broadband when we are actually over here trying to drive more adoptions.

But a numbers approach or some kind of connectivity approach that is true for everybody across the board, we think that is the way to go. And that does broaden the base.

Mr. Stupak. But if you use a numbers approach, aren't you still with the rural areas with small population base still never being built with broadband? I mean, if you look at your map, heck, my district is not even covered, hardly.

Mr. McSlarrow. If you take phone numbers -- and I think there are about 650 million phone numbers in existence. If you had something that is something less than a dollar month, right there you get over \$7 billion for the entire Universal Service Fund.

Mr. Stupak. Thank you.

Thank you, Mr. Chairman.

Mr. Boucher. Thank you very much, Mr. Stupak.

The gentleman from Indiana, Mr. Buyer, is recognized for 5 minutes.

Mr. Buyer. Thank you.

Mr. McSlarrow, I wanted to give you an opportunity to clarify. When you were answering questions of Mr. Barton relative to the expansion, I got this sense -- did you really mean that we should be taxing broadband by implication here? I just want you to clarify what you meant by, yes, more people should be paying in.

Mr. McSlarrow. Well, I may have misunderstood his question, because, as I just said to Mr. Stupak, we are against taxing broadband. I thought what he asked was whether or not we were for broadening the base. And we are, through a numbers assessment.

Mr. Buyer. Okay. All right.

Mr. McSlarrow. So thank you, if I misunderstood that.

Mr. Buyer. All right. Thank you.

Mr. Davidson, the cap on the High-Cost Fund in the Boucher-Terry bill, due to exceptions, is being referred to as a soft cap. If we don't put a firm cap on the High-Cost Fund, what would be the impact on consumers?

Mr. Davidson. Well, as I said in my testimony, you know, with the contribution factor going to be reaching 14 percent next year and no end in sight unless we fix the system, I think everyone agrees that there needs to be some kind of cap on the process here or it will simply become unsustainable.

So what does "unsustainable" mean? Unsustainable means that people like Mr. Barton and other folks who are looking at the bottom of their telephone bill are going to say, "I am not going to pay 25 percent of my bill to subsidize this system anymore." So it has to be fixed.

I think what Representatives Boucher and Terry have done have introduced a cap concept. And, as you hear throughout this panel, there are a lot of different positions on how exactly to do that. I would just urge this committee and all of those that are going to be participating in the legislative process to preserve the discipline, as much discipline as possible, in keeping that cap as concrete as it can be, as it moves through the process. Because that is what is going to keep the system sustainable going into the future.

So I think there has been an honest attempt to create a cap. And talking with the various parties, they have reached the cap they have. I just urge everyone to keep it as tight as possible.

Mr. Buyer. In response to Mrs. Blackburn, Mr. Davidson, you said you are an advocate for universal service fees to be based on a numbers-based system versus revenue. That is correct?

Mr. Davidson. Yes.

Mr. Buyer. All right. I would like to get a sense, and go right down the line, of whom would advocate a numbers-based system versus a revenue-based system?

So, Mr. Greer?

Mr. Greer. We would advocate a revenues-based system.

Mr. Buyer. Revenue-based.

Mr. Rhoda. Connections-based.

Mr. Buyer. Connections-based?

Mr. Rhoda. Connections, numbers, yes.

Mr. Buyer. Numbers. All right.

Mr. Lubin. Telephone numbers.

Ms. Moyer. Connections.

Mr. Baum. NARUC doesn't have a position, but I would support numbers and connections.

Mr. Buyer. Great.

Mr. McSlarrow. Telephone numbers.

Mr. Graham. RCA doesn't have a position on that yet, but some hybrid numbers-and-contributions-based.

Dr. Rheuban. ATA doesn't have a position on that.

Mr. Buyer. Okay.

Mr. Rosston. I haven't studied it much, but it seems to me that numbers or connections would be a better way than revenues.

Mr. Buyer. And if we go to numbers, it is better with predictability, would you not agree?

Mr. Rosston, since the goal of the High-Cost Fund is to make service more affordable for consumers in high-cost areas, shouldn't the focus be on consumers and not necessarily the carriers? Meaning, shouldn't the subsidy follow the consumer so that, if the carrier loses a subscriber, they also lose the

subsidy?

Mr. Rosston. Absolutely.

Mr. Buyer. Very good.

I yield back.

Mr. Boucher. Thank you very much. We appreciate those questions.

The gentleman from Vermont, Mr. Welch.

Mr. Welch. Thank you very much, Mr. Chairman. I appreciate your work here.

I want to ask Commissioner Baum, if I could, the discussion draft allows eligible providers basically to avoid the requirement of offering broadband service where it is deemed too costly for them to do that. And I gather that is about three times the national average.

Do you see this as a clause, almost an escape clause, that could let providers that still receive support not make significant expansions where they are needed?

Mr. Baum. I am not sure about the impact of that 2.75 ratio.

First of all, before I say that, I want to thank you for speaking at NARUC yesterday. We appreciate you coming out.

Now, back to your question --

Mr. Welch. Thank you.

Mr. Baum. At some point, we have to have some way by which we are going to determine how far we are going to penetrate into those high-cost rural areas, particularly the unserved portions.

And I am not sure if the 2.75 ratio is accurate. We may be able to go further than that.

But, at some point, we are probably not going to be able to afford to provide high-speed broadband to every person or residence in America regardless of where they are located.

Mr. Welch. But I am, kind of, wondering if we have it structured right. Because, obviously, there may be a point where the cost is beyond what is affordable. But, on the other hand, there are a lot of rural areas where we need that service, Vermont among them.

And the specific question I have is whether you are going to have, under the draft language, some possibility of companies on the one hand receiving support but on the other hand actually not doing build-out in some of these areas.

Mr. Baum. I just can't tell you based on -- I wasn't briefed on how that actually worked or was I part of that process. But there has to be some way by which we can figure out how far we are going to go, and the percentage should be in the high 90s. And I am just not sure, between 95 and 100 percent, how far we can go on an affordability basis.

Mr. Welch. Okay. Thank you.

Mr. Rosston, how about you? I know you have studied the economics of this pretty extensively.

Mr. Rosston. So, my view is, if you went to a system of vouchers to consumers, you would not have to worry about this

because they would be cost-based and you would get them able to pay in other areas. I think it is important to also consider the satellite alternatives in very, very high-cost areas.

Mr. Welch. Right. And what is the cost of a satellite connection?

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[12:35 p.m.]

Mr. Rosston. My impression, I haven't subscribed, but I thought it was between \$70 and \$90 a month for broadband access.

Mr. Welch. In contrast, if there was a buildout, what would be the average costs there?

Mr. Rosston. If you think that people sort of pay in the \$40 to \$50 in urban areas, and you are talking three times for this bill, that would be getting it well more than this \$70 to \$90 for a retail subscription to satellite.

Mr. Weller. Thank you. Mr. McSlarrow, your view on this? I am interested in obviously a rural buildout, representing a rural State. And the point has been made by you as well by folks on this table that that buildout is really a lifeline for the economic activity of those rural residents and they are there for a variety of reasons.

I don't think is quite an individual choice to be a hermit. I come from a town of 1,800 people. That is my base. We like broadband.

Go ahead, Mr. McSlarrow.

Mr. McSlarrow. I think our view is that there clearly are areas that deserve high cost targeted support, and it is about taking scarce dollars and putting them where they are needed. I

will say at least in our own industry's experience, whether it is broadband or phone, we don't actually differentiate in terms of the pricing in an urban area to a rural area.

Mr. Weller. You do not. Right. And you support maintaining that nondiscrimination in pricing.

Mr. McSlarrow. We tend to just roll out across our entire national footprint.

Mr. Weller. Thank you.

Mr. Davidson. Congressman, could I expand on that for a minute? I think one of the things to recognize as well is the expense in the areas you represent aren't necessarily last mile expenses as well. We have a proposal that deals with the so-called middle mile, which is terms of the amount of transport that broadband needs to go over long areas to get to remote areas and then serve those remote areas. So I would be happy to explain and come talk to you a little more about what our proposal is.

But basically we think if you provide some support to build those middle mile facilities and then that subsidy goes to the end broadband provider, it doesn't go to the middle mile facility, but it makes it possible for that middle mile provider to build the transport, that is enough of an incentive perhaps to tip the balances in terms of bringing broadband to more remote areas. So we would encourage you to look at that proposal as well.

Mr. Weller. I look forward to seeing that. While you are here, Verizon, I know it has left or you are in the process of

leaving 17 rural States with your wire land network. Vermont, of course, is one where you did recently leave. And what I understand is you are also going to discontinue providing what is relatively high cost support for the wireless network.

I am wondering whether Verizon is willing to commit to serve every customer and be the carrier of last resort throughout all of your rural areas without any universal service support?

Mr. Davidson. Well, first of all, I wanted to respond to this question earlier that came up as well. Commissioner Baum had mentioned the development of this new rural LEC company. We have Windstream here, we have Century Link, we have others that do an excellent job with the business model in terms of serving rural areas. So issues like the parent trap and others are very important and kind of get to your question as well.

In terms of the Verizon territories, we currently participate in the universal service program in certain areas. We are by far a payor into the system by a large amount and we take a small amount out. And that amount is decreasing over time due to merger conditions and other reasons, so we actually participate on the payee side to a very small percent right now. But, again, we support the bill and we support moving through the process in terms of serving our existing customers.

Mr. Welch. Let me stop you there. Thank you for that. I only have a few seconds left.

Mr. Lubin, in reviewing the draft legislation, what would you

see as the three most important components of it?

Mr. Lubin. The three most important components of this; contribution reform, fixing it; intercarrier comp, fixing it; and recognizing USF for broadband. The 21st century is all about broadband. POTS is going away. You have to figure out how to get broadband. I am sympathetic to your point of how do you get it into the rural area.

Mr. Welch. Does Mr. Lubin spell for the rest of you? Commissioner Baum?

Mr. Baum. Just one question. I have now figured out your first question, I am sorry. But, yes, there would be a great -- that three factor that they have in there would effectively take communities in some areas of Oregon that are under like 500 population and under who are remote, wouldn't be serviced by this broadband effort.

Mr. Welch. Thank you.

I think Mr. Graham wants to speak, but I know my time is up, Mr. Chairman, so I yield back.

Mr. Boucher. Mr. Graham, go ahead.

Mr. Graham. Very briefly. One other piece of discussion draft would be true competitive neutrality. When wireless goes into an area, we don't get support until we get a customer. When we lose a customer, we lose that support. It seems incredibly reasonable for us for everyone to get support when they get customers, and lose support when they lose customers.

Mr. Boucher. Thank you very much, Mr. Welch. And the committee's thanks to all of our witnesses today. We have had a thorough ranging and informative conversation about universal service. I appreciate the broad consensus of support for the discussion draft that has been expressed by the witnesses here today and the many recommendations that we have received for possible additional changes that we could make which would expand that consensus even further. We intend to focus on those recommendations and have subsequent conversations with many of you as we do so over the coming weeks.

Our goal will be to fashion a reform that with broad bipartisan support, we can pass through this committee and the House and have enacted into law during the course of this Congress. Each of you here has contributed to that process here today. We thank you for it.

This hearing stands adjourned.

[Whereupon, at 1:41 p.m., the subcommittee was adjourned.]