

**Written Statement of
Carol Matthey
Deputy Chief, Wireline Competition Bureau
Federal Communications Commission**

Hearing on H.R. 5828, “Universal Service Reform Act of 2010”

**Subcommittee on Communications, Technology, and the Internet
United States House of Representatives
September 16, 2010**

Chairman Boucher, Ranking Member Stearns, Members of the Subcommittee, thank you for the opportunity to testify today about the important subject of universal service and H.R. 5828, the Universal Service Reform Act of 2010.

Following the introduction of H.R. 5828, Representative Terry stated that the bill’s goal is to ensure “everyone in America is connected into the 21st century telecommunications world.” That objective is broadly shared by the FCC as we undertake the process of considering the recommendations included in the National Broadband Plan submitted to Congress in March.

The National Broadband Plan recognized the important role that the private sector has played and must continue to play in investing in broadband facilities as well as promoting investment and innovation in broadband technologies and services. But, as Chairman Boucher and Representative Terry noted when introducing H.R. 5828, some Americans live in areas for which there simply is not an economic case for any provider to build, upgrade and maintain vital communications infrastructure. That is why we have what is known as the high cost program in the Universal Service Fund.

Universal service historically has been a significant success story in the United States. In addition to incenting the private sector to bring affordable voice service to virtually all reaches of the country, the existing high cost program has played an important role in strengthening communities and our economy by supporting modern networks capable of delivering broadband

as well as voice services to millions of rural Americans who would not otherwise have such access. For example, the National Exchange Carriers' Association reported that a sampling of small telephone companies made approximately \$5 billion of gross investments, mostly to modernize their networks, between 2006 and 2009.

But, as I'm sure many of your constituents tell you, **the current system**, which wasn't designed to explicitly support broadband, **is not working for everyone**. While consumers in some places in rural America have access to some of the best broadband networks in the country, others don't have access to broadband at all, even though they are served by providers eligible for universal service support. While many speak of an urban/rural divide for broadband service, the more troubling trend is a rural/rural divide that reflects the antiquated structure and incentives of our current high cost program.

Under the existing universal service rules, not all providers have the same incentives to upgrade their networks to provide broadband; some only receive sufficient support to maintain existing voice service. And some of those providers that are able to build broadband networks through universal service support have limited accountability for where the money is used and have economic incentives to invest most heavily in areas that are already served by unsubsidized competitors.

Rules originally designed for a circuit-switched, voice network no longer make sense as we shift to packet-switched, broadband networks capable of supporting countless applications, including voice. While we have largely achieved the goal of universal voice service, maintaining the status quo policy framework is unlikely to achieve the goal of affordable and universal access to broadband. Critical elements of the current system such as how we collect the money to support universal service and the intercarrier compensation framework must be re-examined in

light of changes in technology platforms and market dynamics – something that the Universal Service Reform Act of 2010 expressly contemplates. These issues are all inter-related.

The Commission shares the goals expressed by Chairman Boucher and Representative Terry when they highlighted the need for “comprehensive and forward-looking” reform that will “ensure that sufficient universal service support is available on a technology-neutral basis.” In fact, the Commission has unanimously adopted a “Joint Statement on Broadband” calling for the Universal Service Fund and the intercarrier compensation system to be “comprehensively reformed to increase accountability and efficiency, encourage targeted investment in broadband infrastructure, and emphasize the importance of broadband to the future of these programs.”

I would like to elaborate on a few of these shared principles that underlie the Universal Service Reform Act and the FCC’s current efforts:

Forward-looking policies are critical because networks and technology are changing. The marketplace is changing. The opportunities and challenges are changing. Our policies must anticipate these changes. Simply because we have done things a certain way in the past does not mean those same policies and structures make sense in a broadband world. It is incumbent upon all of us to take a close look at the current universal service system to determine how to move toward our goal of advancing broadband. We need to provide a foundation for continued private sector investment in broadband and a pathway for broadband to grow and evolve in the future. Our rules must be forward looking, technology neutral, and incent judicious investment – based on technology and economic realities of today and tomorrow, not the last century.

Targeted, technology-neutral and sufficient levels of support are essential to incentivize private sector entities to invest in partnership with the public sector. We should

be looking at ways to target support only to those areas that really need it to deploy and sustain broadband networks capable of providing high-quality broadband and voice services. We need to provide sufficient support to meet the mandates that come with that support, and recognize that expectations have to match economic reality. And we should do so without interfering with innovation and private investment in areas that can sustain unsubsidized service.

Responsible reform requires an effective public/private partnership in which support is made available in exchange for a commitment from providers to meet reasonable public interest obligations. We look forward to working with all the stakeholders – including state, local and Tribal governments, as well as service providers, community and consumer groups – to develop a unified vision of the obligations that we expect recipients of universal service funding to meet in the 21st century.

A revamped program also requires **oversight and accountability**. The bill's vision, and ours, is one in which the government sets forth explicit goals for the program and clear expectations for participants, and then takes active steps to ensure that USF dollars are spent in a responsible way that meets those goals and expectations. This means maintaining effective oversight of the system to ensure that those who receive support are responsible stewards of the money they are receiving from the American public. Whoever receives the funding should be held accountable for building out and serving consumers, and we should ensure that USF benefits as many unserved and underserved Americans as possible with no more public support than is truly necessary.

As we move forward, we should remember that **universal service is fundamentally about consumers in all parts of the country**. Ultimately, it is the consumer who pays for universal service, and all consumers, whether they live in rural or urban areas, benefit from

additional Americans connecting to the network. Ensuring access to quality, affordable services at reasonably comparable rates for all consumers is not easy, but that is the goal set forth in the Telecommunications Act of 1996. That is the fundamental premise upon which our universal service policy has been based, and that will continue to guide our FCC efforts going forward as communications evolve in the future.

Achieving this goal will involve choices and compromises because of the inherent tension between increasing the contribution burden on consumers and providing support where needed. But as we go through the process of making policy choices and compromises, we should never lose sight of the burden and benefits to consumers. Indeed, if the burden on consumers becomes too high, it could undermine the national consensus that universal service is a shared responsibility for all.

And, finally, **we must move forward with the process quickly, but wisely.** Market participants need **clarity** and **regulatory predictability** so they can make **informed business decisions**, and have time to implement changes necessary to adapt to any new frameworks. Although many difficult and complex issues lie ahead, these complexities are not insurmountable if all parties are willing to work together to achieve universal broadband service for American consumers. It is in everyone's interest to know the rules of the road as quickly as possible, even though there may be a period of extended transition once new rules are adopted. We hope that all stakeholders will engage actively and constructively throughout this process of reform so that we can move swiftly to establish clear and sensible policies for the future.

On a personal note, as a member of the Commission staff who has been working on universal service issues since 2000, I am encouraged by the bipartisan consensus and the recognition of the need for reform. No one would suggest that USF and ICC reform is a simple

process. Change never is. But we all agree that reform is necessary to make broadband the technology of choice for Americans in the 21st century in a global economy, and that success depends on all stakeholders working together towards a shared end goal. We at the FCC appreciate the leadership of Chairman Boucher and Representative Terry in introducing H.R. 5828, and we look forward to working with all of the members of the Subcommittee and other stakeholders to ensure that reform moves forward.

Thank you again for the opportunity to testify this morning. I will be happy to answer any questions you may have.