

Prepared Testimony of Verizon Senior Vice President Kathleen M. Grillo  
U.S. House of Representatives Committee on Energy and Commerce,  
Subcommittee on Communications, Technology, and the Internet  
“Universal Service Reform Act of 2010”  
Thursday, September 16, 2010

Chairman Boucher, Ranking Member Stearns, and Members of the Committee: Thank you for the opportunity to discuss the Universal Service Reform Act of 2010 introduced by Chairman Boucher and Representative Terry. Congress last updated the Universal Service Fund in 1996 – almost a decade and a half ago. A lot has changed since then. It’s now time to put in place the right policies that will help make broadband services even faster and further expand the reach of high-speed networks in America.

Three things happened since the Committee last heard testimony on universal service reform:

First, there is a bill. In July, following months of hard work and discussions with all sectors of the industry and others, Chairman Boucher and Representative Terry introduced the Universal Service Reform Act. Verizon is pleased to endorse the bill and congratulates the Chairman and Representative Terry on crafting legislation that has bipartisan and industry support.

Second, there is a plan. The FCC submitted the National Broadband Plan to Congress earlier this year. Like the USF Reform Act, the Plan represents the culmination of thousands of hours devoted to developing a thoughtful, comprehensive approach to maximize the boundless power of the Internet and ensure that all Americans are connected.

Third, the FCC is moving forward to implement national broadband priorities. The FCC has been acting on recommendations in the Broadband Plan. The FCC has also kicked off a number of other proposed rulemakings that track recommendations in the National Broadband Plan.

Now, three things must happen, all of which the bill before the Committee addresses. Let me talk a little bit about each of these priorities as well as other aspects of the Universal Service Reform Act itself. We commend Chairman Boucher and Representative Terry, who worked tirelessly on the bill to bring all stakeholders together and find consensus on these complicated issues. The result is legislation that would truly modernize the Universal Service Fund. All Americans have an interest in an up-to-date and sustainable universal service program.

First, universal service reform. There is no doubt about the critical need to revamp the high-cost universal service program. The high-cost fund is literally at a tipping point. The program grew significantly in recent years in order to subsidize traditional voice service in rural areas. But plain-old telephone service is rapidly becoming a thing of the past. Consumers demand a lot more from their communications providers. They want to make phone calls, send text messages, surf the web, exchange email, download videos, etc. – all over the same network connections, whether wireline or wireless. Many of the tasks that we once performed using paper (such as renewing a driver’s license), or in person (such as consulting with medical professionals), are now performed using broadband Internet connections. We must change the focus of the Universal Service Fund and make it work for consumers in a way that reflects how we now live and work.

As we repurpose the USF for broadband we also should keep in mind that consumers pay for the fund through charges on their monthly bills. Whatever changes we make must be in line with what consumers can reasonably afford and must not reach a point where consumers rebel against the program. The National Broadband Plan makes clear that there are tough choices ahead and commits to reforming the fund within the amount spent for existing programs. Whether universal service reform comes from legislation or from the FCC, Verizon supports keeping the size of the fund manageable for consumers. This is important because the problem with universal service is not that we are

spending too little money; it's that we are not spending it on the right services in the right places. Both the Universal Service Reform Act and the National Broadband Plan could help fix that.

Second, intercarrier compensation reform. The system of charges and rates between carriers for handling communications traffic is a mess. We have to fix this broken intercarrier compensation system at the same time that we update the Universal Service Fund. Some carriers rely on both universal service and intercarrier compensation funding as their primary revenue. Changes to one source of revenue should consider changes to the other, so as to minimize negative consequences for investment in network upgrades and broadband deployment.

Moreover, it is not possible to maintain the current intercarrier compensation system in today's communications market. The current system is based on the idea that there are meaningful distinctions between interstate and intrastate services and between telecommunications and information services. The result of these distinctions is the current patchwork of vastly different charges and rates for communications traffic depending on what the traffic is, where it came from, and where it is going. In a market where most consumers now purchase a bundle of any-distance services (such as phone, TV, and Internet access), these distinctions are meaningless. And even in situations where it is still possible to measure traffic in these ways, continuing to do that just for intercarrier compensation purposes does not make sense. All of these complications and uncertainty reduce investment in broadband.

Parties mostly agree that a single, low, uniform intercarrier compensation charge for terminating traffic on a network is the right solution. Carriers should also have the opportunity to rebalance their end-user rates. If they cannot recover lost access revenues from their customers, carriers could recover part of the difference during a transition period from a new universal service program.

The new USF intercarrier compensation program should be transitional and decline over time. And importantly, the new system should be a default system only. Carriers should be free to enter into different intercarrier compensation arrangements that make sense based on marketplace considerations.

Third, traffic pumping. We have to stop the so-called “traffic-pumping” scams that have plagued the industry the last several years. And we have to do it right now. These scams have festered for five years, costing literally hundreds of millions of dollars. With traditional traffic-pumping schemes, the traffic pumpers game the intercarrier compensation system by exploiting antiquated FCC and state rules. They form collusive arrangements to drive traffic way up in rural areas with historically low traffic volumes and correspondingly high access rates. Some local exchange carriers in these areas then partner with chat-line and other providers that market services as “free” and collect kickbacks from the LECs. The kickbacks are paid with access revenues from long distance and wireless carriers held hostage under the current system.

These scams are no different from illegal kickbacks involving regulated revenues in other industries. In the healthcare industry, for example, such kickbacks between healthcare providers and suppliers land people in jail. The intercarrier compensation rules that allow LECs to charge other carriers high access rates in rural areas are supposed to help consumers in these sparsely populated areas receive affordable and reliable service. The rules were never designed to enable these get-rich-quick schemes. And these are just the *old* traffic-pumping scams. Because traffic pumping has been allowed to fester for so long the schemes are evolving and becoming more brazen. We now know about new schemes involving wireless traffic that terminates to competitive local exchange carriers.

The time for talking about the nuances of traffic pumping is over. The dollars are huge, the scams are significant obstacles to universal broadband access, and the problems are getting worse the longer we wait.

Let me turn now to the Universal Service Reform Act. This is important legislation that moves the ball forward on the critical issues – universal service reform, intercarrier compensation reform, traffic pumping – and other matters.

The bill would transform the USF from a voice-based support system to a broadband system and help expand the reach of broadband services to those Americans who still lack access to high-speed networks. The bill also provides a firm deadline – one year from the time the bill passes – for the FCC to move forward with intercarrier compensation reform. That deadline is certainly workable. The pieces of intercarrier compensation reform are already in place, and a gentle push from Congress to get this issue over the goal line is just what we need. As well, the bill would cut off many of the traffic-pumping scams that are siphoning investments away from broadband.

In addition, the Universal Service Reform Act puts in place a more rational, competitive bidding system for high-cost USF support to wireless carriers. Almost everybody recognizes that today's system is broken. Among other things, multiple wireless providers get support in the same areas, even where there are carriers that compete without any universal service support at all. The right competitive bidding system will fix these problems. Competitive bidding will also bring the Universal Service Fund in line with established procurement procedures at other federal agencies.

The bill will also leave a number of important decisions to the FCC – the expert agency in charge of administering the fund and its various programs. Where the FCC comes out on these issues matters a lot and will determine whether the fund will shrink, grow, or stay about the same size.

For instance, the minimum download speed required to qualify as a broadband service is a significant metric that the FCC would need to set under the bill. The National Broadband Plan coalesces around a broadband speed target of 4 Mbps. There are divergent views about whether that target speed is too fast or too slow, but everyone recognizes that higher speeds require more network subsidies in rural areas. Likewise, the service area required for broadband deployment for both wireline and wireless carriers will directly impact the size of the fund and carrier business models. So will the number of carriers eligible to receive universal service subsidies.

Other questions remain. How the FCC implements the challenge proceedings to reduce LEC high cost support in competitive areas will determine whether that part of the bill results in a savings. Another part of the bill correctly directs the FCC not to burden consumers unreasonably when it makes changes to the program.

I'd like to close by talking about how to increase broadband adoption in low-income households – an issue not yet addressed in the bill but one that Representative Matsui and others are leading. For most Americans, broadband is an affordable service that offers tremendous value. That said, the price of broadband is a real issue for some households. In addition, digital literacy, affordability of a computer, and relevance are significant factors affecting broadband adoption. The National Broadband Plan and many parties have proposed that the FCC launch pilot programs to test out different alternatives. Verizon supports that approach.

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Thank you for the opportunity to discuss these important issues and for the Committee's continued leadership on sustainable universal service policies. Verizon looks forward to working with the Committee and the FCC to move these matters forward.