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HEARING ON H.R. 5828, THE "UNIVERSAL

SERVICE REFORM ACT OF 2010"

THURSDAY, SEPTEMBER 16, 2010

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 10:04 a.m., in Room 2322, Rayburn House Office Building, Hon. Rick Boucher [chairman of the subcommittee] presiding.

Present: Representatives Boucher, Stupak, Doyle, Inslee, Matsui, Christensen, Castor, Murphy, Space, McNerney, Waxman (ex officio), Stearns, Terry, Blackburn, and Latta.

Staff Present: Amy Levine, Counsel; Greg Guice, Counsel; Sarah Fisher, Special Assistant; Josh Bercu, Intern; Tim Powderly, Counsel; Neil Fried, Minority Counsel; William Carty, Minority Professional Staff Member; and Jeanne Neal, Minority Research Analyst.

Mr. Boucher. The subcommittee will come to order.

This morning's hearing is a legislative hearing on H.R. 5828, the "Universal Service Reform Act of 2010." The bill is a comprehensive reform of the Universal Service High-Cost Fund, and the measure before us this morning has been revised in various respects based on recommendations we have received during and following the subcommittee's last hearing on the legislation.

H.R. 5828 is the product of a bipartisan effort that I undertook, beginning several years ago, with our subcommittee colleague, the gentleman from Nebraska, Mr. Terry. We have benefited from the advice and suggestions of other members of our subcommittee, members of the full committee, and a broad range, including dozens of interested parties.

We have also conducted extensive conversations with a very broad audience. We have achieved consensus among a broad range of competing interests, and I think you will see that consensus clearly reflected here today in the testimony of our witnesses. You will hear this morning endorsements for the legislation from companies and trade associations that have long been in basic disagreement about the High-Cost Fund and how it should be reformed.

Net contributors into the fund, such as AT&T and Verizon, are today in agreement with net beneficiaries from the fund, such as rural carriers represented by NTCA, OPATSCO, and WTA, that H.R.

5828 in the form in which it appears before the committee today should be approved. We also have endorsements for the legislation from Qwest, CenturyLink, Frontier, Vonage, the National Cable and Telecommunications Association, and USTelecom, reflecting a truly broad consensus.

The High-Cost Fund, which assures affordable rural telephone service, has come under increasing pressure, and comprehensive reform to ensure its continued stability is urgently needed. New technologies and new business plans are combining to diminish the long-distance revenues that historically have been the base of support for universal service.

The current USF contribution rate stands near its highest level ever, at more than 13 percent. In October, that rate will dip slightly to 12.9 percent, but all signs point to double-digit contribution rates going forward in the absence of comprehensive reform.

In addition, the Universal Service Fund is clearly outdated, as it supports only voice-based telephone service. Our legislation extends the program to broadband and, in fact, contains a mandate that carriers deploy broadband throughout their service territories as a condition of their continued receipt of universal service funding.

Many of the Federal Communications Commission's National Broadband Plan recommendations are reflected in our legislation. It gives the FCC the statutory authority that it needs to carry

out its universal service goals. In addition, the legislation expands the fund's contribution base by assessing intrastate as well interstate and international revenues, and it requires that providers of broadband connections make a contribution into the fund.

The bill grants the FCC the authority to implement competitive bidding for distributions of fund moneys to wireless carriers, with a limit of two winners per service area, avoiding the potential legal challenges from those who argue that competitive bidding does not comport with existing statutory universal service principles. Removing regulatory uncertainty in these areas will avoid the protracted litigation regarding commission authority that almost certainly will come, particularly in the wake of the D.C. Circuit's Comcast decision that further circumscribed FCC statutory authority. Passing this bill will allow for expeditious reform of the Universal Service Fund through appropriate action at the Federal Communications Commission.

Our legislation would also direct the FCC to adopt a new cost model for USF support based on the provision of both voice and broadband service, while also limiting growth of the fund by providing that contribution burdens on consumers may not unreasonably increase.

As I mentioned earlier, we mandate that all recipients of universal service support offer broadband throughout their service areas at minimum speeds that would be adjusted by the Commission

from time to time. And we fully anticipate that these speeds will increase over time as technology permits.

Other elements of our measure include fixing the phantom traffic problem by requiring that carriers pass through call identification information so that the terminating carriers know to whom to send the bill for call originations. We eliminate traffic pumping by prohibiting carriers from sharing access charge revenue with third parties where those third parties offer free or reduced-cost services.

We make permanent the Anti-Deficiency Act exemption for USF so that an annual appropriations rider will no longer be necessary in order to continue financing for the fund. And we deny universal service support in areas where there is competition in the offering of voice-based telephone service, a new departure for the Universal Service Fund.

The bill modernizes a program that ensures the availability of communications connections to millions of Americans, benefiting not just the rural residents who live in the high-cost areas but benefitting our entire Nation. We are a stronger Nation when we are all connected through telecommunications services. Having rural America connected is essential for efficient nationwide communications and gives Internet-based businesses, for example, access to millions of homes that would be disconnected as customers to these Internet-based companies if the Universal Service Fund did not exist and was not viable.

I want to thank the Members, their staffs, and the dozens of stakeholders who have participated with us in drafting a reform measure that, as the testimony of our witnesses today will reveal, enjoys a true consensus and very broad-based support.

I want to thank our witnesses for taking the time to join us here in the wake of their participation with us in formulating this measure. We very much look forward to your testimony.

That concludes my opening statement. I am pleased now to recognize the ranking Republican member of our subcommittee, the gentleman from Florida, Mr. Stearns.

[The prepared statement of Mr. Boucher follows:]

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Mr. Stearns. Good morning. And thank you, Mr. Chairman.

I just apologize, as I am sure you also agree, to the limited space here, and I apologize to the people who are standing. We are not in the main room because there is a health markup on 21 bills, from H.R. 211 to H.R. 6110. I am sure it is pretty important, but considering everything, we are sorry that we don't have more room for you.

But, Mr. Chairman, I want to thank all of you, thank you particularly for having this important legislative hearing on the "Universal Service Reform Act of 2010." Also, I would like to commend my colleague, Mr. Terry, for his steadfast hard work in developing this legislation. You both received comments from many of us and have taken those into consideration.

Reforming the broken Universal Service Fund I think is a top priority for everybody in this room. There is a bipartisan consensus, too, that the fund is broken. We can probably all agree that the system is fraught with waste, fraud, and abuse. A major overhaul is necessary. The question before us this morning is, what is the appropriate goal to accomplish this program and how do we achieve it?

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

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

Nearly everyone in the country has access to phone service, and we have more competition and better technology than ever before. Yet, instead of shrinking the Universal Service Fund, it has ballooned to more than \$8 billion a year, about twice what it was in 2000. Approximately \$4.5 billion of that comes from the high-cost program's subsidies to rural carriers, more than three times the \$1.3 billion spent on that program in 1997.

And when the price tag for universal service goes up, subscribers, customers bear the burden. The FCC projects that almost 13 percent of the monthly long distance bill in the fourth quarter of 2010 will be universal service fees, up from 5.7 percent in 2000.

According to the FCC, however, the bill, as introduced -- and this is their words -- "could substantially increase the size of the fund." Among the reasons are provisions expanding the fund to broadband without -- without -- imposing a cap on the fund or ensuring sufficient offsetting savings.

We should not support any Universal Service Fund reform

legislation that is absent strong and statutory assurance that it will simply rein in the program. The prospect of expanding the program to subsidize broadband access raises serious concerns about potential huge cost increases. I would consider including broadband in the fund but, my colleagues, only if paired with reform that will constrain growth in the fund at a minimum and preferably shrink it. I mean, that is the whole purpose of what we are trying to do. Thus, cost-containment reforms must be part of the mix.

I am encouraged that the bill requires the FCC to determine support for wireless carriers through a competitive bidding mechanism, and that is an important cost-cutting reform. Such a mechanism should also be applied to wireline providers. I also support provisions in the bill that require the FCC to act on needed reforms in other area, such as intercarrier compensation and traffic pumping.

I am still concerned about a couple of things. We need to target the money to the places and the people who really need it. The bill requires the FCC to establish a cost model that sets subsidy levels rather than using a market-based mechanism to subsidize a single wireline carrier in areas otherwise uneconomic to serve. Only wireless carriers would be subject to competitive bidding, and up to two wireless carriers could be subsidized in an area in addition to the incumbent wireline providers.

Carriers would also be allowed to continue under

rate-of-return regulation. Although the FCC would not be allowed to "unreasonably increase," end quote, the amount consumers pay, the contribution factor could still rise, and the fund would not be capped.

So, Mr. Chairman, I appreciate you holding this hearing. It is important to reexamine the goals and assess the results of the current program. We all agree that the system needs reform, and I hope we are able to work together towards a solution that is fair to all consumers.

[The prepared statement of Mr. Stearns follows:]

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

The chairman of our full Energy and Commerce Committee, the gentleman from California, Mr. Waxman, is recognized for 5 minutes.

The Chairman. I would like to begin my comments today by commending Chairman Boucher and Representative Terry for their efforts to bring forward legislation designed to reform the Universal Service High-Cost Fund. Chairman Boucher, in particular, has shown amazing leadership. We would not be here today without his dedication to universal service and his legislative acumen.

As the FCC's National Broadband Plan recognized, broadband is a foundation for economic growth, job creation, global competitiveness, and a better way of life. It is one of the great infrastructure opportunities for the 21st century.

The universal service program represents our Nation's historic commitment to ensure that all Americans have access to communications services, which has been a cornerstone of communications policy since the invention of the telephone. Before the adoption of the 1996 Telecommunications Act, this program was supported through a system of implicit subsidies designed to make phone service affordable in rural America. Some customers paid higher rates so that others could pay affordable rates.

The Telecommunications Act of 1996 turned that implicit subsidy into an explicit system that supports affordable phone service in rural America as well as communications services to schools, libraries, and rural hospitals. The Telecom Act also codified the FCC Lifeline and Link-Up programs that ensure low-income Americans, regardless of geography, have access to essential communications services, an issue championed by Representative Doris Matsui.

The challenge now, as the National Broadband Plan outlines, is to transform this program from one that supports telephone service to one that ensures that all Americans have access to broadband and to ensure that consumer contributions to the fund are being used for the intended purposes.

The draft legislation takes several positive steps. First, the draft legislation better targets subsidies to the areas that most need them in three key respects: first, calculating the necessary subsidy on a more precise, granular basis than the one used today; second, eliminating subsidies in those areas where competition has demonstrated that service can be provided without a subsidy; and, third, considering all the revenues that a provider earns using the subsidized facility instead of just a portion of that revenue.

The draft legislation also proposes a way to reduce the duplicative subsidies sometimes given to wireless providers by limiting the number of wireless carriers that are eligible for

support.

In addition, the draft legislation gives the FCC the ability to change the contribution mechanism to better reflect the realities of the communications marketplace. As stakeholders know, the distinctions between interstate and intrastate have been blurred to the point that they are irrelevant. Contributions to the USF must reflect that reality.

There are areas where I have some questions, which I hope this hearing will help clarify. A key point of reform should be to make the system more efficient and save consumers money. I hope this hearing will help us understand how the savings and costs add up under the legislation.

Another key objective of reform is to provide a broadband service to all Americans. There are broad waiver provisions in this bill. We need to examine those provisions and their impact on the goal of universal broadband coverage.

In closing, I again want to thank the chairman and Representative Terry for their efforts. I look forward to working with them and other members of the committee as we move forward in this area.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Waxman follows:]

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Mr. Boucher. Well, thank you very much, Chairman Waxman. And thank you for you and your staff participating so actively with us on this measure and offering very highly constructive recommendations, most of which we are seeking to reflect in this measure and believe we have embodied here.

The gentleman from Nebraska, Mr. Terry, who I have partnered with on a bipartisan basis now for several years to bring this measure forward, is recognized for 2 minutes.

Mr. Terry. Thank you, Mr. Chairman. I appreciate working with you and our esteemed witnesses here.

This bill is about three C's: compromise, certainty, and cost savings.

To say this bill is a product of compromise might be the understatement of the year. We have worked for years, soliciting everyone's input, including those from the committee as well as the industry. As one might imagine, not everyone sitting here today totally agrees on what the best fix is, but we have reached a delicate balance here where we have buy-in from almost every entity in the industry and from the committee. Our success in finding a compromise is personified in the long list of companies and trade organizations that have endorsed this bill.

And, Mr. Chairman, if I can ask unanimous consent to add one more to the list, a letter from the American Farm Bureau Federation.

Mr. Boucher. Without objection.

[The information follows:]

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Mr. Terry. "Certainty," you hear that word a lot when I was home over the break from our small-business owners. Well, if you are a small telecom business, you want the same thing, especially if you are in a high-cost area in rural America. You want to know that the Universal Service Fund is going to be fixed and you can rely on it in the future.

And now they will have the reassurance that the USF is reformed, it is efficient and able to continue to meet its goal that all should have access to the services at reasonable and comparable prices to those in suburban and urban areas. They no longer have to worry or wonder what might happen if the contribution factor continues to escalate. They will now have explicit support for their investments in broadband. Now they will have certainty.

Lastly, we are taking the much-needed step of reforming the USF to produce cost savings. For a number of reasons, the fund has grown quickly within the last few years and has become unsustainable. We recognize this and address it by putting into place a number of cost-saving measures that will not only stabilize the fund but also reduce its size.

Chairman Waxman outlined just a few of those cost-saving measures. Specifically, our bill implements a competitive bidding process for wireless carriers and eliminates USF support for wireline providers in competitive areas, while also ensuring that

the contribution factor does not increase. In addition, the legislation finally directs the FCC to fix their intercarrier compensation system and fix phantom traffic.

I would like to again thank our witnesses for being here today -- it is an impressive panel -- and their willingness to compromise. We have together produced a bill that will not only create cost savings but will provide much-needed certainty for those investing in today's telecommunications infrastructure. And I am proud to have worked with Chairman Boucher in this process and look forward to next week and the weeks coming on this bill.

Thank you, and I yield back.

[The prepared statement of Mr. Terry follows:]

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

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

Mr. Doyle. Thank you, Mr. Chairman, for holding this hearing today on your bill to reform the Universal Service Fund.

For Members of Congress on both sides of the aisle and both chambers, from mayors of towns without broadband, to consumers who are paying billions of dollars per year so that their friends and loved ones in rural areas can get connected, I think everybody agrees that the fund is broken.

Your bill was an interesting approach to fixing it that I think merits thoughtful deliberation. I have a few technical questions on some topics, including traffic stimulation and implementation of the requirement that companies receiving Federal funding from the Universal Service Fund actually provide broadband. And I look forward to getting them answered today.

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

[The prepared statement of Mr. Doyle follows:]

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Mr. Boucher. Well, thank you very much, Mr. Doyle.

The gentlelady from Tennessee, Mrs. Blackburn, is recognized for 2 minutes.

Mrs. Blackburn. Thank you, Mr. Chairman.

I want to welcome all of our witnesses that are here.

And, Mr. Chairman, you mentioned that there has been some revisions and some give and take. And I applaud you, Ranking Member Stearns, and the staffs for all the work on this.

I am encouraged by many of the proposals and reforms that are in this bill. Among those, I think that intercarrier compensation, the reforms there, that is important. I am pleased that the legislation takes a hard stance on traffic pumping. And it is long overdue that we introduce competitive bidding to the wireless industry.

However, there are still some places that we are needing to do some work. As I have stated over and over again in this subcommittee, it is difficult for me to look at the USF and not see a typical regressive D.C. tax. It keeps getting bigger, and I am extremely disappointed that the bill does not put a cap on the fund or put a limit on how big it should be. We are talking about a declining-cost industry, where both technology and fiber are reducing their cost over time. So I would argue that the cost of support and maintenance of those services through the USF should also be declining, as well.

And I am hopeful that today's hearing can help re-center some discussion on this issue and move forward to finding a completion and a bill that can go to the floor.

I thank you. I yield back.

[The prepared statement of Mrs. Blackburn follows:]

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

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

Ms. Matsui. Thank you, Mr. Chairman. And thank you for calling today's hearing. I would like to commend you for your leadership on efforts to reform the Universal Service Fund.

I would also like to welcome our witnesses.

Unfortunately, millions of Americans, particularly those in tough economic times, simply cannot afford the costs associated with in-home broadband service. As a result, they are at a competitive disadvantage when it comes to employment, education, and other opportunities. So we are seeing more and more disabled Americans, seniors, and teenagers traveling several miles to their nearest community center or library just to get online.

We know that broadband adoption rates are largely associated with income levels, and the cost of broadband services continues to be a barrier for hardworking families. According to the FCC, 28 million Americans do not subscribe purely because of affordability barriers.

That is why, just about 1 year ago today, I introduced H.R. 3646, the "Broadband Affordability Act," which would expand the Universal Service Fund's Lifeline Assistance Program for universal broadband adoption.

This proposal will ensure that all Americans living in urban

and rural areas have access to affordable broadband services. We never know where the next great idea or invention will come, so we must continue to eliminate barriers to accessing broadband services for our constituents.

And I strongly believe that any reform to the Universal Service Fund needs to address broadband affordability barriers. I look forward to continue working with Chairmen Boucher, Waxman, and my colleagues on reforming the Universal Service Fund, and yield back the remainder of my time.

[The prepared statement of Ms. Matsui follows:]

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

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

Mr. Latta. Thank you, Mr. Chairman, Ranking Member Stearns. Thank you very much for holding this hearing today on H.R. 5828.

I applaud the chairman and Mr. Terry for working on this legislation that addresses reform of the Universal Service Fund. There seems to be a consensus among stakeholders that action is needed, not only to ensure the feasibility and stability of the USF, but also to address the numerous issues surrounding its role in a changing marketplace.

There is no doubt, since the USF began, it has assisted numerous rural areas of this country to have access to telecommunication services. As we have discussed in previous hearings on the National Broadband Plan with the goal of reaching the remaining 5 percent of those who do not have access to broadband, there is an opportunity for the USF to be used to reach these remaining areas. Representing Ohio's largest agricultural district, I am keenly aware of the importance broadband deployment plays in economic development and the nexus this access has to job creation.

If the USF is expanded to include broadband services, I believe this should be done through the existing programs, not by creating a new funding stream or adding additional funding. It is

my understanding that, in 1998, the total commitments to the fund totalled \$3.56 billion and, in 2009, that amount grew to over \$7.7 billion. This is tremendous growth over the past 10 years, and I have serious concerns that the funding will increase since the legislation there -- there is not currently a cap on the fund or anything to ensure that the savings are offset. A cap will prevent uncontrolled growth as well as bring stability to the USF.

In addition to the concern about uncontrolled growth, there have been reports of fraud, waste, and abuse of the USF, especially in the E-Rate Program. I am pleased that this legislation establishes performance measures and audits of the USF to help ensure that fraud, waste, and abuse are not occurring in any of the USF programs.

I am hopeful that the interested stakeholder groups will continue to work on this legislation and address the issues surrounding the USF. And I believe that the positive benefits to the rural districts like mine have access for telecommunication services.

Again, I am opposed to an expansion of the government program that already has had increasing costs to consumers. It is my hope that the USF can be reformed without an increased cost to consumers directly or through the Federal Government's budget.

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

[The prepared statement of Mr. Latta follows:]

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Mr. Boucher. Thank you, Mr. Latta.

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

Mr. McNerney. Thank you, Mr. Chairman, for convening today's hearing to discuss the Universal Service Reform Act. It is good to see progress being made on this issue.

The universal service program was created over 10 years ago. Well, that may not seem long in many contexts, but in telecommunications that is an eternity. With so many advances in our technology, such as the rapid expansions of Internet and cell phones, it is now a good time to reassess our current policy and make appropriate updates.

I commend the chairman and Representative Terry for their bipartisan work and taking into consideration important issues such as ensuring broadband service to those who currently may not be adequately served.

As we hear from today's witnesses, I hope to learn how we can continue to improve the bill and prevent any unintended negative consequences. We all want to develop legislation that benefits consumers and allows businesses to compete and thrive, and I look forward to working with my colleagues to craft the best possible legislation.

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

[The prepared statement of Mr. McNerney follows:]

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Mr. Boucher. Thank you, Mr. McNerney.

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

Mr. Inslee. Thank you.

I just want to point out that we have a real need, connecting the talent in our tribal communities. And I am hopeful that, as this bill proceeds, we will find a way to get some tribal representation on the board making decisions here. I look forward to making sure we get that done.

Thank you.

[The prepared statement of Mr. Inslee follows:]

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Mr. Boucher. Thank you, Mr. Inslee.

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

Ms. Castor. Thank you, Mr. Chairman.

And thank you to the witnesses for being here today.

Universal service reform is an issue I have been concerned about for some time. I am a cosponsor of H.R. 3646, the "Broadband Affordability Act," introduced by my colleague, Representative Matsui, which would reduce the cost of broadband services for low-income urban and rural customers along the lines of the Lifeline and Link-Up programs within the USF.

Lifeline and Link-Up have helped thousands of families afford the cost of telephone service since the mid-1980s, but now it is cell phones and the Internet that have become the indispensable tools in our daily lives. Many of us take them for granted, but there are others in our communities who can't even afford the most basic services. So I am glad to see that the bill before us today gives the FCC the authority to include broadband within the USF.

There is an assumption that urban areas have plenty of access to broadband, but there are significant gaps. For many, broadband is out of reach. But it doesn't have to be that way. Expanding the Lifeline and Link-Up program discounts would lower the cost of broadband for families living on the margins.

We also must address the severe inequity in the USF. I have

pointed out before, Floridians far overpay into the USF without receiving some sort of equitable return. The new cost model put forward by the FCC must correct this inequity as we implement the National Broadband Plan and reform the Universal Service Fund.

Thank you very much. And I yield back.

[The prepared statement of Ms. Castor follows:]

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Mr. Boucher. Thank you, Ms. Castor.

The gentleman from Connecticut, Mr. Murphy, is recognized for 2 minutes.

Mr. Murphy. Thank you, Mr. Chairman. I look forward to hearing from the witnesses, and I will waive an opening statement.

Mr. Boucher. Thank you, Mr. Murphy. We will add 2 minutes to your questioning time.

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

Mrs. Christensen. Thank you, Mr. Chairman. I, too, would just like to welcome the witnesses and waive my opening statement.

Mr. Boucher. Thank you, Mrs. Christensen. Two minutes to you also.

That concludes opening statements by members of the subcommittee.

I am pleased now to recognize and introduce briefly our panel of witnesses. And we want to thank each of you for joining us here today.

Carol Matthey is the deputy bureau chief of the Wireline Competition Bureau at the Federal Communications Commission.

Walter McCormick is president and chief executive officer of the United States Telecom Association.

Shirley Bloomfield is chief executive officer of the National Telecommunications Cooperative Association, NTCA, and is

testifying today on behalf of NTCA, OPATSCO, and the Western Telecommunications Alliance, all associations of rural carriers.

Steve Davis is the senior vice president for public policy and government relations at Qwest Corporation.

Kathleen Grillo is the senior vice president for Verizon.

And James Assey is executive vice president of the National Cable and Telecommunications Association.

We welcome each of you. And, without objection, your prepared written statements will be made part of our record. We would welcome your oral summaries and ask that you keep those to approximately 5 minutes.

Ms. Matthey, we will be happy to begin with you.

STATEMENTS OF CAROL MATTEY, DEPUTY BUREAU CHIEF, WIRELINE COMPETITION BUREAU, FEDERAL COMMUNICATIONS COMMISSION; WALTER MCCORMICK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED STATES TELECOM ASSOCIATION; SHIRLEY BLOOMFIELD, CHIEF EXECUTIVE OFFICER, NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION, NTCA; STEVEN DAVIS, SENIOR VICE PRESIDENT FOR PUBLIC POLICY AND GOVERNMENT RELATIONS, QWEST CORPORATION; KATHLEEN GRILLO, SENIOR VICE PRESIDENT, VERIZON; JAMES ASSEY, EXECUTIVE VICE PRESIDENT, NATIONAL CABLE AND TELECOMMUNICATIONS ASSOCIATION

STATEMENT OF CAROL MATTEY

Ms. Mattey. Thank you, Chairman Boucher, Ranking Member Stearns, members of the subcommittee. Thank you for the opportunity to testify today about the "Universal Service Reform Act of 2010."

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 program has played an important role in strengthening communities and our economy by supporting modern networks capable of delivering broadband as well as voice service to many rural Americans.

But 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. While many speak of an urban-rural divide for broadband service, the more troubling trend is a rural-rural divide. Under the existing universal service rules, not all providers have the same incentives to upgrade their networks to provide broadband, and some have economic incentives to invest in areas already served by unsubsidized competitors.

Maintaining the status quo is unlikely to achieve 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 reexamined in light of changes in technology platforms and market dynamics, changes that the Universal Service Reform Act expressly contemplates.

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 March of this year, the Commission unanimously adopted a joint statement on broadband, calling for the system to be comprehensively reformed to increase accountability and efficiency and encourage targeted investment in broadband infrastructure. I

would like to elaborate briefly on a few shared principles that underlie the bill and the FCC's current efforts.

First, forward-looking policies are critical. Simply because we have done things a certain way in the past does not mean those same policies make sense in a broadband world. It is incumbent upon all of us to take a close look at the current system to determine how to move forward towards our goal of advancing broadband. We need to find a foundation of continued private-sector investment and a pathway for broadband to evolve in the future. Our rules must be based on the technology and economic realities of today and tomorrow, not the last century.

Second, targeted, technology-neutral, and sufficient levels of support are essential. We should target support only to those areas that really need it. We need to provide sufficient support to establish an effective public-private partnership in which support is made available in exchange for a commitment to meet reasonable public interest obligations.

Third, a revamped program requires oversight and accountability. The bill's vision and ours is to ensure USF dollars are spent in a responsible way. This means maintaining effective oversight. Whoever receives funding should be accountable for building out, and we should ensure that USF benefits as many unserved and underserved Americans as possible with no more support than is truly necessary.

Fourth, we should remember that universal service is

fundamentally about consumers in all parts of the country. Ultimately, it is the consumer that pays for universal service. As we go through this process of making policy choices and compromises, we should never lose sight of the burden and benefits to consumers.

Finally, we must move quickly but wisely. Market participants need clarity and regulatory predictability so that they can make informed business decisions. We hope that all stakeholders will actively and constructively engage so that we can move swiftly to establish clear and sensible policies for the future.

To conclude, on a personal note, as a member of the Commission staff who has worked on universal service issues since 2000, I am very encouraged by the bipartisan consensus and recognition of the need for reform. We at the FCC appreciate the leadership of the chairman and Representative Terry in introducing this bill. And we look forward to working with the subcommittee and others to ensure that reform moves forward.

Thank you again for the opportunity to testify, and I will be happy to answer any questions.

[The prepared statement of Ms. Matthey follows:]

\*\*\*\*\* INSERT 1-3 \*\*\*\*\*

Mr. Boucher. Thank you very much, Ms. Matthey. We are delighted to have you here.

Mr. McCormick?

#### **STATEMENT OF WALTER MCCORMICK**

Mr. McCormick. Mr. Chairman, Ranking Member Stearns, Mr. Terry, and members of the subcommittee, thank you for the opportunity to testify today in support of this important legislation.

It is hard to overestimate the importance of broadband to our Nation's economy, to America's competitiveness, to education, to health care, to environmental sustainability, to job creation, and to our citizens' quality of life. Today broadband has been built out to about every place in America where a reasonable business case can be made for deployment. Over the course of the last decade, broadband service providers have invested over \$700 billion in deploying broadband infrastructure.

According to the FCC's National Broadband Plan, fixed broadband service of 4 megabits or more is now available to 95 percent of our population. This is an extraordinary accomplishment. Consider that earlier this year Congress passed universal health care that, when fully implemented some years from now, aims to cover 95 percent of Americans. We are there today

with broadband.

But getting to the last 5 percent of Americans, it is expensive. The FCC estimates that it is going to cost about \$24 billion. It can only be done if Congress and the FCC address the financial fundamentals that lie at the foundation of rural service, which are universal service and intercarrier compensation. This bill does that.

We are grateful to you, Mr. Chairman, and to Mr. Terry for the thought that you put into this legislation, for the attention to detail, for the inclusive process that you employed, and for the consensus that you forged.

This bill addresses each of the key issues that are central to the integrity of universal service going forward. It expands the contribution base to include new technologies. It reforms USF distributions to target support where it is most needed, to reduce duplication, to balance competing interests, and to focus on broadband. It mandates reform of intercarrier compensation, the means by which carriers receive payment for the use of their networks. It addresses the egregious abuses of the system that have arisen with regard to phantom traffic and traffic pumping. It reforms the audit process. It prevents the Commission from restricting high-cost support to primary lines. And it resolves the longstanding administrative problem associated with the Anti-Deficiency Act.

So we endorse this bill. We do so cognizant of the fact that

our industry did not get everything that it wanted. But we do so in the spirit of compromise, in the spirit of bipartisanship that characterizes this package, and with the recognition that it would be imprudent to let the perfect be the enemy of the good, both for our industry and for our Nation.

This bill deals with complex matters. It allocates large sums of money, and it impacts a variety of competing interests. The balance that has been struck is a fair but very delicate one, and it could tip easily. We recognize that to pull at one thread is to unravel the fabric of an impressive blueprint for investment in 21st-century broadband communications.

So, Mr. Chairman, based upon the substance of this package, coupled with clear assurances and a legislative history that assure our industry that it will not result in unfunded mandates, and this committee's commitment to close oversight of Commission implementation, we recommend its passage.

Again, thank you for your extraordinary work on this very important issue.

[The prepared statement of Mr. McCormick follows:]

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Mr. Boucher. And thank you for that excellent testimony.

Ms. Bloomfield?

#### STATEMENT OF SHIRLEY BLOOMFIELD

Ms. Bloomfield. Thank you very much, Chairman Boucher, Ranking Member Stearns, Congressman Terry, members of the subcommittee. Good morning, and thank you very much for the invitation to testify today on H.R. 5828, the "Universal Service Reform Act of 2010," which we are also very much in support of.

NTCA, which represents more than 580 rural telephone companies, is who I am here on behalf of, along with my colleagues, OPATSCO and WTA. And, together, we represent 1,100 rural, rate-of-return regulated, community-based communications and broadband service providers from around the Nation. Collectively, our member companies serve about one-third of the landmass of this country but about 5 percent of the total subscriber lines.

So we would like to thank you very, very much for your leadership, Chairman Boucher and Congressman Terry, in particular, for your longstanding focus and understanding of both the critical importance of universal service support for today's communication networks and the need for reform to usher in a new era of advanced communications.

As you know, OPATSCO and WTA and NTCA have endorsed 5828. The bill represents a laudable effort to seek compromise between many different viewpoints and interests on these very important issues. Your ability to find some common ground on such a complex topic is a testament to your efforts to the American public and a dedication to advancing telecommunications policy to better reflect the needs of the communications broadband-focused world.

Universal service continues to be the cornerstone of our Nation's communications policy and ensures that Americans living all across the country, and particularly in rural areas, receive services that are comparable to those in performance and price to those living in urban areas. And it is an opportunity for everybody in this country to benefit from a nationwide, integrated, advanced communications network.

A typical self-sustaining business model that works in an urban area is much more difficult to achieve in a rural market. And those of you who have rural areas in your congressional districts know what I mean, when you are driving for miles, how difficult it is to put a telecommunications plant in those markets.

In those high-cost areas, universal service is critical to overcoming the economic challenges of deploying communications networks. So, as members of the industry and Members of Congress recognize, it is time to update the universal service program and to reflect the shift from voice to a broadband world.

The "Universal Service Reform Act of 2010" contains a number of program modifications that we support and that we think are very important and that I detail a little bit more further in my testimony, but I do want to hit on a couple of them.

The bill maintains rate-of-return regulation for eligible communication providers, ensuring the needed stability and predictability in cost recovery to promote investment in high-cost, low-density parts of our country. It defines universal service to include high-speed broadband service so that the support for the deployment and operation of broadband networks will be explicit. It also requires a contribution to the Universal Service Fund from a wider range of providers, including all broadband providers. And it requires the FCC to act on intercarrier comp reform in the near term and to allow the USF growth factor to accommodate intercarrier comp flows directed to it.

So, although the bill contains these very important modifications to USF -- our organizations do endorse the bill -- we also have a couple of things that do raise some concerns for us: reducing or eliminating high-cost support in competitive areas and the implementation of a new, unproven cost model that may not permit rural providers to meet universal service goals of providing reasonable, comparable, and reliable service in high-cost areas.

We are hopeful that if this legislation is adopted we can

work with all of you to define and implement these measures in a way that acknowledges the critical role that rural telecommunication providers continue to play as carriers of last resort in their community. We also hope that the Congress and the FCC, if they are to act and implement any provisions, will recognize the very unique nature of some of these rural markets.

Mr. Chairman, I want to thank you again for inviting me to be here with you. Your knowledge of the industry, your bipartisan efforts with Representative Terry, your commitment to strengthening and advancing communications for all Americans, both urban and rural, make us very fortunate to have you serving on this committee.

The bill that we are discussing here today is a product of many hard years of work, a lot of effort on behalf of a lot of people. And we look forward to continuing to work with you to improve this measure and to answering any questions that the committee may have.

Thank you very much.

[The prepared statement of Ms. Bloomfield follows:]

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Mr. Boucher. Thank you very much, Ms. Bloomfield. And we look forward to continuing our work with you.

Mr. Davis?

#### **STATEMENT OF STEVEN DAVIS**

Mr. Davis. Good morning, Chairman Boucher, Ranking Member Stearns, and members of the committee. I appreciate the opportunity to express Qwest's views this morning on the Universal Service Act of 2010, a bill which we do endorse.

Qwest provides voice, data, Internet, and video services nationwide and globally and provides local telephone and high-speed Internet service in 14 western States. We provide approximately 10 million telephone lines and approximately 3 million broadband lines and currently have broadband service available to more than 85 percent of our customers.

Earlier this year, Qwest and CenturyLink announced their intent to merge. The merger will result in a combined company that will provide voice and broadband services in 37 States and operate a national 180,000-mile fiber network. The post-merger company will have over 17 million telephone lines and serve over 5 million broadband customers.

It is expected that the strong financial position of the combined company will enable it to make more broadband investment

in the vast rural areas which it will serve. However, irrespective of the company's size, there will remain many high-cost areas that are simply uneconomic to serve without financial support.

Qwest's territory, like that of CenturyLink and other mid-sized carriers, includes many rural communities with very low household density. For example, in Douglas and Gillette, Wyoming, Qwest serves customers with local loops more than 75 miles long. The cost of running basic telephone service and broadband service in these areas greatly exceeds the revenue opportunity. Yet the existing universal service program often fails to provide the support necessary to make these areas economic to serve. Reform is needed, and Qwest commends Chairman Boucher and Congressman Terry for their leadership in addressing this very difficult issue.

The greatest flaw in the existing high-cost program is the use of State-level averaging to determine support. The current mechanism allocates high-cost support only if a company's average costs statewide exceed a national benchmark rate. As a result, many of the Nation's most sparsely populated communities served receive no Federal high-cost support whatsoever. So in Comstock, Minnesota, and Leonard, North Dakota, where Qwest's cost of serving customers is over \$200 a month and local rates are around \$20 a month, we receive no Federal high-cost support. There are hundreds of other examples.

The existing funds assumption that Qwest can overcharge customers in larger cities to subsidize the low-cost prices in rural areas is the product of a long-past monopoly environment. Therefore, we support the bill's targeting of high-cost support to wire center and subwire center areas, which will result in support being efficiently targeted to truly high-cost areas.

The bill also recognizes that support is inappropriate in areas where facilities-based competition exists. We agree. But sufficient high-cost support must be provided for the higher-cost areas where the competitor does not offer service. The bill anticipates this scenario.

Qwest also strongly supports the provisions prohibiting traffic pumping, a harmful and illegitimate scheme that is costing the communications industry and consumers millions of dollars every year. Qwest appreciates that the bill's sponsors are addressing this serious issue.

Additionally, Qwest supports the bill's provisions addressing phantom traffic by requiring identification of traffic that originates on a carrier's network and requiring intermediate carriers to pass through that identification information.

Intercarrier compensation reform is also desperately needed, and a legislative mandate for the FCC to move forward and accomplish that reform may be the impetus we need to jump-start that process.

Qwest also agrees with Chairman Boucher, Congressman Terry,

the FCC, and others that it is time to explicitly and directly support the deployment of broadband-capable networks to unserved areas through a modified universal service program. Therefore, Qwest supports the bill's explicit authorization of universal service support for the provision and maintenance and upgrading of broadband service. And I commend the work of the FCC in developing and drafting the National Broadband Plan.

As the bill requires, broadband universal service obligations, including carrier-of-last-resort obligations, should only extend to the areas for which broadband universal service support is provided. And in replacing existing support, we urge the Congress and the FCC to recognize the importance of a reasonable transition mechanism.

In drafting this bill, Chairman Boucher and Congressman Terry have provided Congress with a means to create a new and improved program for supporting universal service and access to basic telephone service and high-speed broadband service throughout America. And they have proposed additional reforms to intercarrier relationships that will result in fairer responsibilities for customers and carriers alike.

Qwest greatly appreciates the subcommittee's attention to these issues and renewed efforts to accomplish this much-needed reform. Thank you again for the opportunity to testify.

[The prepared statement of Mr. Davis follows:]

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Mr. Boucher. Thank you very much, Mr. Davis, and thanks for your thoughtful comments.

Ms. Grillo?

#### **STATEMENT OF KATHLEEN GRILLO**

Ms. Grillo. Chairman Boucher, Ranking Member Stearns, and members of the subcommittee, good morning. And thank you for the opportunity to discuss the universal service reform bill introduced by Chairman Boucher and Congressman Terry.

Congress last updated the Universal Service Act in 1996, almost a decade and a half ago. A lot has changed since then. Now is the time to put in place the policies that will help expand the reach of broadband networks to all Americans. Verizon is pleased to endorse the Boucher-Terry bill and congratulates its authors on crafting legislation that has bipartisan and industry support.

Since the subcommittee's last hearing on this topic, the FCC has submitted its National Broadband Plan to Congress. Like the USF reform bill, it represents the culmination of thousands of hours of work. It is a thoughtful, comprehensive approach aimed at maximizing the boundless power of the Internet and ensuring broadband access for every American.

From our point of view, there are three priorities, and all

of these issues are addressed in the bill before the subcommittee.

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 has doubled over the last decade, and just to subsidize traditional voice service in rural areas.

But plain old telephone service rapidly becoming a thing of the past, and consumers demand much more. They want to surf the Internet, send e-mail, and download videos -- and all over the same network connections. We must refocus the fund to reflect the way consumers live and work today.

And as the bill repurposes the USF for broadband, we must keep in mind that consumers pay for the fund through charges on their monthly bills, and changes must be in line with what consumers can reasonably afford.

As we have said before, the problem with universal service is not that we are spending too little money; it is that we are not spending it on the right services and in the right places. To that point, the bill takes an important step forward by putting in place a more rationale, competitive bidding system for high-cost support to wireless carriers.

Almost everybody recognizes that the way wireless carriers receive support today is problematic. Among other things, multiple wireless providers get support in the same areas, even where other carriers compete without any universal service support

at all. And the right competitive bidding system will fix these problems.

Second, intercarrier compensation. The system of charges between carriers for exchanging communications traffic is a mess. The current system is based upon distinctions which bundled services -- phone, TV, and Internet access -- have rendered meaningless. It is important to fix this broken system at the same time that the Universal Service Fund is updated. And the bill properly provides a firm deadline, 1 year from enactment, for the FCC to complete intercarrier compensation reform.

And third, traffic pumping. The traffic-pumping scams that have plagued the industry in recent years must be stopped immediately. These scams have cost the industry hundreds of millions of dollars as so-called traffic pumpers game the current system by exploiting antiquated rules. This bill would appropriately cut off many of those scams.

And, lastly, I would like to say a word about one issue that isn't addressed by the bill: broadband adoption in low-income households. Representative Matsui and others are leading voices on this issue. And for most Americans, broadband is an affordable service that offers tremendous value. That said, the price of broadband service is a real issue for some households. Digital literacy, affordability of a computer, and relevance are also significant factors. The National Broadband Plan proposed that the FCC launch pilot programs to test alternative solutions, and

Verizon supports that approach.

Thank you again for the subcommittee's continued leadership on sustainable universal service policies, and we look forward to working with the subcommittee as we move forward.

[The prepared statement of Ms. Grillo follows:]

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RPTS CALHOUN

DCMN HOFSTAD

[11:00 a.m.]

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

Mr. Assey?

**STATEMENT OF JAMES ASSEY**

Mr. Assey. Thank you, Chairman Boucher, Ranking Member Stearns, Congressman Terry, and other members of the subcommittee. My name is James Assey. I am the executive vice president of NCTA, the National Cable and Telecommunications Association. I am honored to be with you here again and testify today in support of H.R. 5828, the "Universal Service Reform Act of 2010."

Mr. Chairman, as many of the other witnesses have already told us, we live in a communications marketplace today that is fundamentally different from the world that greeted policymakers in 1996. That was a world where industry was providing voice service over circuit-switched networks, a world where almost no one was on broadband, and only 23 percent of the country had dialup Internet access.

The world we live in today is definitely very different. We believe that it is time, and in many respects past time, for us to begin the process of transitioning away from a monopoly-era support program to a more modern, a more neutral, and a more

forward-looking, high-cost support mechanism that will bring broadband service to unserved areas and to underserved populations.

We further believe that the FCC has provided us with a valuable resource in the National Broadband Plan, which synthesizes reams of data and helps us assess where we stand today, where we need to be, and what measures must be taken to ensure that our universal service system for the 21st century is efficient, effective, and maximizes the incentives for private investment in building broadband networks.

Roughly 9 months ago, when the president of NCTA, Kyle McSlarrow, sat in this seat and testified on universal service reform, he suggested several elements that should be parts of any effort to reform universal service: first, that we must control the size of the High-Cost Fund to ensure that it does not impose unreasonable burdens on consumers or distort competition; second, that we must reduce or eliminate high-cost support in areas where it is demonstrated that service can be provided without support; third, that universal service support for broadband should be targeted to help extend capabilities in unserved areas that currently do not have broadband service; fourth, that the universal service contribution mechanism should be reformed to allow assessment based on telephone numbers or another appropriate mechanism that promotes stability and simplicity; and finally, that reform must reflect the modern-day principles of competitive

neutrality with respect to eligibility for universal service support.

Mr. Chairman, we continue to believe that these principles are the right ones and believe that H.R. 5828 helps to advance these principles in many significant respects.

Chief among its virtues, the bill creates a permanent and ongoing mechanism to better calibrate high-cost support to current realities of a competitive marketplace by reducing or eliminating support in competitive areas. It also adds needed controls on the growth of the fund by allowing the FCC to consider all net revenues that a provider may obtain and also by ensuring that reforms will not unreasonably increase the contribution burden on consumers.

In addition, we support the bill's efforts to complete intercarrier compensation reform within a year, to make broadband specifically eligible for universal service support without resorting to reclassification, to stating that USF support should be technology-neutral, and also including accountability provisions to ensure that moneys go where they are needed.

Mr. Chairman, in sum, we are confident that H.R. 5828 is a deftly crafted compromise that can serve to remove jurisdictional impediments and help propel the FCC and our Nation towards meaningful and lasting reforms. And we look forward to working with you and the other members of the subcommittee.

Thank you.

[The prepared statement of Mr. Assey follows:]

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Mr. Boucher. Mr. Assey, thank you very much.

And thanks for the endorsements that were forthcoming today from all of our stakeholder private-sector witnesses. We appreciate your work with us and your support for the passage of this legislation, which reflects the results of that cooperative effort together.

Ms. Grillo, let me direct a question to you, if I may. One of the things that we are doing in the bill to save money is moving from the current system of providing USF support to wireless, which essentially qualifies all of the wireless carriers in an area that meet the threshold and the qualifications for support, so you could have multiple carriers receiving support, and we are moving away from that in this bill to a competitive bidding model, where no more than two winners could be awarded support in a given study area.

Have you done any cost estimating in terms of how much money we will save in terms of fund expenditures by moving to this competitive bidding model? At the present time, the wireless support is about \$1.5 billion out of a \$4 billion annual fund. Can you give us a sense of what the annual savings would be in terms of that wireless component if we move to this competitive bidding model?

Ms. Grillo. We have looked at that. As you know, Verizon, in particular, has been a proponent of using competitive bidding.

We used to call it "reverse auction." We actually developed a fairly comprehensive proposal when the FCC was looking at this a few years ago, and what we did at the time was we tried to come up with an estimate of, sort of, the proposal that we had and how much money that would save. And what we have done is, sort of, use that to look at the structure that the legislation sets up and, you know, sort of, use some of the assumptions we used then and also take into account some of the changes.

Some of it is difficult because there are provisions in the bill that the FCC will have discretion to interpret. But, bottom line, we think probably the higher end of the range would be \$500 million and probably the lower end would be about \$200 million.

Mr. Boucher. So that is savings of potentially as much as \$500 million, but at least as much as \$200 million, depending on various factors that we can't predict at this point.

Ms. Grillo. That is right. That is right.

Mr. Boucher. Okay. That is a pretty substantial savings, \$200 million on an annual basis, from just this one provision alone.

Ms. Grillo. Right, that is just that one provision.

Mr. Boucher. Yeah, okay. Well, thank you, Ms. Grillo.

Ms. Bloomfield, a question for you. We are, in this legislation, preserving the rate-of-return model, which is the current foundation for awarding supported universal service. And

I know that your companies, those that you are speaking for today, are particularly interested in retaining this rate-of-return model.

Can you explain to us why keeping that means of providing support is so important to the rural carriers that benefit from USF?

Ms. Bloomfield. Thank you, Mr. Chairman. I would be very happy to answer that question.

Rate-of-return regulation has actually really been part of the broadband success story in a lot of these rural markets. And what rate of return does is it allows the carriers to not get a guaranteed rate of return but it ensures that they are able to get some recovery of their costs, of the capital expenses that they are putting into these rural markets when they build these networks. It gives them stability. It gives them predictability. It also recognizes the fact that they are carriers of last resort in these markets, that they are building out to the markets and edges of the market where nobody else actually wants to serve and take on those obligations.

It also is one of those forms of regulation that really does prevent waste, fraud, and abuse because it has a lot of oversight from the regulations and the regulators. And I think the other thing that is very important in contrast is the other form of regulation potentially could be price cap. And price cap is a form of regulation that really drives incentive to invest in those

areas where it is lowest risk and you get the greatest return. Obviously, a lot of these rural markets, that is not an economic model that is efficient and that actually works.

Mr. Boucher. Okay.

Ms. Matthey, I am going to ask if you want to engage on this subject. And I will set the foundation for this engagement. The Commission, as part of its National Broadband Plan, had suggested that there might be a movement from rate-of-return regulation as the basis for USF distributions to price caps.

And I would note that, in the provision we have placed in this legislation, we would retain the rate-of-return formula, but you could reduce administratively the rate of return that, in fact, is allowed. Today, it is a fairly high number. It is about 11.4 percent, as I understand it. And there is nothing in this provision that would prohibit you from reducing that percentage. If you thought that a lower number made sense, you could reduce it.

So my question to you is this: Given that tremendous flexibility to establish what the rate of return actually is based on investment, why is that not a sufficient model? Why would it not be appropriate to take that course, which Ms. Bloomfield has said is so important to the rural carriers in order to provide predictability and other necessary planning devices, when you are given the very broad flexibility to actually decide what the real rate of return is?

Ms. Matthey?

Ms. Matthey. Well, certainly, as you say, the FCC, under current rate-of-return regulation, could change the rate of return. And, as well, the FCC could look at other rules that apply to the current receipt of universal service high-cost support for the rate-of-return carriers.

Mr. Boucher. Okay. Okay, fine.

My time has expired, and I am pleased to recognize the gentleman from Florida, Mr. Stearns.

Mr. Stearns. Thank you, Mr. Chairman.

Ms. Matthey, I have here the report from the FCC called, "Comparison: Universal Service Fund Transformation Recommendations, August 2010." And I go to page 5, and it has the Boucher-Terry bill, talking about the size of the fund. And it has three or four comments. And one of the comments says, "The High-Cost Fund, not capped, may increase significantly."

Now, in the bill, they have the language that it can increase unreasonably -- I mean charges can increase. There is no ceiling, there is no cap. It appears from what you are saying in this report -- and I need your comments -- that you are saying the bill, as it is written today, will not control the cost of the Universal Service Fund.

Ms. Matthey. Well, as I understand it, the legislation does direct the Commission to not unreasonably increase the contribution burden on consumers. And, of course, we would very

much appreciate any direction from Congress as to what constitutes an unreasonable burden.

Mr. Stearns. Well, Ms. Grillo pointed out accurately that the High-Cost Universal Service Fund has doubled over the last decade. At the same time, I think the unserved has not increased dramatically. So the question would be, since the fund is increasing, as Ms. Grillo mentioned, doubled over the last decade, you know, why does the fund keep going up?

And I think what many of us are worried about is, the way the language is in the bill and based upon what you are saying here, do you think the costs will increase dramatically again, like we saw in the last 10 years?

Ms. Mattey. There are many reasons why the High-Cost Fund has increased over the last decade. Among the reasons are the loss of access lines that smaller carriers as well as larger carriers have incurred, as well as the growth in the funding provided to competitive ETCs.

The bill has provisions that would address how funding should be provided to competitive ETCs. And, therefore, it would depend very much on how the bill would be implemented, you know, based on the direction from Congress.

Mr. Stearns. Okay, but what you are saying here is that -- your language here is that it may increase significantly. And, really, the purpose of the bill is to take and cap it and really decrease the cost so we can put it to broadband. I mean, that has

been the underlying assumption that many of us have gone along with the bill, that if we can save money here, we will give it to broadband. As Mr. McCormick said, we have 95 percent of the market has up to 4 megabytes, I think Mr. McCormick said. We are looking at 5 percent, the last 5 percent.

And I would point out, this is true, but also the Departments of Agriculture and Commerce have not even finished off awarding \$7 billion in broadband grants and loans that are in the stimulus bill. So a lot of us are just concerned when you point out that it is not capped and may increase significantly.

I guess another question would be to you: Do you think this fund will likely shrink? Can you say categorically "yes" or "no"?

Ms. Mattey. Are you speaking about the High-Cost Fund?

Mr. Stearns. The whole fund.

Ms. Mattey. The whole fund. I do not believe the whole fund will shrink.

Mr. Stearns. I think that is fair to say.

Ms. Mattey. We submit our projections to the Office of Management and Budget. And our projections show that, over time, the fund will grow.

Mr. Stearns. You are saying including under the bill, too?

Ms. Mattey. I was referring to our projections that we submit, as required by law, to the Office of Management and Budget, you know, indicate that the fund overall will grow. And that is a matter --

Mr. Stearns. Under this bill and under what you said, did you come up with a quantitative amount that you thought it would increase by?

Ms. Mattey. No.

Mr. Stearns. Did you have any projection at all?

Ms. Mattey. We have not done an in-depth analysis of the specific provisions of the bill.

Mr. Stearns. Okay. What is your definition of an underserved household? Does that include wireless as well as land lease?

Ms. Mattey. I would view, personally, an underserved household would be a household that has some form of broadband but perhaps does not have broadband of the speed that we are aiming for in the future. So it is a household that is beyond dial-up but perhaps does not have as robust a speed as we want as our goal.

Mr. Stearns. Mr. Chairman, I don't see any clocks here, so I don't know how much time I have left or not.

Mr. Boucher. Well, it is one of the technical malfunctions we have here this morning. We are sort of beset with them. Actually, the Health Committee should have been having this room. Well, anyway, that is an intramural debate for another day.

Mr. Stearns. Well, I will just finish up with --

Mr. Boucher. You actually have a few more seconds.

Mr. Stearns. Oh, okay.

Well, let me just ask each member of the panel if there is anything in the bill they would change, delete, or add. And just start with you, Ms. Matthey, and just work to my right.

Ms. Matthey. Well, you know, the FCC has not taken a formal position on the bill or any of the provisions --

Mr. Stearns. I am not asking for a position. I mean, is there anything you would change? I mean, just any dot or comma or colon you would change? Anything in this bill you would change?

I mean, you have indicated that it will increase significantly. I assume you would like to put some language that would say that it can't go up and that the money has to be actually reduced.

Ms. Matthey. Actually, there is one area that the bill doesn't really address, and that is the role of States in our shared Federal-State responsibility for universal service. And I would note that Nebraska actually has gone through the process of doing rate rebalancing and has established a State high-cost fund which supports the provision of service to carriers in that State.

So that is an area that, you know, I don't see addressed in the bill, and I think it is something we certainly have been thinking about at the FCC.

Mr. Stearns. Okay.

Mr. McCormick?

Mr. McCormick. Well, there are a number of things that would sweeten the package for us. But, as I said, we know that this is

a delicately balanced package, and we urge its package.

Mr. Stearns. Okay.

Ms. Bloomfield?

Ms. Bloomfield. We also support the delicate balance. I would say cost models are difficult. What works in Montana doesn't necessarily work in Alaska.

Mr. Stearns. Mr. Davis?

Mr. Davis. I think I am in the same place, in that, as a package, we support it. Are there things we would write differently? Sure, but is that going to cause some other component of the bill to fall apart?

Mr. Stearns. Ms. Grillo?

Ms. Grillo. I think we have concerns about the contribution system as it exists today and a revenues-based system. You know, in a perfect world, perhaps we would support language that would move away from revenues and move closer to a numbers- or connections-based system.

Mr. Stearns. Mr. Assey?

Mr. Assey. I would echo what my other colleagues have said. It is obviously a package. Obviously, we are very concerned about the cost controls, but we are comfortable with the bill as it stands.

Mr. Stearns. Thank you, Mr. Chairman.

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

I would just note that our legislation only addresses the

High-Cost Fund. It does not address the balance of universal service. So any thoughts about the overall fund perhaps growing really are not relevant to this specific legislation per se.

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

Mr. Doyle. Thank you, Mr. Chairman.

I want to talk a little bit about paying for the USF by charging a fee for telephone numbers, this numbers approach. So I have three questions, and I am just looking for "yes" or "no" answers, But, I mean, it is not the SATs. You could say "maybe" or "I don't know." And I am exempting Ms. Matthey from this. I just want to ask the five witnesses. So I will state the three questions first.

First, universities have hundreds, often thousands, of direct-dial phone numbers. A group of university IT professionals have filed a letter at the FCC saying that if the numbers approach replaced the current USF funding mechanism, their USF bill would increase tenfold, meaning they would have to take out telephones in dorms and bus shelters, making their campuses less safe. Can you understand why universities would seek an exemption for their numbers or face the prospect of ripping out their emergency call boxes?

Secondly, some but not all electronic book readers, like Amazon Kindle, have telephone numbers. And that is because they wirelessly download new books via a Sprint cell connection. Now,

Sony readers make you sync the reader to a PC via wifi. Can you see why a company like Amazon would have to eliminate this feature unless it can get an exemption to pay into the fund because their competitors wouldn't have to?

And, third, there are companies in my district, including Contact One Communications, that need thousands of numbers to sell services like call centers and telephone answering. Does it make sense that they would seek an exemption for their tens of thousands of numbers or risk paying tons and tons of new money to the Universal Service Fund?

And maybe we will just start with Mr. McCormick and just go right down right down the line, "yes," "no," "maybe," or "I don't know."

Mr. McCormick. Well, first of all, yes, I understand the concern. But the legislation provides flexibility to the FCC in addressing those connections.

And I would say that, in each and every one of those cases, particularly, like, the university telephones, universities are using those telephones to call into rural areas. I mean, the whole theory is that the utility of a telecommunications network, the utility of a broadband network is based upon --

Mr. Doyle. Yeah, but not for call boxes, certainly.

Mr. McCormick. But what the legislation does is to provide flexibility so that they can use IP addresses, they can use telephone numbers, and they can take into account these kinds of,

sort of, like, large call boxes.

Mr. Doyle. Ms. Bloomfield?

Ms. Bloomfield. We have historically supported a revenue-based assessment, which we have just found to be a little bit easier. But I do think the important part is looking to expand the base so you limit some of the pressure there.

Mr. Doyle. Mr. Davis?

Mr. Davis. Yes, no, no.

No, I agree with Mr. McCormick, in that I think the legislation provides flexibility for the FCC to look at various circumstances, but I think it has to be recognized, as you go from one method of collection to another, some are going to pay less and some are going to pay more. It is just going to have that effect.

Mr. Doyle. Uh-huh.

Ms. Grillo. Yes, I mean, we agree that, you know, there are going to be concerns on all sides if you shift from revenues to numbers. And there has been a lot of talk, obviously, from universities and libraries.

I guess what we would say is, the FCC has to keep in mind that the more exemptions there are, the higher the per-number charge or the per-connection charge would be. And that, you know, can be borne by consumers, by small-business owners. So that is just a consideration that I think the legislation would permit the FCC to take into account.

Mr. Doyle. Uh-huh.

Mr. Assey?

Mr. Assey. Yes, I understand, and I agree it is exactly the sort of thing the FCC ought to be empowered to work through, for the reasons that Kathy articulated, because the more exemptions you have, the higher the per-number charge.

Mr. Doyle. Yeah, I mean, I think in these cases, Mr. Chairman, there is a good case to be made for a carveout, you know, in this numbers approach. But if the premise is that numbers is a cleaner way to do it, then the carveout sort of make it unclear. So perhaps we should just fix what is wrong on the contribution side by improving the revenue model instead.

Let me ask Ms. Matthey, I have questions about the requirement in the bill that recipients of the Universal Service Fund provide broadband. Now, I wholeheartedly agree with that requirement, and I appreciate Mr. Boucher adding it. However, some witnesses state that waiver provisions are needed to ensure that recipients of Federal money won't have to provide broadband where it is most economically difficult. The bill would automatically grant waivers where the cost of deployment is more than three times the national average.

Ms. Matthey, can you tell us, of the parts of America that aren't connected to broadband, what percentage of those would cost more than three times the national average to connect?

Ms. Matthey. I can't answer that question definitively

because we don't have complete information at this time to do that.

I can say, based on extrapolating from our existing cost information that we have about, under our current rules, the provision of universal service for voice service, it looks like, ballpark, perhaps 1 to 2 percent might be over that 3 percent threshold.

Mr. Doyle. Uh-huh.

Ms. Mattey. So it would be a situation, you know, where you would presumably be able to extend broadband to roughly two-thirds of the unserved. But there may be, you know, a quarter of the unserved that are still not served with such a waiver provision.

But I really caution you that that is very much of an estimate and we don't have the information.

Mr. Doyle. But is it fair to say it is the FCC's intent to look at the potential impact on your ability to require carriers to deploy broadband services to unserved areas on this? I mean, if we want to make sure that everyone that is getting this money deploys broadband, obviously what I am hearing is that is not going to happen, in some cases.

Ms. Mattey. Well, obviously, we would defer to the direction from Congress as to, sort of, how far we should go. Everybody recognizes that it is very, very expensive to extend service to that last percent. And we would follow the lead wherever Congress tells us to draw the line.

Mr. Doyle. Uh-huh.

Mr. Chairman, thank you. I think I have used my time.

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

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

Mr. Terry. Thank you.

A couple of observations. First of all, on the revenue side, the requirement that if your service is primarily voice, that you would contribute, understanding there would be a variety of technologies, one where you probably have to use a revenue model and maybe another type of technology model where the numbers model makes better sense, so we give that level of flexibility to the FCC so they can determine which is the appropriate mechanism for the revenue.

And is that an adequate flexibility for the FCC, Ms. Matthey?

Ms. Matthey. We very much appreciate the flexibility in this legislation.

Mr. Terry. All right. Thank you.

Ms. Bloomfield, in that regard, is your constituency okay with that?

Ms. Bloomfield. Absolutely. I think the hybrid approach might be the one that makes the most sense. And we have been working closely with others in the industry and the FCC to, kind of, figure out what that forward-looking model is going to be on that.

Mr. Terry. Ms. Grillo, you are the only one that seemed to

be opposite of the flexibility.

Ms. Grillo. Well, we are not opposite of the flexibility. I think we just -- we have had a concern for a long time about the current system, and it really gets more intense every year just because the idea that you can separate information services from telecom services just gets more challenging every year.

So we do appreciate the flexibility. And, obviously, you know, the FCC is the expert agency and should be making these determinations. But we do feel strongly that the time is now to move toward a more objective numbers-, connections-based contribution.

Mr. Terry. Thank you.

Back to you, Ms. Bloomfield. I am going to give this question to you because, frankly, it is your constituency that we started this process, to give them some level of certainty that the fund that they rely upon to provide services to the high-cost rural areas will exist in the future. There has been great concern about the cost-containment measures in here. And most of those cost-containment mechanisms in here really directly affect your constituency. And so I want to direct this question to you.

And, first, before I make the question, we started this with a cap, and the cap was criticized. Your constituency opposed it pretty passionately. But we have gone to a different model where we specified the cost containment. Now the same people that criticize the cap are criticizing this mechanism now, which is a

little frustrating to me.

But I want to ask you, specifically, what are the cost-containment provisions in here, and how will they affect your constituents?

Ms. Bloomfield. Thank you for asking the question.

I think, you know, when you look at the cap, I think part of the thing -- you almost have to go back to what Congress and what policymakers really want to achieve. And if you are really talking about universal broadband to all Americans, let's be clear, it is going to be a costly proposition. But I think the payback in the long run, you know, getting this country being broadband-deployed, is going to be very, very important for us moving forward.

So I think it is hard to actually say, when you look at a cap and you say, well, what would the actual cap be, what would the cost be, what is the cost of getting broadband out there everywhere? And I think you have the pieces with the stimulus funding from NTIA and RUS going out the door; you look at the USF support. So I think there is kind of an unanswered question about what exactly that cost is.

I think until you, kind of, look back at that and you, kind of, look at how do you expand the base, that you are including as many folks contributing as possible, I think a hard cap is very, very difficult.

If you are in the process and you look at the waiver

provision and you have that last 3 percent of your service territory that you need to build broadband out to but you are not quite sure what the cost is going to be because those customers are out on a very long loop, the cap is really going to stop some of that investment, and I think particularly at a time when you really want to be giving incentives for investment.

Mr. Terry. Let me guide you towards the cost-savings measures that are in --

Ms. Bloomfield. That are in the bill, okay. Let's do that.

Mr. Terry. -- this current version. And is that adequate for Mr. Stearns to have some level of confidence that this is not going to explode?

And I guess we received this copy last night from the FCC, and I got it a few minutes ago, but, "The High-Cost Fund, not capped, may significantly increase." I mean, our whole attempt was not to increase this. So, evidently, the FCC has said that we failed in that, but I think they misunderstand.

Ms. Bloomfield. And I think there are a lot of provisions in the legislation that ensure. You know, I think when you look at how you are actually distributing the money, I think the effort in terms of the competitive bidding with the wireless providers, the multiple ETCs, has been something that I think the entire industry has, kind of, watched with frustration for a long period of time.

I think that, as you look at more competition in some of these markets, I think you are going to see some of the declining

costs. So I don't think you are going to see the explosion that has been projected. And, again, you know, you can't put a number on it because a number is hard to come up with.

Mr. Terry. Mr. Assey, some of the cost-containment measures that you all brought forward to us have been adopted. Are you comfortable that those will actually be cost-saving measures?

Mr. Assey. We are comfortable and hopeful that they will. You know, we live in a world where competition is not a static entity, and one of the most important things, I think, from our perspective, that this bill does is adopting a permanent and ongoing mechanism so that, as competition extends and we are able to provide broadband service in areas without support, we are not essentially picking one competitor versus another.

Mr. Terry. Right. I think that made sense, too.

My time is probably way up, so I yield back.

Mr. Boucher. Thank you, Mr. Terry.

We have a series of recorded votes pending on the House floor, and we have about 8 minutes to respond to those roll-calls. I think we probably have time for Ms. Matsui to propound her questions. I don't think we are going to have time for the other two colleagues to ask theirs. And Mr. Space says he is going to waive questions. I know Mr. Stupak has some questions.

I am going to propose that we have Ms. Matsui's questions, and then we will ask you to wait, if you will, and we will come back for further questioning subsequently.

Ms. Matsui?

Ms. Matsui. Thank you, Mr. Chairman.

As I mentioned previously in my opening statement, there are far too many households who just simply cannot afford broadband service. The USF low-income fund was created to ensure that qualified lower-income Americans living in urban areas and rural areas have a program where they can access affordable telecommunication services.

As we promote the transition of USF from telephone service to broadband services, the USF low-income fund is a vehicle to ensure all Americans living in urban and rural areas have equal access to at-home broadband services. My legislation to expand the USF Lifeline Assistance program for universal broadband assistance adoption will ensure that transition from telephone service to broadband service is a reality for these low-income households.

A question for Ms. Matthey: In the recent FCC broadband adoption survey, did the FCC find that the price of broadband service and related installation costs is a main reason why lower-income households do not subscribe to the Internet?

Ms. Matthey. The survey indicated that typical non-adopters face multiple barriers, but cost was the one most frequently cited.

Ms. Matsui. With respect to any broadband Lifeline pilot program, would it be the intent of the FCC to administer the program to ensure that eligible low-income consumers in both urban

and rural America have an equal opportunity to participate in the program?

Ms. Mattey. Oh, absolutely.

Ms. Matsui. Okay. What are some of the factors that the FCC will consider to ensure a cost-effective Lifeline/Link-Up program for broadband?

Ms. Mattey. Well, we hosted a roundtable discussion about Lifeline in June, and we solicited information from a variety of stakeholders about how to effectively design pilots to test the provision of that subsidy for broadband.

And we hope to very much also learn from the results of the BTOP awardees that will be announced and finished very, very soon, in the next week or 2.

Ms. Matsui. Okay, that is good to know. Thank you.

Questions for Ms. Grillo and Mr. Assey: From an industry standpoint, what are some of the factors you would encourage the FCC to consider in implementing such a Lifeline/Link-Up pilot project?

Ms. Grillo. Well, we have been involved in a pilot program similar to what you have described. Some of the other factors, other than cost to a consumer, may be relevance. Some consumers, you know, don't see the relevance of broadband in terms of their everyday life. Some of it may have to do with security: concerns about the security of a connection and the information transmitted over it, concerns about children and what children do online.

So a lot of what we have tried to focus on in terms of a pilot is an examination, today, what really does drive consumers and what the government can include in a Lifeline-type program that would actually address all of those issues, not just price or cost. But, obviously, that is a concern for a lot of people.

Ms. Matsui. Well, also, digital literacy.

Ms. Grillo. Exactly.

Ms. Matsui. Okay.

Mr. Assey?

Mr. Assey. Yes, thank you for the question. This is obviously an area where the cable industry has done a lot of work, as well, and we are proud to support your bill because we do think it is on target.

The cable industry developed an A-Plus program to really focus on this adoption problem, because we recognize that even though the cable industry can provide service to 92 percent of households, there are a lot of people who could get it who don't.

What Ms. Matthey said, the data that was collected and talked about why people don't adopt broadband covered many factors. And we, kind of, focused on three, digital literacy probably being chief among them. And our program is designed to focus on middle-school children and really try to educate them about safety, security, privacy, and make them comfortable with being in a digital environment.

The other point I would raise, when we talk about cost, I

think we need to look at that factor a little bit more discretely, because, unlike the situation with telephone service, one of the biggest gating factors in cost is actually the cost of the computer, not necessarily the cost of the service. And the data actually reflects that.

So, focusing on the hardware, focusing on the service, focusing on the digital literacy, that coordinated approach will give us our best chance at success.

Ms. Matsui. Okay, thank you.

Ms. Bloomfield, in your view, would a Lifeline program for broadband increase adoption rates in rural America?

Ms. Bloomfield. Absolutely. We think it goes really hand-in-hand with what the High-Cost Fund is already doing in terms of the deployment in rural America. So, the same incentives. We have the same issues in rural America as urban American does with low-income households.

Ms. Matsui. Thank you.

And a final question for Ms. Matthey: How long, in your view, does the FCC believe it will need to conduct pilot programs to gather the appropriate information required to develop the most cost-effective program possible?

Ms. Matthey. We are still working on that internally. We have had a series of meetings with various interested stakeholders. And in the course of those meetings, some have suggested, you know, 1 year, 2 years, 3 years. Some have

suggested things shorter and some longer, so we are still working on it.

Ms. Matsui. I think my preference would be to have something shorter.

Thank you very much. I yield back.

Mr. Boucher. Thank you very much, Ms. Matsui. And we look forward to working with you on a broadband Lifeline provision. And I want to commend you for bringing that very well-developed idea before the subcommittee.

The gentleman from Florida, Mr. Stearns, is recognized for a unanimous consent request.

Mr. Stearns. Unanimous consent, Mr. Chairman, that the FCC's report, "Comparison: Universal Service Fund Transformation Recommendations, August 2010," be part of the record.

Mr. Boucher. Without objection.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Boucher. And we stand in recess until the conclusion of these votes.

[Recess.]

RPTS KESTERSON

DCMN HOFSTAD

[12:17 p.m.]

Mr. Boucher. I would like to ask our witnesses to resume at the witness table, please. Sorry for the delay. Thank you for your patience.

At this time, I am pleased to recognize the gentleman from Michigan, Mr. Stupak, for 5 minutes.

Mr. Stupak. Thank you, Mr. Chairman. We thank you, and we thank our witnesses for staying with us so we could ask a round of questions.

First, Mr. Chairman, let me thank you and Mr. Terry for putting forth this legislation. It is a pretty good piece of legislation.

As I mentioned to you as we are walking down to votes, I still have concerns I have raised before in this committee and I continue to raise because it is an issue we have to deal with, and that is -- while you mentioned public safety on page 10 of the bill, we don't talk about a public safety network, specifically public safety and interoperability broadband network. And I would certainly hope there would be some way we could work this out. Ms. Matsui talked about a lifeline, but there is no greater lifeline than having interoperability for our first responders, whether it is an ambulance, a police officer, or a firefighter. We do need that, and I hope there would be a way we could work

that out. I know this bill has been put together carefully, and it might be hard to do it, but let's continue to explore possibilities.

With that, let me ask Ms. Matthey a question, if I may. In your testimony, you note that, and I quote, "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."

So my question is, how would you or the FCC determine -- or what factors will the FCC use to determine which areas need support and which areas don't need support?

Ms. Matthey. Ultimately, the goal of universal service is to provide economic support to areas where there is no private-sector business case. So, in order to target support, one would look at the areas and determine whether or not, you know, there are multiple providers in that geographic area that are providing service without support and, conversely, is there only one provider in a particular area. So you need to look at, sort of, who is in the marketplace and figure out, from a business case perspective, where you need to add that supplemental investment coming from universal service.

Mr. Stupak. You said a private provider, so if that provider in that area is a municipality, would you still consider that an underserved area then?

Ms. Matthey. That is an interesting question I haven't really

thought about. I am not aware of any municipalities that are actually providing voice service. And, obviously, we want to make sure that consumers continue to have voice service as well as broadband.

Mr. Stupak. Well, let me ask you this because you brought it up and also Ms. Grillo brought it up. You mentioned the importance of ensuring that the burdens on the consumer never outweigh the benefits in the mission to provide support where it is needed.

So where is the tipping point? When does the burden outweigh the benefits? Where is that point? Have you thought about that? Have you kicked that around at the FCC?

Ms. Mattey. I have been thinking about that for a very long time.

Mr. Stupak. And your answer is?

Ms. Mattey. I wish someone would give me the answer.

Mr. Stupak. Well, that is a valid point. And we talk about these concepts, but we have to -- you know, what factors are we going to take into consideration to find what is the tipping point?

Ms. Mattey. Right. I mean, ultimately, it is a political judgment, you know, and it is a collective judgment as a society. And we very much, you know, will take whatever direction Congress, you know, gives us in terms of deciding where that balance is.

But, ultimately, you know, the point of the testimony was

just to remember that consumers contribute to universal service as well as receive the benefits.

Mr. Stupak. Well, let me ask you this question then. In Ms. Bloomfield's testimony, she points out that the FCC is in charge of determining the process for areas of losing or re-obtaining universal service support. Has the FCC thought about how they will develop the rulemaking for losing or re-obtaining?

Ms. Mattey. I am sorry, was that a question to me? Are you referring to what she said?

Mr. Stupak. To you. Ms. Bloomfield brought it up in her testimony, and I thought it was interesting. So has the FCC thought about how are you going to do this? What is the process for areas to determine if they are losing or re-obtaining universal service support?

Ms. Mattey. I am not sure I completely understand the question. I apologize.

Mr. Stupak. Ms. Bloomfield, do you want to elaborate a little bit on that? It was your testimony I am citing.

Ms. Bloomfield. I think Congressman Stupak is referring to, you know, what happens as access lines are decreasing --

Mr. Stupak. Right, decreased.

Ms. Bloomfield. -- and, you know, the impact of the line loss and what that does to the ultimate support that some of the providers are receiving today.

Ms. Mattey. Right. Well, under the current system for the

smaller rate-of-return companies, as they lose lines, the amount of support per line they receive will go up under the existing support program, because that is designed to ensure that the small rate-of-return companies recover the fixed costs of their network regardless of how many customers actually choose to subscribe from that provider.

Mr. Stupak. Okay.

Mr. Davis, in your testimony, you point out that 14 million people living in 7 million housing units in the United States do not have access to broadband infrastructure. You go on to stress the importance of directly and explicitly supporting broadband service.

Do you think the goal of providing broadband to unserved and underserved areas can be realized if the high-cost funding is reduced?

Mr. Davis. Do I think it can be realized if all high-cost --

Mr. Stupak. Yeah, if we start reducing high-cost funding.

Mr. Davis. I think it depends over what period of time and whether you are talking about 100 percent coverage, as has been discussed. That gets extraordinarily expensive, and so we would have to look at that. But certainly --

Mr. Stupak. Right. I am in one of those very expensive areas.

Mr. Davis. -- we can do a much better job of providing broadband support than we do today, and we can get broadband to a

far higher percentage of customers than we do today with broadband support.

Mr. Stupak. But if we reduced the high-cost funding, of course we would leave more and more areas behind, right?

Mr. Davis. I think we can make the current high-cost coverage much more efficient, as is anticipated in the bill, by reducing support to wireless carriers in areas that really do not deserve support.

Mr. Stupak. Okay.

Ms. Grillo, let me ask you this. In your testimony, you highlight the growing problems of traffic pumping and the urgent need to put a stop to the scams. You also mention that the Universal Service Reform Act will cut off many of the traffic-pumping scams.

Do you think the bill's language is strong enough to put an end to traffic pumping, or is there more we need to do?

Ms. Grillo. I think the language is strong enough to stop many, if not all, of the problems that we are seeing right now, yes.

Mr. Stupak. Okay.

Ms. Bloomfield, if I may, in your testimony you raise concerns about small rural telecommunication providers. Specifically, you point out the provisions that call to reduce or eliminate high-cost support in competitive areas.

Rural areas make up a large part of my district. Can you

please elaborate on the problems you foresee in rural areas if high-cost support were eliminated?

Ms. Bloomfield. Part of the problem is, when you talk about high-cost areas and whether or not they are competitive, a lot of that is going to depend on how you define "competitive."

So let's say, for example, a carrier is able to build out to 98 percent of their service territory which is a very high-cost area but, you know, not able to, kind of, always get -- you have, kind of, the doughnut and the hole, so it is very expensive to get to those outer regions.

So when you look at competition, you know, is your competitor going to come in and actually provide service to just that center of the hole where you actually have that density and where it is actually a lower cost to be competitive? That leads to the question of what happens to those consumers at the very far reaches where it is very expensive to reach them.

And the incumbents right now have the carrier-of-last-resort obligation.

Mr. Stupak. Right.

Ms. Bloomfield. So those carriers have to go out, regardless of the cost. So the problem is, if you kind of cut out the middle where it is ripe to be competitive, all you are doing is increasing the cost on the fringes.

Mr. Stupak. Nothing, further, Mr. Chairman.

Thank you. Thank you all for your testimony.

Mr. Boucher. Well, Mr. Stupak, thank you very much for your thoughtful questions.

Thanks again to our witnesses. I appreciate your very positive testimony today.

Ms. Matthey, thank you for your informative testimony, coming from the Commission. I appreciate your attendance.

I would simply note, in closing, that we have substantial savings that are contained within this legislation. Moving to competitive bidding on wireless, according to Ms. Grillo, saves between \$200 million and \$500 million every year, in terms of High-Cost Fund expenditures. We deny support in areas where there is competition in the offering of voice-based telephone service. That will result in savings, although we don't have a hard number on that. We address traffic pumping, which, in turn, is going to result in savings. And we say that net revenues from all supported services will be considered when determining the appropriate level of support.

All of these are provisions that will result in savings from the High-Cost Fund. I felt compelled to note that, given some of the questions and comments that came forward this morning.

Well, I want to thank everyone. This has been a very productive hearing. And we will have further proceedings on universal service.

That said, this hearing is adjourned.

[Whereupon, at 12:27 p.m., the subcommittee was adjourned.]