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HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

FEBRUARY 28, 2006

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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TUESDAY, FEBRUARY 28, 2006

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 10 a.m. in room SD–106, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

The CHAIRMAN. I want to thank you all for coming. This is the Universal Service Fund hearing, and we've been through a series of hearings now on telecommunications. This is the first one dedicated to Universal Service.

This concept plays a critical role in ensuring that all Americans have access to our Nation's communications system. From low-income seniors in the Hawaiian Islands to our Eskimo people along the Arctic Ocean, without Universal Service, just having a dial tone would average about $200 a month, putting telephone service out of the reach of the average family who lives in those areas.

Now, Universal Service began largely as an industry effort following the concept, that Senator Inouye and I developed, of rate integration. As I've said many times, we remember the days that we looked at the television and saw the ads for long-distance, "These rates apply throughout the United States, except for Alaska and Hawaii." Now, that was one thing while we were territories, but, once we became a State, it was not acceptable. So, Universal Service began, and people living in high-cost areas would pay the same phone rates as those living in low-cost areas. And the system has evolved now to the complex Universal Service Fund that we deal with today.

The changing face of communications has presented new challenges to this Fund, but I think we ought to keep in mind that the revenues come only from interstate revenue from the telecommunications services, a dwindling rate base. Competition, bundled packages and new services, and it's resulted in an age where long-distance revenues are declining, and that jeopardizes the basic funding for Universal Service.

Now, I'm going to put the rest of my statement in the record, because I don't believe in long statements. But I do believe that, as a result of the Supreme Court's decision in Brand X, and then the FCC's decision that DSL is not a telecommunications service, Con-

gress must examine the whole system. And, in response to these market, judicial, and regulatory developments, we have to listen and learn to determine what should be done to continue this vital service for those who are in need of it.

[The prepared statement of Senators Stevens and Inouye follow:]

PREPARED STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

We've been through a series of hearings now on telecommunications. This is the first one dedicated to Universal Service.

This concept plays a critical role in ensuring that all Americans have access to our Nation's communications system, from low-income seniors on the Hawaiian Islands to our Eskimo people along the Arctic Ocean. Without Universal Service, just having a dial tone would average about $200 a month, putting telephone service out of reach of the average family who lives in those areas.

Universal Service began largely as an industry effort following the concept that Senator Inouye and I developed of rate integration. As I've said many times, we remember the days that we looked at the television and saw on ads for long-distance, "These rates apply throughout the United States except for Alaska and Hawaii." Now that was one thing while we were territories, but once we became a State, it was not acceptable.

So, Universal Service began and people living in high-cost areas could pay the same phone rates as those living in low cost areas and the system has evolved now into the complex Universal Service Fund that we deal with today.

The changing face of communications has presented new challenges to this Fund. But, I think we ought to keep in mind that the revenues come only from interstate revenue from telecommunications services—a dwindling rate base. Competition, bundled packages and new services have resulted in an age where long-distance revenues are declining and that is jeopardizing the funding basic for Universal Service.

Long-distance calls are now migrating away from traditional interstate companies like AT&T to new delivery systems—from calling cards, some of which are evading their USF obligations, to cell phones which pay USF on only 28.5 percent of their revenues. The Supreme Court's recent Brand X decision held that cable modem service is not a telecommunications service and therefore not subject to USF. Together with the subsequent FCC decision that DSL is not a telecommunications service either, means that IP telephony services may not be required to pay into the Fund.

In response to these market, judicial, and regulatory developments, today, we bring together the various parties to listen and learn what can and should be done to ensure the continuation of Universal Service.

Our diverse panel representing wireline, cable, cellular and consumer perspectives will help us understand the impacts of some of the proposals to broaden the support base for Universal Service.

We will hold a separate hearing to examine what services Universal Service should support, and who should receive support through the Fund.

PREPARED STATEMENT OF HON. DANIEL K. INOUYE, U.S. SENATOR FROM HAWAII

If we want to ensure that our citizens have the best communications capabilities and are able to compete in the global economy, we must preserve the sufficiency, stability and viability of the Universal Service Fund. Since the enactment of the Communications Act of 1934, Congress has long-supported the core belief that basic telecommunications services should be available to all Americans at reasonable rates.

Through the Telecommunications Act of 1996, we reaffirmed our commitment to the principle of Universal Service.

We ensured that the definition of Universal Service would capture "an evolving level of telecommunications services." We did not want to leave behind rural and low-income areas as technology continued to march ahead.

Additionally, Congress expanded the Universal Service commitment to include schools, libraries, and rural health care providers, as well as other eligible telecommunications carriers. Congress recognized that as telecommunications services reach more and more individuals, *all* Americans benefit.

The current funding mechanism is under increasing pressure as new Internet technologies and bundled wireless and competitive service offerings steadily dimin-

ish the funding base. At the same time, total Universal Service disbursements have increased from $1.8 billion in 1997 to $6.5 billion in 2005.

The rapid increase in the size of the Fund coupled with the decline in interstate revenues has prompted the FCC to institute stopgap measures to temporarily stabilize the collection mechanism. Unfortunately, neither the FCC nor Congress has made the difficult choices to ensure the future stability of the collection mechanism.

In addition to reforming the collection mechanism, we must determine how best to distribute the Universal Service funds that are collected. For instance, the 1996 Act expanded the Universal Service Fund to support rural health services. Yet, while this fund is capped at $400 million per year, only $25.57 million was distributed in 2005.

This program has the potential to improve the health of millions of Americans that otherwise would not have access to adequate health care services. In rural and remote states like Hawaii and Alaska, tele-health services have provided significant benefits to people on remote islands or in isolated areas who otherwise would not have access to doctors and specialists. We must take steps to improve the efficacy of this program.

Issues surrounding application of the Antideficiency Act threaten to, once again, disrupt Universal Service funding. We must make certain this does not happen. Congress has twice instituted an exemption to prevent disruptions. It is time we take permanent action. The programs that face the greatest jeopardy include the Schools and Libraries and Rural Health funds. We should not risk education and health programs while debating technicalities in Washington.

Finally, we must consider the effect of emerging competition on the Universal Service Fund. In the 1996 Act, Congress plainly sought to further the co-equal goals of preserving Universal Service *and* fostering local competition. The fulfillment of one goal should not, and need not come at the expense of the other.

Recent data indicate that the percentage of Universal Service support provided to competitive eligible telecommunications carriers, while small, is increasing. This is placing increased pressure on the Fund, but it is also bringing new services to rural communities and underserved tribal lands.

I commend Senators Dorgan, Pryor, Burns, and Smith for introducing constructive legislation and hope that the Committee will make Universal Service reform a priority this year.

I would appreciate the witnesses' insights on the steps we should take to ensure that we meet the twin goals of preserving Universal Service and fostering competition.

The CHAIRMAN. Gentlemen, our diverse panel represents wireline, cable, cellular, and consumer perspectives. And I hope they will help us understand the impacts of the problems of the system, and proposals to broaden the support base for Universal Service, and its necessity to continue it.

I believe Senator Sununu was next.

STATEMENT OF HON. JOHN E. SUNUNU, U.S. SENATOR FROM NEW HAMPSHIRE

Senator SUNUNU. Thank you very much, Mr. Chairman. I do not have an extended opening statement.

I'm glad we're having this hearing focused on Universal Service. This is obviously the first part. We're focusing on collections. I understand that. But, you know, we need to be talking about real reform. I think there is growing consensus about broadening the base. I happen to support the proposal put forward by FCC Chairman Martin to go to a numbers-based system. I know we're going to hear from a number of panelists supporting that approach. But real reform also means addressing the distribution issue and making sure that the distribution methodology does what it should do for those high-cost areas you talked about for rural America. That's what the intent of the program is. I think we can do a much better job.

We're spending a lot of money. We're talking about 5 and 6 and 7 and 8 billion dollars a year. We can do a much better job targeting that assistance for high-cost areas or urban areas where there's an economic need, and in rural America.

So, I just hope that as we get through this hearing and into the next hearing, we talk honestly about fixing and improving the distribution methodology, and that we also talk about intercarrier compensation. I think that's something that we do need to look at reforming. I think it should be much simpler. I don't think it—intercarrier compensation should be used as a subsidy mechanism. That's why we have Universal Service. So, I think we can look at better using Universal Service in order to achieve its goals, and, therefore, allow us to simplify and reform an intercarrier compensation, which also costs consumers real money.

So, I'm glad we're having this hearing, but I certainly think that some of the participants that are interested in these reforms need to be represented on our panels. And, obviously, we want to make sure we have panels that include some of the biggest payers of Universal Service—I'm sure they have an opinion—as we undertake these important reform proposals.

Thank you, Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Burns?

STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Senator BURNS. Thank you very much, Mr. Chairman. And thank you for holding this hearing. And finally we get something moving, because the year is running out. And I happen to be one in the camp that we've got to pass this bill this year. And it can't go any longer, unless—and we'll never—if we don't, why, we're never going to get to the point of talking about distribution.

And I want to also congratulate Senator Sununu. He's given a lot of thought to distribution. And I have, too. And we know that even in Universal Service—and, as important as it is to rural telecommunications, I will liken that to the day that we got REA, rural electrification. There's some folks on our side of the aisle that don't like REA, too. But I will tell you, had it not been for them, those of us who live on farms and ranches across this country, we'd be watching television by candlelight if we didn't have it. And we'd also be, without Universal Service. There's a lot of us that wouldn't have telephones. We couldn't afford them in some of our areas, because—Senator Stevens, from Alaska, represents a State that has got quite a lot of dirt between light bulbs, just like Montana. And so, we know it's necessary, for us to survive in rural areas.

Now, I would agree with Senator Sununu in one area. There is a point of diminishing returns, when it comes to Universal Service, if it's not used correctly. And we know there's some abuse. We know that it's used for—in some areas where it was never intended to be used in those. And I think, as we go along with this debate, those places will be identified. I would hope we could identify them and be like the Senator and say, "OK, let's talk very frankly about the effect this policy has in some areas of our country," because one

size does not fit all, in some cases. So, we have to take a look at that.

I have already introduced a bill, and—but I use—there's quite a lot of flexibility in this, even on the contribution side. But one of these days, we're going to have to look at the distribution and be very honest about ourselves and what we said, because we can change the effects of communications, by policy alone, and I think we should be doing that.

If you would have told me that rural telephones would have had competition in that area, such as eastern Montana, 20 years ago, I would have looked at you like you've been smoking something funny. But it's happening, and it's happening, of course, because of wireless. And it's happened because some very visionary people are starting to go into rural areas and put in new technologies, new ways of doing business, as far as our communication is concerned, even—not only from voice. And, as you know, digital changed the whole thing. We're just ones and zeros now, folks. You can't brand anything just ones and zeros and call it your own anymore. Now, I understand that they can really—the techies can boil it down, whether it's voice, data, or video, but the average kind of person can't look at a signal anymore and identify what kind of a signal it really is. So, that changed our—that, too, changed the landscape of how we do business in telecommunications.

So, thank you, Mr. Chairman for having this. I have a statement that I would like to put in the record, because—I'm glad this debate is underway now, because we've got to move on this piece of legislation this year. I think it's—and it's really important that we do so.

And I thank the Chairman.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Congress and this Nation have had a commitment to a Universal Service for almost 100 years—a commitment to make affordable telephone service available to as many Americans as possible—rural or urban, rich or poor. The core principles behind Universal Service are to provide the same opportunities for rural Americans to participate in the Nation's educational and economic system that exist for Americans in urban areas.

The Universal Service Fund helps keep telephone service affordable in high-cost areas such as Montana, helps ensure that schools and libraries receive access to Internet, and helps link rural health care facilities to urban medical centers, promoting telemedicine.

Without support from the Universal Service Fund phone bills in high-cost areas around the country would increase dramatically—For example an average Montanan living in a rural area would pay an additional *$329.97* each year to receive telecommunications services. Many schoolchildren would not have access to the Internet—access vital to help children do homework, conduct research and compete in a global economy. Many people in remote communities would not have access to health care using the Internet—an important issue in Montana where many counties do not even have a doctor.

Without Universal Service, rural businesses and consumers would be completely shut out of the communications revolution. Universal Service provides the opportunity for every American to participate fully in the Internet economy. Just as rural electrification in the 1930s led to a surge of economic growth and raised living standards across rural America, Universal Service plays the same role in the Internet era.

Acknowledging the diverse American landscape, Universal Service recognizes that the costs of providing telephone service to all corners of the U.S. vary widely, but

that the Nation as a whole benefits from a truly national network—that is, one that connects to as many Americans as possible.

Universal Service also assures the Nation of a secure, far-reaching network, at a time when our telecommunications infrastructure is essential to national preparedness; and assures all Americans of quality service at reasonable rates, no matter where they live.

For those who say that the Universal Service no longer makes sense, or that it should be repealed or scaled back—I encourage them to visit Montana or other rural areas and see the Fund in action. The day has not arrived when technology and the free market can make affordable telecommunications services available everywhere. Simply put, there is a lot of dirt between light bulbs in Montana—competition and technology have not changed that. Until that time arrives, Universal Service funds are the only alternative. As Chairman Stevens recently noted: "[The] Fund is crucial in keeping rural America on the information highway and not on an exit ramp." At stake in this debate is no less than the future of rural America.

That is not to say that changes do not need to be made to the Universal Service Fund. Recently, radical changes have taken place in the telecommunications industry negatively impacting the Universal Service Fund. Competition and new and improved technology are slowly starving the Universal Service Fund and threatening its survival. As consumers switch to new technologies like wireless service, e-mail and Voice over Internet Protocol (VoIP), the Universal Service Fund is slowly taking in less money each year. At the same time, the amount of money distributed by the Fund is increasing. This situation is obviously not sustainable in the long run.

These changes have made it necessary for Congress to take a look at revising the Universal Service Fund. We must make sure the law keeps pace with this changing landscape. In this regard, on February 8th of this year, the 10th anniversary of the Telecommunications Act, I introduced S. 2256, The Internet and Universal Service Act of 2006 (NetUSA), to revise the Universal Service Fund to adapt to the radically changing telecommunications landscape. My NetUSA bill will shore up the Universal Service Fund, ensuring that investment in a ubiquitous, advanced telecommunications infrastructure can continue to all corners of the country. In general, the NetUSA bill would broaden the base of contributions into the Universal Service Fund, and it would govern more prudently the distributions of the funds.

As I mentioned earlier, the Universal Service Fund is slowly taking in less money each year, necessitating a revision to the method by which contributions to the Universal Service Fund are collected. The guiding principle governing any revision is that the Universal Service support contribution mechanism should be equitable, nondiscriminatory and competitively neutral.

The NetUSA bill achieves these goals. Among other things it requires the Federal Communications Commission within 180 days to develop a non-discriminatory and competitively neutral contribution methodology based on revenues, working telephone numbers, or any other current or successor identifier protocols or connection to the network, or any combination of these methodologies. My bill expressly permits the FCC to base the contribution methodology on interstate, intrastate, and international revenues. Additionally, the NetUSA bill expressly provides that a provider is not exempted from contributing to the Fund solely on the basis that such provider is not eligible to receive Universal Service support. These and other provisions in the bill will strengthen the Universal Service Fund to ensure its continued survival so that the citizens of Montana and other parts of rural America remain on the information highway and not on an exit ramp.

The Universal Service Fund is but one of many instances where the rapid change of technologies and the rise of competition have created many challenges in the telecommunications industry. I look forward to working with my colleagues to craft creative solutions to these issues that are so vital to our Nation's future.

The CHAIRMAN. Thank you, Senator.

Senator DeMint?

STATEMENT OF HON. JIM DEMINT, U.S. SENATOR FROM SOUTH CAROLINA

Senator DEMINT. Thank you, Mr. Chairman.

I'd like to make a few comments. I mean, we all know how we got where we are today. At one time, we were dealing with a monopoly industry, where individual phone companies could transfer the cost of their local service. Regardless of whether it was in a

rural area or in a metropolitan area, we could transfer those costs onto long-distance calls made within the same company. But once the Bells were broken up and long-distance became separate companies, it was difficult to transfer those costs. And the Universal Service Fund played a very real and important function in making sure that rural areas in South Carolina and all across the country had local service, as my colleague just said that we did with electricity.

But certainly everyone knows that the times have changed. The rapid technological changes that we have—and we have a growing tension between the competitive model and the old monopoly subsidized model that we have to deal with. And global competition for—we're competing, as a Nation, to bring companies here. Our telecommunications infrastructure, and the cost of that telecommunication, is a real key component of being competitive, my point being—is, we've got to recognize that Congress really is at a crossroads. And we cannot continue this entitlement concept in a new competitive model.

I really stand in awe—and I think everyone in Congress should—of the size of the Universal Service Fund. $7.1 billion a year—$71 billion a decade, is just a huge amount of money. Particularly as we look at growing allegations of widespread waste, fraud, and abuse under the current system, you know, we have no real way of measuring where all this money is going and how it's being applied.

I get back to my original point. I don't question the importance of the Universal Service Fund, and it still serves a function today, but I think it's inexcusable for us, as a Congress—with the growing expanding technological advances that we're having, the ability to serve rural America in a completely different way—that we are not willing, as a Congress, to address a complete reform of the Universal Service Fund. And I hope that we have the courage—I know as soon as I introduce any ideas to change how this Fund is operated, or suggest caps on how it grows, we get calls from all over our State of how we're going to put numerous phone companies out of business. I no longer accept that. And I hope us—that the witnesses today can help clarify the situation. And I hope my colleagues on this Committee will take this as a challenge to create a competitive—globally competitive model for telecommunications.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Rockefeller?

STATEMENT OF HON. JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Thank you, Mr. Chairman. I'll be brief so we can get to the witnesses.

I think we all know the basic problem of the Fund. The most immediate problem is how to make sure that the Fund has the resources it needs to carry out its mission. The previous speaker referred to $500 billion. And I was trying to do my math, 10 times 5 equals 50. It's a lot of money, nevertheless. It's a lot of money, nevertheless.

There's a growing and more challenging problem, I think, into the growing and the sustaining of this Fund so that it does not become financially burdensome to consumers.

Today, the Committee will address the first question, and, on Thursday, we'll address the second question. I believe that broadband providers must begin to pay into the Universal Service system if we're going to have a long-term sustainable base of revenues, which we do need. If we're going to assess broadband providers, we should demand that recipients of Universal Service Fund resources be required to look out into the future and to transition their networks into the next generation of broadband networks. In other words, let's use this opportunity and the funding which we have to go beyond the first step—not leaving it, but to include it, but then go beyond it—of just connectivity, and go and say, what is the world going to demand of us in order to be able to compete? We can do that with Universal Service Fund. And, in fact, broadband—States that could never otherwise be broadband. It does not make sense to continue subsidizing the deployment of networks that are becoming increasingly obsolete. If we're going to ask consumers to support the development of advanced communication networks in rural areas, we need to create policies that force companies—don't like that term enormously, but sort of mean it here—to maximize the resources that the Universal Service Fund provides to them.

I believe that we're—if we're going to achieve long-term stability in the Universal Service Fund, that this Committee must examine the current rate structure and service areas of rural carriers to make sure they reflect the changes in the industry in the last decade. We must also examine the definition of who qualifies as a rural telephone company, and the outdated formulas by which carriers receive support.

These are hard, and they're very complicated issues with a lot of stateside emotion involved, but ones that we have to address. And we have this opportunity. As Senator DeMint said, this is a real turning point in—and is historic for us.

I'm afraid that, in trying to referee the disputes between the various industries, that we all have lost the true meaning of Universal Service, which is providing access to communications services to those who would otherwise not have them, but—not just wired up, but on into the future.

I reject the notion that Universal Service means the status quo. I know West Virginians want wireless services. They want broadband, and they want to use VoIP applications. That means that we need to develop a Universal Service Fund that creates a dynamic communications marketplace for rural consumers that will bring them the efficient delivery of services to which their urban counterparts have access.

I can proudly say that West Virginia has been a leader on this score with communications issues. My State forced telephone companies to become more efficient and accountable, to the benefit of consumers. The Public Service Commission was a very active place.

I believe that we can use the policies West Virginia, adopted, at least in some measure, on a national scale, to achieve the same type of results for all Americans.

The choices we make on Universal Service, Mr. Chairman, will shape the future of West Virginians and all Americans for the next generation or two. We cannot afford to let parochial interests derail us from stepping up and making the hard choices to protect Universal Service and making sure that Universal Service reflects the meaning of the future competition across this world. Universal Service has made sure all Americans are connected to each other and to the world, and we must make sure that the program continues to bring all Americans into the broadband age.

I thank the Chairman.

The CHAIRMAN. Thank you very much, Senator.

All the Senators' statements will be printed in the record, along with their verbal comments and all of the statements of the witnesses, will be similarly treated.

I just want to make one statement before we start, and that is, through a few selective earmarks, we have established in Alaska, telemedicine, tele-education, teleconferencing, and we have brought modern health and modern education to the smallest villages. A village with a two-room schoolhouse with 12 grades in it has the ability now to comply with the No Child Left Behind laws because of educational courses that emanate from our university campuses. And telehealth brings the ability to have an Eskimo woman's breasts examined through telehealth, even to the extent of getting immediately down to Mayo's if our people in Anchorage think they cannot make the diagnosis. We have saved enormous amounts of money by establishing teleconferencing between Federal agencies' offices within the State that's one-fifth the size of the United States, and saved money. So, this Fund we're talking about is not just a fund that's dealing with television or with the concept of news. This is a very vital system to rural America. The same situation would occur in Hawaii, in many instances that I know of.

By the way, the statement of the Co-Chairman will be placed in the record, just following mine.

Our first witness is Glen Post, the Chief Executive Officer of CenturyTel, from Monroe, Louisiana. We're pleased to have you with us this morning, Mr. Post.

STATEMENT OF GLEN POST, CHAIRMAN/CHIEF EXECUTIVE OFFICER, CENTURYTEL, INC.

Mr. POST. Thank you, Senator Stevens.

I am Chairman and Chief Executive Officer of CenturyTel. I want to thank you, Senator Stevens and the other Members of this Committee, for focusing on Universal Service, and, specifically, the contributions methodology.

Preserving and advancing Universal Service is critical to broader telecommunications reform, and fixing the broken contribution system is the linchpin of Universal Service. My comments will lay out three recommendations to address contribution reform later in this report.

CenturyTel is a telecommunications company, a rural infrastructure company. And, in most of our communities, we are the largest technology company. Building robust communications networks is very capital-intensive, and this would not be possible without sufficient and predictable high-cost fund support.

I'm here as the CEO of a company that specializes in serving rural America, the more than 2 million mostly rural customers. I grew up in rural America. I live in rural America today. All of us here today who live in, and work in, or have ties to rural America should be motivated to help stabilize the Universal Service system, and to get it done correctly and get it done quickly.

Consumers are driving our industry like never before. In all markets, the demand for applications and services is increasing. Much of that demand is driven by the need for affordable broadband services. Increased broadband availability is made possible by shorter local loops, increased fiber deployment, additional capacity, and electronics, which are all a part of the network investment and deployment.

In CenturyTel's market, 73 percent of our customers have access to our broadband services today. In some communities, broadband availability means the difference between success and failure. Along the Gulf Coast of Alabama, there's a small coastal community of Bayou La Batre. Hurricane Katrina just about took this little town off the map. The destruction was tremendous, but recovery is underway. By April 1st of this year, that community will have DSL availability from our company, which will allow seafood companies, charter fisherman, bed-and-breakfast owners, restaurants, and other businesses to rebuild and reach potential customers all over the world.

However, our present universal system is based on regulatory distinctions and a percentage of interstate revenues assessment that no one can really defend today. The regulatory distinctions have become blurred between interstate and intrastate services, and between telecommunication services and information services. People want products and services packaged or bundled in a manner that makes the present contribution system mostly unworkable.

I believe Chairman Martin and his colleagues at the FCC understand the timeliness of this issue, and I believe a key goal for this Committee should be to give the Commission the tools it needs to do the job you expect of them, while providing clear guidance and clear direction and oversight.

I want to emphasize that, while Universal Service has grown, CenturyTel and other incumbent local exchange carriers have generally received little or no increased support in recent years. In fact, our support is now going down. The number of our study areas receiving support is dropping dramatically.

Approximately 33 percent of rural local exchange carrier lines eligible for USF in 2001 are no longer receiving support. This has contributed to the worst possible environment in which to invest in rural networks and/or to consider expanding our service to other rural areas in the United States.

In conclusion, I believe there are three basic steps this Committee and Congress must take.

First, Congress should broaden the contribution base so that the responsibility for supporting this Nation's Universal Service program is appropriately shared across all sectors of the industry. Only a broad-based mechanism will provide long-term stability for Universal Service and minimize the impact on individual con-

sumers. Congress should mandate that the base of contributions be expanded to include all voice, all broadband, and all telecommunications.

Second, in addition to being equitable and nondiscriminatory, as currently required by the 1996 Act, any contributions methodology should also be technologically and competitively neutral. Congress should ensure that no one technology or service would be favored over another, and should eliminate the inequities that have emerged in recent years.

And, third, Congress should empower the FCC to utilize any of the contribution methodologies currently available. All revenues, numbers, connections, or any combination of these methodologies should be allowed. No one methodology is sufficiently robust and resilient to provide the long-term stability that is necessary for Universal Service.

Mr. Chairman, on behalf of CenturyTel, ITTA, and the Coalition to Keep America Connected, I want to thank you again for allowing me to testify today. We welcome the opportunity to continue to work with you and the rest of the Committee to fashion legislation to effectively put the Universal Service program on solid footing for many years to come.

[The prepared statement of Mr. Post follows:]

PREPARED STATEMENT OF GLEN POST, CHAIRMAN/CHIEF EXECUTIVE OFFICER, CENTURYTEL, INC.

Mr. Chairman, Mr. Co-Chairman Inouye and distinguished Members of the Committee, I want to begin by commending your leadership in convening today's hearing on the crucial topic of Universal Service contributions and for inviting me to testify before you. This means, first and foremost, singling out Chairman Stevens for his unwavering leadership on Universal Service issues. On many occasions, your personal intervention, Mr. Chairman, has literally made the difference in upholding this program to the benefit of *all* Americans. I also would like to thank Senators Burns and Dorgan, whose Universal Service summits in 2003 first focused our attention on the critical subject of reforming the contribution mechanism, and whose legislative leadership continues to help guide the way. As I will describe, preserving and advancing Universal Service is critical to broader telecommunications reform, and repairing the contribution system is the lynchpin of Universal Service.

I. Introduction

CenturyTel is a *telecommunications* company, a rural *infrastructure* company, and in most of our communities is the largest *technology* company. Building robust networks is an evolving process and is capital-intensive. Wherever we serve, we are at the center of economic and community development. None of this would be possible without sufficient, predictable high-cost fund support.

CenturyTel is in the business of providing its communities with a complete menu of telecommunications services. We are investing in high quality networks for rural and small urban markets in 26 states. Our network is essential to delivering new services and technologies to more than 2 million mostly rural consumers. Our network evolves with technology and demand. Once they were analog, then digital and now increasingly IP based. There are no VoIP applications without a robust, high-speed, IP capable network. My job is to build and maintain that network for the customers we serve now, and for rural areas we may serve in the future. It is important that you understand that for rural Americans, Universal Service dollars are not as much for the networks of the past as they are for the networks and applications of the future.

I am here as the CEO of a company that specializes in serving rural America. I grew up in rural America. I live in rural America. All of us here today who live in, work in, or have ties to rural America should be motivated to help stabilize the Universal Service system, and to get it done quickly.

I am also here representing the Independent Telephone and Telecommunications Alliance (ITTA), an association of midsize carriers that collectively serve approxi-

mately five million lines, principally in rural America. Additionally, I am speaking on behalf of the Coalition to Keep America Connected, a broad coalition that supports fair and affordable access to communications services for all Americans.

Your attention to contributions issues today will create a renewed sense of urgency about the national commitment to both Universal Service and competition as fundamental principles of the 1996 Act. These same principles are intricately linked with the promise of bringing new applications and technologies to rural markets. These hearings will also sharpen our focus on specific, actionable recommendations to strengthen, preserve, and advance Universal Service for all Americans.

Before addressing specific reform principles, I will highlight the positive changes that have taken place since Members of this Committee wrote and helped pass the 1996 Telecommunications Act. Consumers are driving our industry like never before. In all markets the demand for applications and services is increasing. Much of that demand is driven by the need for affordable broadband. Increased broadband availability is made possible by shorter loops, increased fiber deployment, and additional capacity and electronics which are all part of network investment and deployment.

In CenturyTel's markets, 73 percent of our customers have access to our broadband services. A CenturyTel broadband connection provides rural citizens access to the world: choices ranging from video to IP voice service and everything in between.

In some communities, broadband availability means the difference between success and failure. Forks, Washington, a rural logging community in northwest Washington State owes much of its growth today to a community and company partnership that provided redundant fiber and advanced services that now benefits several thousand people throughout a broad area of isolated rural communities. That fiber investment brought jobs and business opportunities to a community that was dying due to a lack of economic development.

In Montana, the Kalispell Regional Medical Center required a customized telecommunications solution that eliminated vast geographic distances to address a growing population in a large state. Gigabit Ethernet makes the medical center an important resource hub for other hospitals in a 100-mile radius. Full telemedicine applications provided by CenturyTel allow patients and their doctors in other towns to view scans and perform consults with physicians at Kalispell which saves time, money, and lives.

Along the Gulf Coast of Alabama, there is a small coastal community known as Bayou La Batre. Hurricane Katrina just about took it off the map. The destruction was tremendous but recovery is underway. By May 1st of this year, that community will have full DSL availability from our company which will allow seafood companies, charter fishermen, bed and breakfast owners, restaurants and other businesses to rebuild and reach potential customers all over the world.

For consumers who live in the most rural parts of America, Universal Service reform must include a contribution methodology that results in sufficient, stable and predictable support even in today's unpredictable and highly dynamic telecommunications environment. Chairman Martin and his colleagues at the FCC are committed to timely reform but are constrained by court decisions applying the 1996 Act. Your *first* goal should be to give the Commission the tools it needs to do the job you expect of it.

I must emphasize that while the Universal Service Fund has grown, that growth does not translate into additional dollars for all wireline carriers. CenturyTel and other ILECs have generally received little or no increased support in recent years. Indeed, our support is now going down, and the number of our study areas receiving support is dropping dramatically. This has contributed to the worst possible environment in which to invest in rural networks or consider expanding our service to areas that are not currently as well served.

II. The Nation's Commitment to Universal Service

Universal Service contribution policies can only be realistically assessed by asking how well the policies serve the Nation's fundamental commitment to provide Universal Service—fair and affordable access to the benefits of telecommunications services—for all Americans.

The Telecommunications Act of 1996 provided a comprehensive statutory foundation to effectuate the national commitment to Universal Service. Section 254 of the Act sets forth principles that require that all Americans have access to quality services at affordable rates; that all Americans have access to advanced telecommunications and information services; that all Americans have access to services and rates comparable to those available in urban areas, regardless of where they live;

and that Universal Service support mechanisms be "sufficient, predictable and specific" to preserve and advance Universal Service.

The Nation's commitment to Universal Service has resulted in tangible benefits for millions of Americans across the country. Multi-party lines have long ago been converted to single party lines. Analog switches have universally converted to digital switches. And low capacity dial-up services are now being converted to high capacity broadband. IP soft switches and fiber are the next iteration of an evolving network architecture that is successful because it has kept pace with both technology and consumer demand. The evidence is clear: our Nation's Universal Service policies have succeeded in ensuring that consumers in rural communities, regardless of technological change, have largely kept pace with urban consumers in terms of their access to affordable and comparable telecommunications services.

The Nation's commitment to Universal Service is also seen by some as an important tool in expanding rural consumers' access to broadband service. Voices as disparate as President Bush and former FCC Chairman Reed Hundt have called for universal broadband availability as soon as next year. While Universal Service does not support broadband service, it is nevertheless undeniable that consumers' access to telecommunications services remains a vital component in assuring America's global competitiveness in the 21st century even as it has over the last century.

Unfortunately, the Universal Service contributions policies established under the 1996 Act are being increasingly undermined by the decline in the very interstate telecommunications revenues that were originally intended to provide the lifeblood of the fund. Left unchecked, this trend threatens to undercut the Nation's fundamental Universal Service commitment.

Reform of Universal Service contributions policies is a baseline issue that must be addressed before other USF issues are addressed.

III. The Need for Prompt Contributions Reform

Section 254 states that all consumers, no matter where they live, are entitled to telephone service that is "just, reasonable and affordable." However, there is broad agreement throughout most of the industry that the reliance on today's system is fundamentally unstable. The current contribution mechanism relies on a patchwork of arbitrary distinctions between and among different communications providers that is distorting the market. Today's Universal Service contribution rules are based on the amount of a carrier's revenues derived from interstate and/or international telecommunications services.[1] In reality however, the distinctions between "interstate" and "intrastate" services and between "telecommunications services" and "information services" are becoming increasingly hard to make. Packages offering voice, video and data as well as flat-rated service, all-you-can-eat mobile wireless calling plans, and IP-based services are impeding the ability of policymakers to determine the proper jurisdiction and classification of these services.[2]

Industry trends are progressively undermining the long-term stability of the Universal Service contributions system. Competitive and technological inequities and inconsistencies inherent in today's system are eroding the funding base, policymakers' continued reliance on current classifications is encouraging a vicious cycle where consumers are being asked to shoulder more and more of the Universal Service funding responsibility while new providers or unclassified providers and services escape the obligation, even though they continue to use the public telephone network for their offerings. In the end, it is the consumer that suffers the most because the growing obligation is ultimately passed on to their monthly bills.

This legal and regulatory uncertainty coupled with technological and competitive dynamics is causing the current contributions base to shrink. As more customers move away from traditional long-distance services and toward non-contributing competitive alternatives the contributions base will continue to decline. In the first quarter of 2002 the Universal Service Fund base was approximately $20 billion. Over the past three years, however, the base has shrunk to just over $16 billion, resulting in a negative compounded annual growth rate of −6.7 percent. There's little doubt that the current system is unsustainable in the long-term.

The inverse relationship between the contribution base and the contribution factor requires the assessment to increase as the contribution base continues to decline. In the first quarter of 2002, the contribution factor was 6.8 percent. Three years later the factor stands at 10.2 percent, down slightly from a high of 10.9 percent in the second quarter of 2005. As the contributions factor increases, the average consumer's monthly bill will also increase.

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[1] *See, e.g.*, 47 CFR § 54.709(a).

[2] *See, e.g.*, Report and Order and Second Further Notice of Proposed Rulemaking, *Federal-State Joint Board on Universal Service*, 17 FCC Rcd 24952, 24955 ¶ 3 (2002).

Section 254(d) states that all providers of telecommunications services shall make an "equitable and non-discriminatory" contribution to the preservation and advancement of Universal Service. Congress correctly understood that without an "equitable and non-discriminatory" standard, some providers would avoid contributing, ultimately shifting responsibility to a narrowing class of carriers. Yet the current system fails to meet the statutory standard of "equitable and non-discriminatory" as defined in the 1996 Act.

The current regulatory and legal morass is creating an unsustainable Universal Service Fund incapable of meeting the statutory requirements contained in Section 254. Different types of carriers providing essentially the same service are being regulated differently. Cable providers offering switched telephone service are paying into the fund; however, a similar service provided by the same company but over its broadband network is excluded. The same will hold true for telecommunications carriers who today pay into the Fund for services provided over their circuited-switched. However, in a few months, the service delivered over the same carrier's broadband network will escape Universal Service obligations.

The lack of regulatory clarity also has created uncertainty whether newer service offerings are obligated to pay into the fund. For example, today it remains unclear whether service offerings provided by voice over internet protocol (VoIP) providers are contributing to the Universal Service fund. On the horizon, broadband over power line providers will offer voice service over its transmission and distribution systems. The FCC is currently looking into whether these newer services are obligated to pay into the fund. It is apparent, however, that if these newer service offerings with growing revenue streams escape their obligation to contribute to Universal Service, the fee on consumers' bills is virtually assured to increase.

Even the existing requirements on carriers that are currently assessed endanger the long-term viability of the Fund because their contribution obligation remains below what similar providers contribute. For example, over two-thirds of wireless carriers' revenues are currently shielded from any contribution obligation, an anomaly hardly envisioned by the 1996 Act.

Recent decisions by the FCC regarding the assessment of DSL broadband services provide another source of uncertainty for the industry. The decision by the FCC to relieve DSL broadband providers from the obligation to contribute to the Universal Service Fund (after the 270 day transition period) provides the most immediate threat to the stability of the fund. Importantly, at the time Chairman Martin clearly acknowledged the need to avoid any disruption of the stability of the contribution base following that period of time. This Committee should support him in this commitment.

Eliminating the assessments on DSL could have a profound effect on the sustainability of the fund. In a recent presentation to the Federal Communications Bar Association, Balhoff & Rowe estimated that removing DSL from the contributions base, would cause the contribution factor to increase 13 percent, from 10.2 percent to 11.5 percent. Alarming as that increase may seem, as customers move to broadband—either through cable or DSL—the long term effects of relieving both from the assessment pool could prove devastating to the consumers left paying for the fund.

Additionally, intercarrier compensation reform proposals that are currently being discussed could shift billions of dollars into the Universal Service Fund and threaten its viability. The Universal Service Fund was never intended to be a revenue replacement collection mechanism for the reduction of intercarrier compensation payments. However, certain proposals before the FCC would do just that.

The patchwork of inconsistent contribution obligations is fundamentally inconsistent with the Congressional intent of the Section 254(d) principle that contributions should be "equitable and non-discriminatory" Any contribution mechanism must be both technologically and competitively neutral so as to not favor one group of providers or services over another. Disparate rules produce the distortions and perverse incentives that exist under today's system. Contribution avoidance is accelerating within the industry and carriers are feeling compelled to devise new means of avoiding or reducing their contributions exposure. Carriers will seek to limit their exposure by using preferred technologies, complex service configurations and intricate network architecture. In the end, the pressure to sustain the Fund will continue to shift to a smaller set of customers while the non-contributing carriers and services continue to escape paying their fair share.

The FCC is theoretically able to address some of these inequities and inconsistencies; however the chairman of the agency has continually stated that the FCC does not have sufficient legal discretion under existing law to undertake the comprehensive reform needed to fix the system. Congressional action is therefore needed

to provide the FCC the necessary authority to address these inequities that will ultimately shore up the existing system.

IV. Legislative Recommendations

As the Committee, and Congress in general, move to resolve current problems with the current contributions system, CenturyTel recommends taking the following three steps:

1. Broaden the Base

First, Congress should broaden the contribution base so that the responsibility for supporting this Nation's Universal Service program is appropriately shared across all sectors of the industry. Only a broad-based mechanism will provide long-term stability for Universal Service and minimize the impact on individual consumers. Conversely, mandating a narrower contribution base will invite further arbitrage and will fail to reverse the deterioration of the contribution base.

Congress should mandate that the base of contributions be expanded to include all voice, all broadband and all telecommunications. Specifically, the assessment of all broadband services is particularly important to the long-term stability of the Universal Service Fund since broadband is one of the fastest growing segments of the telecommunications industry. Including assessments on broadband will mean that the contribution base will continue to grow for the foreseeable future. Conversely, excluding such assessments will pose an increasing risk to the stability of the fund.

2. Make Technologically and Competitively Neutral

Second, in addition to being equitable and non-discriminatory as currently required by the 1996 Act, any contributions methodology should also be technologically and competitively neutral. Congress would thereby ensure that that no one technology or service would be favored over another and would eliminate the inequities that have emerged in recent years, yet remain flexible enough to change with market dynamics.

3. Allow Flexibility in Implementation

Third, Congress should empower the Commission to utilize any of the contribution methodologies currently available—all revenues, numbers, including successor identifiers, connections or any combination of these methodologies.

Congress should mandate that the Commission employ a methodology or combination of methodologies that will best effectuate the principles articulated above. No one methodology is sufficiently robust and resilient to provide the long-term stability that is necessary for Universal Service. Locking the Commission into a single methodology or even a single combination of methodologies would be short-sighted. The pace of technological change is rapid enough that any attempt to prejudge a specific methodology at this or any point in time is almost certainly doomed to obsolescence. A broader, non-prescriptive framework will provide the Commission maximum flexibility to evolve contributions mechanisms to adapt to developing technologies and services. Allowing the Commission flexibility in choosing combinations of methodologies will also enable the Commission to preclude the arbitrage that any single methodology, in isolation, would be subject to.

The foundation for implementing these three recommendations has largely been laid. Chairman Stevens has made a number of public statements regarding similar reforms to the contribution mechanism. Also, Senator Burns and Senators Smith and Dorgan have already proposed bills that broadly embrace these three recommendations. These proposals offer the Committee and Congress an appropriate framework from which to structure a durable solution to the current crisis.

V. Conclusion

For most of a century, because of the Nation's strong commitment to Universal Service has succeeded in ensuring that all consumers, regardless of where they live, continue to realize the tangible benefits that telecommunications services provide every day. Solving the problems with the current contributions system is essential to fulfilling this commitment. We cannot afford to delay these reforms any longer while waiting for a comprehensive rewrite of the Communications Act. Immediate action is needed to stabilize the fund. We encourage the Commerce Committee to move directly from today's hearing to enact forward-looking, technologically and competitively neutral legislation that benefits consumers and encourages investment in networks.

Mr. Chairman, on behalf of CenturyTel, ITTA and the Coalition to Keep America Connected, I want to thank you again for allowing me to testify today. We welcome the opportunity to continue to work with you and the rest of the Committee to fash-

ion legislation to effectively address the inequities and inconsistencies of the current system and put the Universal Service program on solid footing for many years to come.

The CHAIRMAN. Well, thank you very much. And thank you for those suggestions. As I said, your complete statement's printed in the record.

Our next witness is Tom Simmons, the Vice President of Public Policy for the Midcontinent Communications of Sioux Falls, South Dakota.

STATEMENT OF TOM SIMMONS, VICE PRESIDENT OF PUBLIC POLICY, MIDCONTINENT COMMUNICATIONS

Mr. SIMMONS. Thank you, Mr. Chairman. And thank you, to the Members of the Committee, for inviting me to testify today.

My name is Tom Simmons. I am the Vice President of Public Policy for Midcontinent Communications, a leading provider of cable telecommunications services in the Dakotas, including analog and digital cable television, broadband Internet, long-distance and local telephone services.

We serve over 200,000 customers in approximately 200 communities in North and South Dakota, western Minnesota, and northern Nebraska, generally classified as small and rural. The size of our communities range from densities of 5 to 116 homes per mile of cable plant, and populations ranging from less than 30 in Barlow, North Dakota, to our largest community, which is Sioux Falls, South Dakota. That population is just slightly more than 140,000.

Midcontinent launched its broadband Internet service nearly 10 years ago, on April 15th, 1996, in Aberdeen, South Dakota. We made a pledge then to bring advanced broadband services to as many customers as possible, regardless of the size of community. At the end of 2005, we completed a project to rebuild cable plants to 750 megahertz or better in 50 more Midcontinent communities, bringing our total of upgraded systems to 152, serving over 95 percent of Midcontinent's customers.

Customers in these communities now enjoy over 150 channels of analog and digital video programming, broadband Internet service, high-definition television, and digital video recording capability. Midcontinent Communications is also a certificated local exchange telephone service provider in North Dakota, South Dakota, and Minnesota. Midcontinent first launched facility-based circuit-switched telephony in 2000, and recently launched its first digital VoIP phone service in Mitchell, South Dakota. Our plans include the rollout of digital phone services in a number of additional communities throughout our service area this year.

Midcontinent is a privately held company that has invested, and continues to invest, substantial amounts of private risk capital to bring advanced services to our customers without the assistance of public funds. We're proud of our ability to deliver the services our customers demand, which are no less than those demanded and expected in major metropolitan areas.

As a provider of telephone services in rural America, Midcontinent strongly supports the goals and purposes of the Universal Service Fund. We believe that quality telecommunications services should be available to all regions of the country at just af-

fordable and reasonable rates. In that regard, like every other cable operator that offers voice telephone service either by way of traditional circuit-switched telephony or digital VoIP, Midcontinent contributes to the Universal Service Fund now.

We share the concerns of policymakers, industry stakeholders, and the public that the Universal Service program, as it stands today, is not sustainable. All agree that the current USF contribution mechanism, which relies on the assessment of interstate telecommunications revenues, virtually guarantees that the Fund will continue to shrink.

To address this problem, the cable industry has long advocated the adoption of a telephone-numbers-based contribution mechanism, because it is a simple, yet effective, reform that'll sustain the long-term health of this Fund while still adapting to the evolving technology and economies of voice telephony.

Under a telephone-numbers-based system, all that matters is whether or not the service uses a phone number. Adoption of this approach would promote competitive neutrality among all voice telephone providers, those offering services as a replacement for plain old telephone service, and would avoid assessments on services that only include a voice component.

As stated above, Midcontinent and the cable industry strongly support the goals and purposes of Universal Service, and recognize that changes are necessary to ensure its continued viability. However, we strongly believe that the assessment of broadband service revenues is not appropriate. The imposition of new fees on broadband service at the same time policymakers seek to encourage more widespread deployment, and service penetration would be counterproductive and would raise the price of high-speed Internet service for current and potential broadband customers. It would also penalize those who have worked diligently to deploy broadband to nearly the entire Nation.

The cable industry has invested $100 billion in private risk capital to bring broadband and other advanced services to households across the country. And today, 93 percent of all households in this country have access to cable's highspeed Internet service.

To conclude, Mr. Chairman, we believe that the assessment of broadband service is unnecessary to the goal of a stable, sufficient, and predictable Fund. Instead, a numbers-based contribution mechanism addresses the current problems without declining interstate revenues and bundling of services, and captures new technologies and protocols like VoIP.

Mr. Chairman, thank you for inviting me to testify today. I'd be happy to answer any questions you or the Members of the Committee may have.

[The prepared statement of Mr. Simmons follows:]

PREPARED STATEMENT OF TOM SIMMONS, VICE PRESIDENT OF PUBLIC POLICY, MIDCONTINENT COMMUNICATIONS

Chairman Stevens, Co-Chairman Inouye and Members of the Committee thank you for inviting me to testify today. My name is Tom Simmons and I am the Vice President of Public Policy for Midcontinent Communications, a leading provider of cable telecommunications services including analog and digital cable television, broadband Internet and local and long-distance telephone services. We serve over 200,000 customers in approximately 200 communities in North and South Dakota,

Western Minnesota, and Northern Nebraska generally classified as small or rural. The size of our communities range from densities of 5 to 116 homes per mile of cable plant and populations ranging from less than 30 in Barlow, North Dakota to our largest community, Sioux Falls, South Dakota, which has a population of more than 140,000.

Midcontinent launched its broadband Internet service nearly ten years ago, on April 15, 1996 in Aberdeen, South Dakota, and made a pledge then to bring advanced broadband services to as many customers as possible regardless of the size of community. At the end of 2005, we completed a project to rebuild cable plants to 750 MHz or better in 50 more Midcontinent communities bringing our total of upgraded systems to 152, serving over 95 percent of Midcontinent's customers. Customers in these communities now enjoy over 150 channels of analog and digital video programming, broadband Internet service, high definition television, and digital video recording capability. Midcontinent Communications is also a certificated local exchange telephone service provider in North Dakota, South Dakota, and Minnesota. Midcontinent first launched facility based circuit-switched telephony in 2000, and recently launched its first digital VoIP phone service in Mitchell, South Dakota. Our plans include the roll out of digital phone services in a number of additional communities throughout our service area this year. Midcontinent is a privately held company that has invested, and continues to invest, substantial amounts of private risk capital to bring advanced services to our customers without the assistance of public funds. We're proud of our ability to deliver the services our customers demand which are no less than those demanded and expected in major metropolitan areas.

As a provider of telephone service in rural America, Midcontinent strongly supports the goals and purposes of the Universal Service Fund (USF). We believe that quality telecommunications services should be available to all regions of the country at just, affordable and reasonable rates. In that regard, like every other cable operator that offers voice telephone service—either by way of traditional circuit-switched telephony or VoIP—Midcontinent contributes to the Universal Service fund.

A strong Universal Service program is an essential component of national telecommunications policy and we share the concerns of policymakers, industry stakeholders and the public that, in its current form, the Universal Service program is not sustainable. While there is general consensus that all aspects of the system, including contributions, eligibility and level of support are in need of reform, there are a wide range of views as to how the program should be restructured. I will focus my remarks on the cable industry's position with respect to reforming the contribution mechanism. However, I will also briefly discuss our view on proposals to extend Universal Service distributions to broadband service.

The current USF contribution mechanism, which relies on the assessment of interstate telecommunications revenues, virtually guarantees that the Fund will continue to shrink. An increasing number of companies offer consumers voice telephone service for a fixed monthly rate that does not differentiate between local or long-distance calls. Companies also offer bundled packages of digital services that include voice telephony. Most consumer VoIP services are offered without regard to intrastate or interstate distinctions. The fact is that interstate telecommunications revenues have been declining and are predicted to continue declining for the foreseeable future. As the line between what is a local and long-distance call continues to blur, the existing USF contribution mechanism will become increasingly obsolete which threatens the viability of the program itself.

The cable industry has long advocated the adoption of a telephone-numbers-based contribution mechanism, a simple yet effective reform that will sustain the long-term health of this fund while adapting to the evolving technology and economics of voice telephony. Using telephone numbers would be a relatively simple means of determining who should contribute as well as when contributions were owed and in what amount. There would be no need to apportion provider revenues into interstate versus intrastate or to determine which portion of a bundled offering represents interstate telecommunications. It would also make no difference whether a service was defined as a telecommunications service or as an information service. Under a telephone-numbers-based system, all that matters is whether or not the service uses a phone number. As such, a numbers-based system promotes competitive neutrality among providers and technologies and ensures that no provider of a voice telephone service is placed at a competitive disadvantage due to disparate treatment with respect to Universal Service Fund contributions.

While a numbers-based approach would capture any service designed as a replacement for plain old telephone service (POTS), it would avoid assessments on a service that might include a voice component. Few would argue, for example, that applications, or devices, where voice functionality is ancillary to the actual purpose of the

service or device—such as voice enabled gaming—should be assessed for USF purposes.

Some have expressed concern that a numbers-based system would collapse as proposals to map telephone numbers to Internet addresses, such as ENUM, become a reality. However, ENUM requires that a subscriber have an active telephone line. If someday in the distant future a non-number based system were developed and widely implemented, the telephone-numbers-based contribution mechanism could easily be adapted, as some form of unique identifier or address will always be necessary to route various types of voice communications.

Mr. Chairman, the reality is that interstate telecommunications revenues are declining and will continue to decline. Conversely, an FCC staff analysis shows that the number of active telephone numbers is expected to grow for the foreseeable future, from 554 million numbers in use in 2004 to nearly 600 million numbers in use in 2007. Moving to a numbers-based USF contribution mechanism embraces this reality and will ensure the Universal Service Fund remains solvent well into the future. Furthermore, it would create a more predictable and equitable split between assessments collected by providers of local and long-distance telephone services, and between residential and business subscribers. Residential telephone subscribers would generally pay less under a numbers-based plan. Assuming an appropriate assessment amount, even most one-line households with low long-distance usage would pay less under a numbers-based system than they do under the existing interstate revenue model.

As stated above, Midcontinent and the cable industry strongly support the goals and purposes of the Universal Service program and recognize that changes are necessary to ensure its continued viability. However, we strongly believe that the assessment of broadband service revenues is not appropriate. The imposition of new fees on broadband service at the same time policymakers seek to encourage more widespread deployment and service penetration would be counter-productive and would raise the price of high-speed Internet services for current and potential broadband customers. It would also penalize those who have worked diligently to deploy broadband to nearly the entire Nation. The cable industry has invested $100 billion in private risk capital to bring broadband and other advanced services to households across the country. Today, 93 percent of all households in this country have access to cable's high-speed Internet service.

Contrary to assertions that broadband is negatively impacting Universal Service, the impact has been minimal at best. Most VoIP services, for example, already pay into the Universal Service Fund and a number-based plan would, in any case, capture these services into the future. The assessment of broadband service is unnecessary to the goal of a stable, sufficient and predictable fund. Instead, a number-based contribution mechanism addresses the current problems with declining interstate revenues and bundling of services, and captures new technologies and protocols such as VoIP.

We also believe it would be a mistake to make broadband services eligible for USF distributions. Mr. Chairman, Midcontinent shares your desire to ensure that all Americans, including those who live in rural communities have access to broadband service. As I stated at the outset, Midcontinent has spent hundreds of millions of dollars to upgrade its facilities and deploy broadband services in rural communities. We did this without a government mandate and without a government subsidy. We did it because we want to make certain that our customers have the same access to advanced digital technology as all Americans. We took the risk and invested private capital in order to provide broadband services in the communities we serve. It is unnecessary and profoundly unfair for the government to subsidize a broadband competitor to Midcontinent or any other broadband provider that has already stepped up to the plate and answered the call to help close the digital divide.

We recognize that some form of subsidy may be necessary to promote broadband deployment in remote rural areas where no provider is currently offering a broadband service and it is otherwise uneconomic to do so. The cable industry has offered support for legislation that would offer tax credits or tax expensing to companies that deploy broadband services in clearly defined and carefully targeted unserved areas. But the government should take great care not to subsidize broadband in communities where companies are already offering consumers broadband service. Subsidizing competition is unfair and a waste of scarce resources that should be targeted to areas where a market-based solution has not developed.

While government subsidies may be necessary to promote broadband deployment in unserved areas, the cable industry does not believe that Universal Service funds should be used to support broadband deployment. Such an expansion of the program will put further stress on the Universal Service Fund and undermine its principle purpose of promoting the availability of affordable telecommunications services to

all regions of the country. We believe there are better ways to promote broadband deployment in unserved areas through tax credits, tax expensing or existing loan and grant programs.

However, any program that subsidizes private entities to deploy broadband service is fraught with the potential for abuse. An example of such a program, though well intentioned, is the current Rural Utilities Service broadband loan program. Loan money from this program is being used to subsidize cable and phone competitors in markets where there are already two or more broadband providers. This type of subsidized competition penalizes private entities serving those markets and discourages private investment in rural America. In its September 30, 2005 report, the Office of Inspector General of the U.S. Department of Agriculture found that the RUS had not maintained its focus on rural communities without preexisting service, questioned whether the Government should be providing loans to competing rural providers when many small communities might be hard pressed to support even a single company, and observed that the RUS, by granting such loans, may be "creating an uneven playing field for preexisting providers operating without Government subsidies."

Midcontinent supports the goal of the Federal Government to assure that all Americans have access to broadband services. We have invested hundreds of millions to help that goal become a reality. We recognize that government subsidies may be the only answer in some high-cost rural areas. However, any government program designed to promote broadband deployment must be carefully defined and targeted to only those areas that lack broadband service. Furthermore, any such program must receive the most stringent government oversight to ensure that government funds are allocated only to areas that are defined as unserved and are not used to subsidize competition.

Mr. Chairman, thank you for inviting me to testify today. I would be happy to answer any questions you or the Members of the Committee may have.

The CHAIRMAN. Thank you very much.

Our next witness is Trent Boaldin—and I hope that I pronounced that right——

Mr. BOALDIN. That's correct.

The CHAIRMAN.—President of Epic Touch Company, of Elkhart, Kansas.

Thank you, sir.

STATEMENT OF TRENT BOALDIN, PRESIDENT, EPIC TOUCH COMPANY; ON BEHALF OF THE UNITED STATES TELECOM ASSOCIATION (USTELECOM)

Mr. BOALDIN. Thank you, Mr. Chairman and Members of the Committee.

I'm Trent Boaldin, President and member of the third generation of our family business, Epic Touch, which is based in Elkhart, Kansas. Thanks for the opportunity to appear before you today, both through my capacity as President of Epic Touch and on behalf of the United States Telecom Association.

Mr. Chairman, I address you and this Committee with gratitude, because you are among the strongest and most important supporters of Universal Service in the Nation. Thanks to the leadership of many of you, 98 percent of American households have phone service, and phone rates in rural Kansas and Oklahoma are comparable to those in Metropolitan Washington, D.C.

All of you are aware Universal Service is in crisis, and I urge you to act this year. More and more providers of voice service are able to avoid Universal Service contributions, or at least reduce them by, for example, utilizing technologies that weren't even foreseen in the 1996 Act.

Unfortunately, as more and more consumers migrate to these alternative services, phone customers are left to support rural net-

works. The need for support does not diminish. And, in fact, these new services need rural networks to carry their calls.

The crisis in Universal Service is an important reason why USTelecom is urging this Committee to update our Nation's telecom laws now. Our membership ranges from the smallest rural telephone companies, such as us, to some of the largest corporations in America.

A year ago, our board of directors unanimously adopted a plan for updating our telecom laws. We settled on two goals: reform of Universal Service to ensure affordable, reliable telecommunications for all Americans; establishment of consumer-controlled, market-based competition through the elimination of government-managed competition. USTelecom believes these goals are mutually reinforcing and must be pursued together.

To strengthen and preserve Universal Service, USTelecom has embraced three key reform principles. First, broaden the base of contributors to include all providers in both interstate and intrastate services. Second, target support to those providers offering basic telephone service. And, third, provide Universal Service support to networks in order to speed broadband deployment without placing undue burden on Fund contributors.

We are encouraged by legislation that has, so far, been introduced by Members of this Committee. We see provisions that reflect USTelecom principles. Senator Burns's new bill, S. 2556, broadens the contribution base to include interstate revenues, as well as broadband and broadband voice. The Burns bill also would allow support for broadband. Senators Smith, Dorgan, and Pryor have also introduced S. 1583 that would broaden the revenue base and address intercarrier compensation, and create a $500 million broadband account.

I'd like to tell you a story about another small company in our association, Ben Lomand Telephone, which is based in McMinnville, Tennessee. Ben Lomand has upgraded its network, and has the technical capability to provide video service to 60 percent of its 42,000 customers. And in 18 months, they'll have the ability to provide it to 100 percent of their customers. But Ben Lomand has the misfortune of serving an area covered by 25 different franchising authorities. It's a regulatory nightmare—and after 18 months of franchise applications, the company has won 15 of the 25 approvals. This cumbersome, archaic franchising process is a significant barrier to competitive entry into the local video market.

The video market is the single best reason for companies such as ours and others to invest in broadband platforms. So, existing franchise rules have become, or they are, a barrier to deployment of rural broadband.

As Congress moves toward updating our Nation's telecom laws, no segment of our country has more to gain or more at stake in the debate about rural America.

Again, Mr. Chairman, thank you for this opportunity to appear today. We look forward to working with you, Members of the Committee, and the staff to develop sound policies, and we encourage you to act now.

[The prepared statement of Mr. Boaldin follows:]

PREPARED STATEMENT OF TRENT BOALDIN, PRESIDENT, EPIC TOUCH COMPANY; ON BEHALF OF THE UNITED STATES TELECOM ASSOCIATION (USTELECOM)

Mr. Chairman, Co-Chairman Inouye and Members of the Committee, I am Trent Boaldin, president of Epic Touch Company, headquartered in Elkhart, Kansas. Thank you for the opportunity to appear before you today, both in my capacity as the president of Epic Touch, as well as on behalf of the United States Telecom Association (USTelecom).

Epic Touch is a family business that provides voice, data, and video services in southwestern Kansas. And, I'm proud to say, Epic Touch was among the first companies in the Nation to offer broadband to rural America, starting with DSL deployment in 1997. And as you know, USTelecom's members include companies large and small, companies which deliver a wide range of services across the communications landscape, including voice, video and data over local exchange, long-distance, Internet and cable networks.

Mr. Chairman, I address you and this Committee with gratitude, because you are among the strongest and most important supporters of Universal Service in the Nation. Thanks to the leadership of many here today, 98 percent of American households have phone service, and phone rates in rural Kansas are comparable to those in metropolitan Washington, D.C. Rural carriers recognize that these achievements do not occur by accident, and we look to you to ensure these achievements are protected and extended as new technologies and economic trends sweep our industry.

As all of you are aware, Universal Service is in crisis, and I urge you to act this year. More and more providers of voice service are able to avoid Universal Service contributions—or at least reduce them—by, for example, utilizing technologies not anticipated in the 1996 Act. One Internet phone company solicits new customers with radio ads that mock wireline phone companies for the "mysterious" taxes and fees that appear on phone bills.

Unfortunately, as more and more consumers migrate to these alternative services, fewer wireline phone customers are left to support rural networks. The need for support does not diminish, and in fact these new services need rural networks to carry their calls. To match up the continuing need for funds with a smaller revenue base, the contribution rate must be ratcheted upward. This feedback loop destabilizes Universal Service and is clearly unsustainable. Six years ago, consumers paid 5.5 percent. Today, consumers pay almost twice as much—in excess of 10 percent.

The crisis in Universal Service is an important reason why USTelecom and its 1,200 member companies are urging this Committee to update our Nation's telecom laws. Our membership ranges from the smallest rural telephone companies and cooperatives to some of the largest corporations in America. Our business models are diverse. But a year ago, our board of directors unanimously adopted a plan for updating our telecom laws. We settled on two goals:

- Reform of Universal Service to ensure affordable, reliable telecommunications for all Americans in the 21st century;
- Establishment of consumer-controlled, market-based competition through the elimination of government-managed competition.

USTelecom believes these goals are mutually reinforcing and must be pursued together.

Prompt Congressional action to reform Universal Service will do much to ensure a sustainable system for rural and low-income customers, as well as schools, libraries, and rural health care facilities. To strengthen and preserve Universal Service, USTelecom has embraced three key reform principles:

- Broaden the base of contributors to include all providers and both interstate and intrastate calls;
- Target support to those providers offering Basic Telephone Service; and
- Provide Universal Service support to networks in order to speed broadband deployment.

We are encouraged by legislation that has so far been introduced by Members of this Committee. We see many provisions that reflect USTelecom principles. Senator Burns' new bill, S. 2556, broadens the contribution base to include intrastate revenues, as well as broadband and broadband voice. The Burns bill would also allow USF support for broadband. Senators Smith, Dorgan and Pryor have also introduced legislation, S. 1583, that would broaden the revenue base, address intercarrier compensation and create a $500 million broadband account. On a related note, both of these bills also address the so-called "phantom traffic" problem—a rising tide of calls that transit our networks without the information necessary for proper inter-

carrier compensation. These calls create a shortfall that also results in higher rates and increased Universal Service support.

Although no formal legislation has been introduced to date in the House of Representatives, USTelecom has worked with Rep. Lee Terry of Nebraska and Rep. Rick Boucher of Virginia on legislation expected to be introduced in a matter of days. Their draft bill comports with a number of USTelecom principles including broadening the base of contributors to include intrastate services, cable modem, and VoIP calls. The legislation also contains an important provision to stop phantom traffic by requiring any communications provider that originates traffic to offer sufficient identification. Finally, it allows Universal Service support of broadband.

As I mentioned earlier, Universal Service reform must go hand-in-hand with other reforms. Telephony is becoming a form of Internet traffic. Companies like Epic are no longer just telephone companies—we provide our customers voice, video, and data services. Change is sweeping our industry, and no region of the country will be unaffected. In the years ahead, rural America must have Internet broadband access. Broadband will become essential for communities and individuals to remain integrated into the economic, political, and cultural life of the Nation. Thus, USTelecom urges incorporation of broadband into our notion of Universal Service. In addition, we believe the Committee can take steps to accelerate private investment in rural broadband deployment. One important change would be streamlined video franchising.

Let me tell you about another small company in our association, Ben Lomand Telephone, based in McMinnville, Tennessee. Ben Lomand has upgraded its network and has the technical capability to provide video service to 60 percent of its approximately 42,000 customers. It will be able to offer it to 100 percent of its customers within the next 18 months. But Ben Lomand has the misfortune of serving an area covered by 25 different franchising authorities. In some of these video-franchise jurisdictions, Ben Lomand serves as few as 100–200 telephone customers. It is a regulatory nightmare, and after 18 months of franchise applications, the company has won 15 approvals. This cumbersome, archaic franchising process is a significant barrier to competitive entry into the local video market.

The video market is the single best reason for companies to invest in broadband platforms, so existing franchising rules have become a barrier to the deployment of rural broadband.

As Congress moves toward updating our Nation's telecom laws, no segment of our country has more to gain and more at stake in this debate than rural America. It is critical that we have policies that encourage investment and head-to-head competition throughout the country . . . policies that speed new services, choices and value to our people . . . while upholding vital social objectives that remain important to the Nation—chief among them, our commitment to ensuring affordable, reliable access to a dial tone for all Americans.

We are encouraged by the work of this Committee, whose members recognize the vital role of Universal Service to ensuring that our citizens—rural, low-income, and otherwise—can reap the full benefits of this new world of communications.

Again, Mr. Chairman, thank you for this opportunity to appear today. We look forward to working with you, the Members of the Committee, and the staff to develop sound policies that will ensure all Americans have access to affordable and reliable communications service.

The CHAIRMAN. Well, thank you very much, Mr. Boaldin.

Our next witness is Bonnie Cramer, who's a Member of the AARP Board of Directors from Raleigh, North Carolina.

Ms. Cramer?

STATEMENT OF BONNIE CRAMER, MEMBER, AARP BOARD OF DIRECTORS

Ms. CRAMER. Good morning, Mr. Chairman and Members of the Committee. My name is Bonnie Cramer, and I'm a volunteer Member of AARP's Board of Directors. Thank you for this opportunity to testify today on behalf of AARP regarding the importance to consumers of the Universal Service Fund.

Our concern centers on consumers' contribution to the USF. At a time when the rising costs for energy, medical care, transportation, and other basic needs are pushing older Americans' monthly

budgets to the limit, every dollar can make a difference. The goal of Universal Service has been a significant national policy for more than 80 years. The Federal USF subsidizes service to high-cost areas, low-income consumers, schools, libraries, and rural health care facilities. Total funding for the USF has grown from 1.8 billion in 1997 to 7.1 billion estimated for 2005.

My remarks this morning will focus on five critical points for midlife and older Americans regarding contributions to the USF.

First, achieving Universal Service for all consumers should be a top priority. Telecommunications services are essential to modern life. For older Americans in particular, the ability to contact police, fire, medical, and other services in times of emergencies is absolutely necessary. The Universal Service's program recognizes the value of connecting everyone to these lifesaving services, as well as the importance of connecting each of us to one another.

Second, any mechanism designated for the USF contribution should protect the interest of low-income consumers and must hold low-volume consumers harmless. AARP understands the need to adequately fund the Universal Service program. While sufficient funding of the program is of critical importance, the goal must not be achieved by harming the very population the Fund seeks to help. We must not unduly burden low-income or low-volume long-distance consumers. We believe the funding goal can be met by retaining the current contribution mechanism and by restraining the size of the Fund.

We contend that the current revenue-based mechanism is both equitable and nondiscriminatory. The existing funding mechanism does not penalize consumers who make few or no long-distance telephone calls. Under some of the proposed funding mechanisms, these low-volume long-distance service consumers would be required to pay the bulk of the funding for Universal Service. AARP is concerned that a shift away from the pay-for-what-you-use system to a regressive numbers-based plan, as one proposal suggests, would unduly harm low-volume long-distance consumers. Many of these low-volume long-distance consumers are older Americans on fixed incomes. It is simply unfair for consumers who have a low long-distance monthly bill to pay larger USF fees, raising their overall monthly telephone bill.

Is it fair for Bill Gates and Aunt Edna, an 86-year-old living on a fixed income, to pay the same amount for their Universal Service fee on their monthly bill? If Bill Gates makes many more long-distance calls now, he pays more to the Fund. And that seems to be the equitable way to manage contributions. Aunt Edna shouldn't have to bear any greater burden to sustain the Fund.

AARP also asserts that the Fund's size can be constrained by limiting Federal Universal Service support from the high-cost Fund to a single line for each household. This step would prevent the excessive and unnecessary future growth in the Fund resulting from supporting all lines provided by all eligible telecommunications carriers.

Third, all voice communications providers should contribute to the Universal Service Fund. Ensuring that all Americans have ready access to affordable, reliable, and high-quality voice telecommunications services is critical to the health, welfare, and econ-

omy of the country. This is true no matter what technology is used to provide this service. In fact, from a consumer's perspective, any service that is marketed as a voice telephone service and that interconnects with a public-switched telephone network is a telecommunications service. The only equitable, nondiscriminatory, and technology-neutral way to collect Universal Service contributions and produce a sufficient base of support is to require all carriers that benefit from their ability to connect customers over the public-switched network to contribute.

Fourth, the two major programs for low-income consumers, Lifeline and Link-Up, are a fundamental component of the USF. The Lifeline and Link-up programs offer financial assistance to low-income consumers, ensuring all consumers have the opportunity to remain connected to essential telecommunications services. While these programs preserve and enhance universal telephone service, they, unfortunately, only serve a small portion of the low-income population, with less than 30 percent of income-eligible households participating in the Lifeline program. Programs to increase consumer awareness of the assistance programs, such as the FCC and National Association of Regulatory Utility Commissioners, "Lifeline Across America," are an important step to address awareness. However, we also recommend automatic enrollment into the Lifeline program for all consumers who participate in other designated low-income programs, and that would greatly increase the participation rate.

We also, finally, would like to suggest that advanced technologies present new challenges in delivering service to all Americans. While this Committee considers the contributions to, and distribution of, the Universal Service Fund, AARP suggests that this Committee consider a related issue of growing interest to all our members. AARP recognizes that the benefits of ubiquitous and affordable access to broadband networks are of particular value to midlife and older Americans. For example, with a broadband connection to support monitoring devices and interactive video, home health care becomes a viable option for many consumers, particularly those with limited mobility or those who may not be well enough to travel. A broadband connection also facilitates distance-learning opportunities.

For older Americans aged 65 and above, only 25 percent access the Internet through broadband connection. The remainder rely on dial-up. Bridging this digital divide is a significant issue for AARP, and we urge policymakers to make affordable high-speed broadband a national priority and to consider ways to create an aggressive deployment strategy.

In summary, AARP is a strong supporter of the Universal Service Fund, the essential services it maintains, and we look forward to working with the Members of this Committee to craft policy to best meet the needs of midlife and older Americans, particularly those from traditionally underserved communities.

Thank you.

[The prepared statement of Ms. Cramer follows:]

PREPARED STATEMENT OF BONNIE CRAMER, MEMBER, BOARD OF DIRECTORS, AARP

Good morning. Mr. Chairman and Members of the Committee, my name is Bonnie Cramer and I am a Member of AARP's Board of Directors. Thank you for this opportunity to testify today on behalf of AARP, regarding the importance to consumers of the Universal Service Fund (USF). Our concern centers on consumers' contribution to the USF. At a time when the rising costs for energy, medical care, transportation, and other basic needs are pushing older Americans monthly budgets to the limits, every dollar can make a significant difference.

The goal of Universal Service has been a significant national policy for more than 80 years. It is based on a set of general principles including access to and use of quality telecommunications services at affordable rates, access to advanced services (especially for schools, health care facilities and libraries), access to services in rural and high-cost areas, equitable and non-discriminatory contributions by telecommunications providers to a Universal Service fund, and specific and predictable support mechanisms.

The Federal USF subsidizes service to high-cost areas, low-income consumers, schools, libraries and rural health care facilities. Total funding for the USF has grown from $1.8 billion in 1997 to well over $6 billion in 2004.

My remarks this morning will focus on five critical points for mid-life and older Americans regarding contributions to the USF:

1. Achieving Universal Service for all consumers should be a top priority;
2. Any mechanism designated for the USF contribution must protect the interests of low-income consumers and should hold low-volume consumers harmless;
3. All voice communications providers should contribute to the USF;
4. The two major programs for low-income consumers (Lifeline and Link-up) are a fundamental component of the USF; and
5. Advanced technologies that present new challenges in delivering services to all Americans.

1. Achieving Universal Service for all Consumers Should Be a Top Priority

Telecommunications services are essential to modern life. For older Americans in particular, the ability to contact police, fire, medical and other services in times of emergency is absolutely necessary. The Universal Service program recognizes the value of connecting everyone to these life saving services, as well as the importance of connecting each of us to one another. Telecommunications services are not only a lifeline for mid-life and older Americans, but they also serve as an essential component of our work, family life and entertainment.

2. Any Mechanism Designated for the USF Contribution Should Protect the Interests of Low-Income Consumers and Must Hold Low-Volume Consumers Harmless

AARP understands the need to adequately fund the Universal Service program. While sufficient funding of the program is of critical importance, the goal must not be achieved by harming the very population the Fund seeks to help. We must not unduly burden low-income or low-volume long-distance consumers. We believe the funding goal can be met by retaining the current contribution mechanism and by restraining the size of the fund.

We contend that the current revenue-based mechanism is both equitable and non-discriminatory. The existing funding mechanism does not penalize consumers who make few or no long-distance telephone calls. Under some of the proposed funding mechanisms, these low-volume long-distance service consumers would be required to pay the bulk of the funding for Universal Service.

AARP is concerned that a shift away from a pay-for-what-you-use system to a regressive numbers-based plan as one proposal suggests, would unduly harm low-volume, long-distance consumers. Many of these low-volume, long-distance consumers are older Americans on fixed-incomes. It is unfair for consumers who have low long-distance monthly bills to pay larger USF fees, raising their overall monthly telephone bill.

Is it fair for Bill Gates and Aunt Edna, an 86 year-old living on a fixed-income, pay the same amount for their Universal Service fee on their monthly bill? If Bill Gates makes many more long-distance calls now, he pays more to the Fund and that seems to be the equitable way to manage contributions. Aunt Edna shouldn't have to bear any greater burden to sustain the Fund.

AARP also asserts that the Fund size can be constrained by limiting Federal Universal Service support from the high-cost Fund to a single line for each household. This step would prevent the excessive and unnecessary future growth in the Fund

resulting from supporting all lines provided by all eligible telecommunications carriers.

3. All Voice Communications Providers Should Contribute to the Universal Service Fund

Ensuring that all Americans have ready access to affordable, reliable, and high-quality voice telecommunications service is critical to the health, welfare and economy of the country. This is true no matter what technology is used to provide the service. In fact, from a consumer's perspective, any service that is marketed as a voice telephone service and interconnects with the public-switched telephone network (PSTN) is a telecommunications service. In this regard, the only equitable, non-discriminatory and technology-neutral way to collect Universal Service contributions and produce a sufficient base of support is to require all carriers that benefit from their ability to connect customers over the public-switched network to contribute.

4. The Two Major Programs for Low-Income Consumers (Lifeline and Link-up) Are a Fundamental Component of the USF

The Lifeline and Link-up programs offer financial assistance to low-income consumers, ensuring all consumers have the opportunity to remain connected to essential telecommunications services. While these programs preserve and enhance universal telephone service, they unfortunately only serve a small portion of the low-income population, with less than 30 percent of income-eligible households participating in the Lifeline program.

The Federal Communications Commission (FCC) and the National Association of Regulatory Utility Commissioners (NARUC) have initiated a program, "Lifeline Across America" to aid consumer awareness of these two assistance programs. Consumer awareness will certainly serve as an important first step to increasing enrollment in the Lifeline and Link-up programs. "Lifeline Across America" is planning activities, such as distributing bilingual outreach materials to targeted audiences, and educating state and local government offices about the Lifeline and Link-up eligibility requirements and procedures. These programs will help inform consumers about the discount programs and AARP looks forward to working with the FCC and NARUC to implement this effort.

While increasing consumer awareness of the assistance programs is an important step to addressing the underserved low-income population, AARP supports additional measures to increase enrollment. For example, automatic enrollment into the Lifeline program for all consumers who participate in other designated-need programs would greatly increase the participation rate in these telephone discount programs.

We also urge the FCC to report data with estimates on the percentage of households in each state and nationally who are eligible for Lifeline and Link-Up, along with the most recent corresponding data that shows the number of households that participated in these telephone assistance programs.

5. Advanced Technologies Present New Challenges in Delivering Services to all Americans

While this Committee considers the contributions to, and distribution of, the Universal Service fund, AARP suggests that this Committee consider a related issue of growing interest to our members.

Improvements in technology over the past two decades have led to an array of new and better services, as well as profound social and economic benefits for many people. Consumers are accessing the Internet to connect with family, friends and colleagues, searching for information, and shopping online.

AARP recognizes that the benefits of ubiquitous and affordable access to broadband networks are of particular value to mid-life and older Americans. For example, with a broadband connection to support monitoring devices and interactive video, home health care becomes a viable option for many consumers, particularly those with limited mobility or those who may not be well enough to travel. A broadband connection also facilitates distance learning opportunities, and telecommuting, a particularly attractive option for older workers. The Internet can connect older Americans to their community and their family. For example, a broadband connection can facilitate older Americans desire to "keep connected" to loved ones in our ever mobile society, allowing grandparents to send and receive pictures and videos of loved ones and more actively participate in the lives of their children and grandchildren. The Internet can also provide a broad array of entertainment options.

Currently, more than half (53 percent) of all consumers who use the Internet from home do so through broadband technology, allowing consumers to access a greater

range of voice, video and data services. However, for older Americans, age 65 and above, only about 25 percent access the Internet with a broadband connection; the remainder still rely on dial-up access.

What are the reasons for this digital divide? Are there public policies that can provide better prices and greater access to these services to help increase broadband use among older Americans? AARP is interested in learning more about this divide that is serving as a barrier for older Americans.

Bridging this digital divide is a significant issue for AARP and we urge policymakers to make affordable, high-speed broadband a national priority and to consider ways to create an aggressive deployment strategy that includes specific targets in terms of broadband penetration coverage and usage. We look forward to working with the Members of this Committee to help establish the United States as a leader in providing all consumers with access to the fastest and most affordable broadband services.

Conclusion

In summary, AARP is a strong supporter of the Universal Service Fund and the essential services it sustains. We look forward to working with the Members of this Committee to craft policy to best meet the needs of mid-life and older Americans, and especially those from within traditionally underserved communities.

The CHAIRMAN. Thank you very much.

Our last witness is Paul Garnett, the Assistant Vice President for Regulatory Affairs of CTIA.

Mr. Garnett?

STATEMENT OF PAUL W. GARNETT, ASSISTANT VICE PRESIDENT, REGULATORY AFFAIRS, CTIA—THE WIRELESS ASSOCIATION®

Mr. GARNETT. Good morning, Mr. Chairman and Members of the Committee.

On behalf of CTIA—The Wireless Association®, I want to thank the Senate Commerce Committee for focusing its attention on the important and timely issue of Universal Service reform.

CTIA is grateful for the opportunity to present its views in this important area on behalf of more than 200 million wireless customers. My comments today are focused on reforming the Universal Service contribution system, but I will also briefly discuss the distribution side of the Universal Service equation.

As a significant and growing net payer into the Universal Service system, the wireless industry is uniquely positioned to comment on proposals to reform the Universal Service system. Wireless carriers are now responsible for approximately 34 percent of contributions to Universal Service, while receiving only approximately 12 percent of payments. Wireless carriers, therefore, have a strong interest in ensuring that Universal Service contributions are collected from as wide a base as possible, while ensuring that both incumbent and competitive eligible telecommunications carriers, or ETCs, receive no more support than is necessary to achieve the goals of Universal Service.

Chairman Stevens, you mentioned the migration of customers from traditional stand-alone interstate telecommunications services that clearly are subject to Universal Service contributions to services for which contributions are not always clear. One-rate services that combine local and long-distance calling create challenges. Add to the mix mobility, broadband, and converged wireless devices that now will allow both traditional cellular, PCS, and nontradi-

tional VoIP WiFi connectivity, and you are talking an administrative and enforcement nightmare.

Low-income customers of traditional voice services have the most to lose under the current revenue-based system that allows customers of high-end services to avoid contribution costs by simply purchasing new types of services. Taken together, these changes are placing the revenue-based Universal Service contribution system at increasing risk.

At the FCC, CTIA traditionally has supported the revenue-based system, but changes in the marketplace have led us to conclude that the revenue-based system is no longer sustainable, for the reasons that I just mentioned. Considering all the alternatives that are currently before the FCC, CTIA now believes that a numbers- and capacity-based contribution system will best adapt to the evolving, multidimensional communications marketplace in which all of us now operate.

CTIA has developed a detailed proposal for the FCC to transition from the current revenue-based system to a numbers- and capacity-based system. We believe that our proposal addresses each of the concerns addressed by the other panelists today.

Under CTIA's proposal, all switched connections will be assessed based on working telephone numbers, and non-switched connections will be assessed based on capacity. CTIA has carefully designed its proposal to ensure that no consumer groups will be unfairly disadvantaged or advantaged as a result of the transition to a numbers- and capacity-based system.

Under CTIA's proposal before the FCC, the typical household will pay about the same in Universal Service costs as it does today. CTIA has achieved that result by providing safe harbors for certain broad customer categories; for example, exempting low-income Lifeline and Link-up customer numbers from contribution obligations.

Importantly, CTIA is not asking for special treatment under the Universal Service contribution system for wireless carriers. Wireless carriers accept their responsibility to pay into the Universal Service Fund. Wireless carriers would pay more over time under the revenue-based system, and they will continue to pay more over time under the numbers- and capacity-based system that we've designed. No segment of the industry is going to add more numbers over the next few years than wireless carriers.

Let me switch gears for a moment and briefly discuss the distribution side of the Universal Service equation. The wireless industry shares Congress's concerns about growth in the size of the Universal Service Fund. After all, the wireless industry writes more checks than they cash in the Universal Service sphere.

Senator DeMint, you mentioned the issue of accountability, and we think that's a critical issue. At the FCC, CTIA has supported proposals to ensure that Universal Service support is used only for its intended purposes. CTIA has supported stringent guidelines adopted by the FCC requiring both incumbent and competitive ETCs to use support to provide services to requesting customers throughout a designated service area. In essence, we've supported a—carrier-of-last-resort obligation for both incumbents and competitors.

However, CTIA strongly opposes any proposals to discriminate against wireless carriers. We also are opposed to proposals that would unfairly give incumbents and competitors unequal high-cost Universal Service support. Giving less per-line support to competitors puts policymakers, not consumers, in the position of deciding which provider wins and loses in the competitive marketplace.

Nondiscriminatory access is critical, because wireless deployment in some rural areas has occurred primarily because of wireless carrier access to Universal Service support.

Senator Burns, you mentioned eastern Montana. There are many other examples. Let me give a couple of examples as I close my remarks.

Centennial Wireless, for example, has used Universal Service support over the last couple of years to bring mobile wireless services to communities such as Shaw and Blackhawk, Louisiana, that previously had no telephone service at all, wireless or wireline.

On the Pine Ridge Indian Reservation in South Dakota, Alltel has used Universal Service to increase telephone penetration rates from 27 percent to 92 percent in just 5 years. Wireless carriers, such as Cellular South, Rural Cellular Corporation, Sprint Nextel, Midwest Wireless, U.S. Cellular, and many others, have achieved similar results in a few short years. We are proud of that track record, but we really believe that the best is yet to come, and there's a lot more work for wireless to do in rural areas.

We look forward to a continuing and open dialogue with the Members on these important issues. And, again, I want to thank you for the opportunity to share the wireless industry's views on this important issue, and I welcome your questions.

[The prepared statement of Mr. Garnett follows:]

PREPARED STATEMENT OF PAUL W. GARNETT, ASSISTANT VICE PRESIDENT, REGULATORY AFFAIRS, CTIA—THE WIRELESS ASSOCIATION®

Good morning. On behalf of CTIA—The Wireless Association, I want to thank the United States Senate Committee on Commerce, Science, and Transportation for focusing its attention on the important and timely issue of Universal Service reform. CTIA is grateful for the opportunity to present its views in this important area on behalf of the more than 200 million wireless consumers. My comments are focused on reforming the Universal Service contribution system, but I also will briefly discuss the issue of how best to address legitimate concerns about the distribution side of the Universal Service equation.

As a significant and growing net payer into the Universal Service system, the wireless industry is uniquely positioned to comment on proposals to reform the Universal Service system. Wireless carriers are responsible for approximately 34 percent of contributions to Universal Service, while receiving only approximately 12 percent of payments. Wireless carriers have strong incentives to ensure that Universal Service contributions are collected from as wide a base of contributors as possible, while ensuring that both incumbent and competitive eligible telecommunications carriers (ETCs) receive no more support than is necessary to achieve the goals of Universal Service. As I will explain below, it is the wireless industry's strong interest in a sustainable system that assesses Universal Service contributions in an equitable and nondiscriminatory manner from as wide a base as possible that has led CTIA to support the FCC's adoption of a numbers- and capacity-based Universal Service contribution system at the FCC.

The wireless industry's share of contribution obligations has grown significantly over the last decade. In 1997, wireless carriers were responsible for only 3.3 percent of contributions. Wireless carriers are now responsible for approximately 34 percent of contributions to Universal Service. Wireless carriers are quickly becoming the largest group of contributors to the Federal Universal Service programs.

It is safe to say that this growth in Universal Service contributions has matched the meteoric rise in the wireless industry over the last decade. In December 1995, there were 34 million mobile wireless subscribers in the United States. As of December 2005, there were over 200 million mobile wireless subscribers, as compared to approximately 178 million wireline switched access lines. Mobile wireless customers are in both rural and non-rural areas. According to the Bureau of Labor Statistics, the household wireless penetration rate in urban areas is 53.9 percent. The wireless household penetration rate in rural areas is not far behind—at 50.5 percent. The FCC has found that 97 percent of wireless customers live in counties with a choice of three or more wireless carriers and 87 percent of wireless customers live in counties with a choice of five or more wireless carriers.

Corresponding with this growth, consumers have received lower monthly bills, cheaper minutes, and new and innovative services. The average cost of wireless services has declined over time—while wireless service offerings have expanded. In June 2002, before the Omnibus Budget Reconciliation Act of 1993, the average wireless bill was $68.51 per month. As of June 2005, the average wireless bill was less than $50 per month. In fact, in 1992 dollars, the average wireless bill in 2005 was equal to $35.57—slightly more than half the earlier bill. For many customers, nationwide bucket of minute plans have made wireless the service of choice for making long-distance calls. In 1995, the average wireless customer had about 115 minutes of use per month. In 2005, the average wireless customer had almost 700 minutes of use per month. In 1995, there were 37 billion minutes of use on wireless networks. In 2004, the wireless industry crossed the one trillion minutes of use threshold.

Now, wireless carriers are in the midst of rolling out mobile broadband services. An alphabet soup of wireless broadband technologies is being deployed: WiFi, WiMax, EV–DO, WCDMA, UMTS, to name just a few. Verizon Wireless has launched a broadband network based on evolution data only (EV–DO) technology available in 171 metropolitan markets covering more than 140 million people. Sprint Nextel began to roll out its EV–DO technology in mid-2005 and now offers wireless broadband services in 208 markets. In December, Cingular Wireless announced that subscribers could access its BroadbandConnect service through Cingular's new 3G network. Alltel offers its Axcess Broadband service, which provides data rates comparable to wireline broadband, in nine metropolitan areas. In addition to its extensive network of wireless hotspots, T–Mobile offers mobile Internet access through its GPRS service. Deployment is not limited to the nationwide wireless providers. U.S. Cellular, Alaska Communications Systems, Cellular South, Cellular One of Amarillo, Dobson Cellular, First Cellular of Southern Illinois, Midwest Wireless, and many others are rolling out mobile wireless broadband services.

The growth of these new and innovative services, while providing obvious benefits to consumers, place the current revenues based contribution system in a precarious situation. As you know, contributions under the current system are premised on distinctions between "interstate" and "intrastate," and "telecommunications" and "non-telecommunications." The distinction between intrastate and interstate has always been difficult for wireless carriers, which provide a service that is inherently mobile. For that reason, the Federal Communications Commission created an interim safe harbor that now allows wireless carriers to assume that 28.5 percent of the telecommunications services are interstate for purposes of calculating Universal Service contribution obligations. Many wireless carriers nonetheless perform traffic studies to estimate what percent of their telecommunications revenues is interstate. This distinction has become an issue for wireline carriers that now increasingly offer Voice over Internet Protocol (VoIP) services that provide customers with mobility—the ability to make and receive calls wherever in the world they have access to a broadband connection. Unlimited long-distance plans offered by wireline carriers also are making it harder to unbundle the revenues associated with the interstate calls that support the USF.

The distinction between "telecommunications" and "non-telecommunications" also is a challenge. Communications providers increasingly are self-defining themselves out of Universal Service contribution obligations. Often, the Federal Communications Commission only discovers that contributions are not being paid until well after the fact when a carrier is either uncovered by a competitor or turns themselves in. Prepaid calling cards are the most recent and infamous example of telecommunications carriers calling themselves information service providers to avoid Universal Service contribution obligations. Commonsense dictates that prepaid calling card providers, who add prompts at the beginning of each call, are no different from any other provider of long-distance services, but these carriers have exploited a lack of clarity in the rules to avoid paying their fair share into the Universal Service fund. The prepaid calling card example has cost the Universal Service Fund several hun-

dred million dollars in lost Universal Service contributions over the last few years. These contribution costs just end up getting shifted to wireless carriers and others that are playing by the rules. Incidentally, wireless carriers can and do pay USF on their prepaid services. Without a doubt, there are many other examples of carriers wrongfully avoiding contribution obligations.

The growth of broadband services also is placing the revenue-based system under threat. As you are well aware, the United States Supreme Court, in the Brand X decision, recently upheld the FCC's determination that cable modem providers are information service providers. The FCC also recently expanded that declaration, concluding that DSL providers also were information service providers—not subject to mandatory Universal Service contributions under the Act. Although the FCC continues to collect Universal Service contributions from DSL providers, it acknowledged that those contributions could end, depending on the outcome of the FCC's Universal Service contribution methodology proceeding. Meanwhile, several other petitions are pending before the FCC seeking declarations that a variety of other services are information services, that potentially would be exempt from mandatory Universal Service contribution obligations. The wireless industry also is fast deploying its own broadband Internet access services that should be treated no differently than cable modem or DSL services for contribution purposes. To add further complexity to this picture, wireless carriers will soon be marketing converged devices that will allow consumers to seamlessly transition from traditional cellular or PCS connectivity to VoIP WiFi connectivity, whichever provides the best user experience.

Taken together, these changes are placing the Universal Service contribution system at risk. The interstate telecommunications revenue base used to assess Universal Service contributions has been stagnant or in decline over the last few years—even as revenues overall for the industry have continued to increase. This can only mean that carriers and customers are migrating from traditional services clearly within the Universal Service contribution base to services that are not subject to contribution obligations. And, the rate of this migration will only increase over time. CTIA does not believe that this problem can simply be addressed by expanding the scope of revenues subject to contribution obligations—for example expanding the base of contributors to include all "communications service providers." Because a revenue-based system will always rely on definitional distinctions (this time as between "communications" and "non-communications"), it will always be vulnerable to mischief.

That brings us to the question of what mechanism will best adapt to these changes over time? Considering all the alternatives, CTIA, on behalf of its wireless carrier members, now believes that a numbers- and capacity-based contribution system will best adapt to the evolving multi-dimensional communications market in which we now operate. Working extensively with our carrier members, CTIA has developed a detailed proposal for the FCC to transition from the current revenue-based system to a numbers- and capacity-based system.

In identifying the best system, CTIA tried as much as possible to adhere to the following core principles: (1) All providers of interstate telecommunications should contribute on an equitable and nondiscriminatory basis; (2) No individual consumer group should bear an unreasonable and unfair share of contribution obligations; (3) Opportunities for telecommunications providers to avoid contribution obligations should be minimized; and (4) Administrative burdens and/or costs for contributors (and by extension consumers) should be minimized. Weighing all of these factors, CTIA has developed a numbers- and capacity-based contribution system that is fair to both contributors and consumers. Numbers and connections are easily understood by consumers. Assessing numbers and connections also avoids the problem of definitional arbitrage so endemic in the current revenue-based system.

Under CTIA's proposal, all switched connections would be assessed based on working telephone numbers and non-switched connections would be assessed based on capacity units. CTIA has designed its proposal to ensure that no consumers will be disadvantaged as a result of the transition to a numbers- and capacity-based system. Importantly, CTIA is not asking for special treatment under any Universal Service contribution system. Wireless carriers would pay more over time under a revenue-based system and they will continue to pay more under a numbers- and capacity-based system. No segment of the industry will add more numbers over the next few years than wireless carriers. Under CTIA's proposal all providers of interstate telecommunications will continue to contribute on an equitable and nondiscriminatory basis.

The CTIA proposal does include certain safe harbor provisions for certain broadly-defined residential consumer groups. The needs of residential customers—the primary beneficiaries of Universal Service—must be central to any changes. Under CTIA's proposal, there would be no contribution obligations associated with Lifeline

and Link-Up customer numbers. Moreover, residential broadband services associated with a number would not be separately assessed—so that a residential customer with a DSL connection would not be assessed for both its number and its broadband connection. In addition, CTIA's proposal would reduce assessments for wireless "family plan" numbers and prepaid customer numbers by 50 percent. The Universal Service contribution for the typical wireless "family plan" would more than quadruple if it were subject to the full numbers-based assessment. Under our proposal, the amount of that increase would still be significant, but more manageable. We believe these provisions are necessary to ensure that residential customers—especially those that are low-income or low average revenue per unit—are not unfairly impacted by the transition to a new system.

Some customers may pay slightly more or less under CTIA's numbers- and capacity-based contribution system, but the typical residential customer would pay about the same. Considering a wide range of assumptions, CTIA concludes that under the revenue-based system, the average residential customer pays no more than $3.00 per month in Federal Universal Service contribution costs. Under CTIA's proposal, the average residential customers would pay no more than $3.01 per month in Federal Universal Service contribution costs in 2006. Overall, under the revenue-based system, residential customers are responsible for no more than 55.2 percent of the Universal Service contribution base. Under CTIA's proposal, residential customers would be responsible for no more than 55.9 percent of the Universal Service contribution base in 2006. These amounts will increase over time, but would also increase under the revenue-based system as the size of the Fund grows and as residential customers purchase a wider variety of services. This analysis shows that the typical business customer also would pay about the same under CTIA's proposal.

When comparing CTIA's proposal against others, the devil really is in the details. For example, assessing numbers without a capacity-based component for non-switched connections would result in a significant and wholly unfair shift of contribution obligations to residential and small business customers. Likewise, some parties have proposed capacity tiers and multipliers for non-switched connections that would shift contribution obligations down from large business users to residential and small business customers. Other proposals seek preferential treatment for certain categories of large business customers that are neither low average revenue nor low-income. Most recently, carriers and customers that inefficiently use numbers have asked for preferential treatment—essentially asking the FCC to validate bad business models and buying decisions. These proposals are patently unfair and should be rejected.

In short, CTIA believes that it has developed a contribution methodology proposal for FCC adoption that is fair to both contributors and consumers. CTIA's proposal balances the equities that are necessary to ensure a sustainable contribution base. CTIA believes that its proposed numbers- and capacity-based contribution methodology will adapt overtime as the industry continues to evolve. Importantly, CTIA's proposal is not self-serving. As I stated previously, wireless carriers have and will continue to pay more over time than under the revenue-based system.

Let me briefly discuss the distribution side of the Universal Service equation. As Congress considers reforms to the Universal Service system, wireless carriers must be recognized for the benefits they can and will bring to rural consumers. The wireless industry shares Congress's concerns about growth in the size of the Universal Service fund. At the FCC, CTIA has supported proposals to ensure that Universal Service support is used only for its intended purposes. CTIA supports stringent guidelines adopted by the FCC requiring both incumbent and competitive ETCs to use high-cost Universal Service support to provide supported services to requesting customers throughout a designated service area (in essence, a "carrier of last resort" obligation). However, CTIA strongly opposes any anti-competitive proposals to discriminate against wireless carriers. We also are opposed to proposals that would unfairly give incumbents and competitors unequal high-cost Universal Service support. Giving less per-line support to one set of competitors puts policy-makers, not consumers, in the position of deciding which provider wins and loses in the competitive telecommunications marketplace.

I have heard the argument that Universal Service should not be used to create artificial competition in areas that could not sustain the incumbent wireline carrier without Universal Service funding. But, Universal Service also should not be used to create artificial barriers to competition under claims that competition in some areas of the country is not economically feasible. As the experience of the wireless industry has demonstrated, there can be little question that competition is good for consumers—whether located in rural or non-rural areas—by spurring innovation and efficiency. Limiting Universal Service support to one incumbent wireline carrier in a particular area will discourage more efficient and innovative competitors from

entering that area and providing rural customers with the same choices and innovative services that benefit customers in more densely populated markets.

Universal Service can and does play a critical role in improving access to wireless services in high-cost, rural areas. As with wireline networks, factors such as lower population densities, topography, and geographic isolation make the average cost of providing mobile wireless services in rural areas significantly higher than in urban areas. Wireless deployment in some rural areas has occurred primarily because of wireless carrier access to Universal Service support.

For example, Centennial Wireless has used Universal Service support to bring mobile wireless services to communities, such as Shaw and Blackhawk, Louisiana, that previously had no telephone service at all, wireline or wireless. On the Pine Ridge Indian Reservation in South Dakota, Alltel has used Universal Service to increase telephone penetration rates from 27 percent to 92 percent in only five years. Wireless carriers, such as Cellular South, RCC, Sprint, Midwest Wireless, U.S. Cellular, and others have achieved similar results. In many instances, wireless carriers have achieved in a matter of years what it took incumbents decades to achieve. We are proud of that track record. But, we believe the best is yet to come.

Efficiency and innovation have been hallmarks of the wireless industry. We believe Universal Service distribution policies should replicate those values as much as possible. CTIA has long supported market-driven efforts to curb demand for Universal Service subsidies. Under CTIA's proposals, both incumbents and competitors would receive less support. We are open to a variety of proposals that will ensure that both incumbents and competitors receive no more support than is necessary to achieve important Universal Service goals.

We look forward to a continuing and open dialogue with the Members on these important issues. As strong as our opinions appear, we are open to other ideas for furthering the goals of Universal Service in the evolving communications marketplace. Again, thank you for the opportunity to share the wireless industry's views on Universal Service reform and I welcome your questions.

The CHAIRMAN. Thank you very much. We welcome your comments about your penetration into the Indian reservations.

Let me be sure we know what we're talking about. I asked for an approximation of this Fund. It's approximately, annually, now about $6.2 billion. About 3.73 billion goes to high-cost rural areas; 2.1 billion is the e-rate—some of that's rural, not much; about .1 billion is for the rural health care aspects; about 1 billion is for the Lifeline/Link-Up for the city programs. This is a program that's increasing in cost annually. So, we have to devise a system that's fair to both the rural areas and to the city areas. And we appreciate your willingness to be part of this dialogue.

Now, Mr. Post—we are working on a 5-minute time clock for ourselves, so I hope you all will be short with your answers, so we might have an opportunity to ask more than one question—what percentage of your traffic is long-distance versus local?

Mr. POST. Mr. Chairman, I'm not sure, as far as total long-distance traffic coming out of our markets today. The——

The CHAIRMAN. Well, that is immaterial, but does it make sense to distinguish between the two with regard to Universal Service, in your opinion?

Mr. POST. Not really. It does not.

The CHAIRMAN. Do you look at numbers as being a fair assessment mechanism for revenues?

Mr. POST. I think numbers are a fair assessment. The only concern I would have is that we avoid any arbitrage that might be brought about by—only numbers. And then—so a connection, by another name other than a number, it's an e-number or an address, could be used to avoid paying access. But I think numbers are certainly a good place to start.

The CHAIRMAN. Mr. Boaldin and Mr. Simmons, I don't know whether there's conflict between your testimonies or not. Mr. Boaldin, you suggest that broadband should be supported. Mr. Simmons, you seem to suggest that it shouldn't have to pay in. Where do we come out? And one of you suggests that we should support the services, the costs of extending the services. Mr. Simmons, do you really mean that people that are connected by broadband to the telecommunications system should not pay into the Universal Service Fund?

Mr. SIMMONS. I think what I mean is that broadband for the sake of broadband should not be assessed. If there is a telephone component that rides over broadband—for example, in the digital service that we provide that we launched recently in Mitchell, South Dakota, we're treating that as a telephone service. So, we would pay into the Universal Service. But it's the application of the telephone service, and not necessarily the particular network that it rides on, that's the driving factor.

The CHAIRMAN. Well, what service are you going to provide if it's not communications service?

Mr. SIMMONS. On broadband?

The CHAIRMAN. Yes.

Mr. SIMMONS. I think my point is that—the issue of broadband and the issue of telephone support are two different things, at least in my mind. The Universal Service Fund has been there, traditionally, to support the telephone services in high-cost or rural areas. And I think it's important to get that component fixed first. The next step, of course, would be to take a look at the broadband programs. And I'm personally not in favor of taxing broadband, in favor of dropping that into the Universal Service Fund to support just telephone service. And, frankly, I'm a bit——

The CHAIRMAN. If I used broadband for a fax service, should I pay into it?

Mr. SIMMONS. If your fax service is telephone-number-directed, yes. That's why we promote the telephone-number model. You would have a number for your fax service, you would have a number for your telephone service.

The CHAIRMAN. With respect, sir, I just think that what you're asking the industry then to do is to develop a system whereby you don't use numbers, you use call signs of some kind. But I believe—when we were dealing with the 1996 Act, I argued against telecommunications. I wanted them to talk about communications. I hope that's what we're talking about now. We're talking about communications. And if you've got communications connected by any system—and I think fax is a communication, I think e-mail is a communication, and I do believe they all should contribute. Now, we may have an argument along this table before we're through about that.

Ms. Cramer, you make really important points about what we're doing. Senator Inouye and I would agree with you, being the octogenarians of this Senate—well, at least two of them. But isn't the cost of connecting someone to the network the same without regard to how often they use it? You seem to think if you use it very little, that you shouldn't have to pay at all. Is that right?

Ms. CRAMER. Our main point is that for someone who is on a fixed income, as an example, and who takes a great care to limit the use of long-distance calls, that they should not be penalized based on the low volume of calls that they use, that that should be considered. They should have recognition of the low volume that they use.

This is a major area, as you know, particularly in rural areas, but with older people on fixed incomes; not necessarily low-income people, but older people on fixed incomes who try to make every dollar count. And one of the ways they do that is, try to keep their long-distance volume low.

The CHAIRMAN. Would you put a limit on the dollar amount per month? Or how do you suggest we do that? I mean, in my State, just making a call from Point Barrow to a son or daughter in Anchorage is long-distance.

Ms. CRAMER. Well——

The CHAIRMAN. Now, in your area, probably calling from here to Baltimore is long-distance, it's distance insensitive, but the necessity to call is not insensitive. And you pick up the telephone here and call Baltimore, you pay hardly anything. If someone picks up the phone in Barrow and calls Anchorage, they're going to pay a lot, under your suggestion.

Ms. CRAMER. As I understand it, the surcharges that are charged now by the carriers for long-distance are based on the volume of the charges, the total charges for long-distance calls, so that if, for example, you had a $4 monthly long-distance charge, your surcharge might be 10, 10.3, 10.8, whatever the percentage amount of that. That's what you would be assessed. So that if you go to the trouble to keep your volume low, then you are paying a smaller amount, not just an amount per telephone, for example, but based on the volume and the usage.

The CHAIRMAN. Oh, now I understand what you're saying. I agree. I don't have any problem with that.

I'm running over my time, so I'll come back later.

Up next is Senator Burns.

Senator BURNS. Thank you very much, Mr. Chairman.

Mr. Post, can you tell us why it's so important for Universal Service to be exempt from the Anti-Deficiency Act, or the ADA?

Mr. POST. Yes, sir, I think——

Senator BURNS. That's come up in our conversations, and I just want to clear that up for the Committee.

Mr. POST. I believe it's very important for Universal Service to be exempt from the Anti-Deficiency Act. We need stability in USF. Consumers need that stability, companies that are investing in rural America need that stability to be able to count on those revenue streams being available as we invest in rural America. If we upgrade these systems, broadband systems especially, the investment is great, and we need the certainty that those funds are recoverable, that we can have returns on those investments.

Senator BURNS. Also, our approach has been to, kind of, let the FCC take a look on the contributors. In other words, I guess, in some areas maybe numbers might work, some areas it may be based on revenues and the like. Do you think the FCC should have that kind of flexibility?

Mr. POST. As far as giving them the——

Senator BURNS. The decisionmaking——

Mr. POST.—decision?

Senator BURNS.—of——

Mr. POST. Yes.

Senator BURNS.—of the contributions?

Mr. POST. I definitely think they should have the flexibility to put together the most appropriate combination of contribution methodologies, whatever those be, whether it's numbers, revenues, capacity, whatever it is.

Senator BURNS. Mr. Boaldin, would you agree with that?

Mr. BOALDIN. Mr. Boaldin?

Senator BURNS. Yes.

Mr. BOALDIN. Yes.

Senator BURNS. I'm sorry.

Mr. BOALDIN. Yes, I would agree with that, along with one of the things the FCC——

Senator BURNS. And I've been to Elkhart, Kansas, by the way.

Mr. BOALDIN. That's all right. Along with that, as far as the FCC goes, they need that flexibility. And then another thing that they need, I think, is clarification of their authority to assess interstate revenues, as well as authority over the access piece.

Senator BURNS. Mr. Simmons——

Mr. SIMMONS. Yes, sir?

Senator BURNS.—would you comment on that? Do you think we should give the FCC the flexibility, on the contribution side, where they get their revenues?

Mr. SIMMONS. I believe we should. I believe they're in the position to assess this, to understand the positions, have the technical expertise to imagine how it would work.

Senator BURNS. Well, we know, on the distribution side—and we're not going to get into that until next Thursday—I'm just looking at the approach our two bills take that's working its way now through Congress, and if that flexibility should be allowed.

Mr. Garnett, your contribution proposal includes a 50 percent discount on your wireless customers on so-called "family plans." Would this discount also apply to the wireline customers where residential customers have more than one phone line?

Mr. GARNETT. In designing our proposal, we tried, as much as possible, not to disrupt the way in which large groups of residential customers pay in today. So, for a family-plan extension on a typical wireless plan, they're paying 9.99 a month for that handset, and, as a result, if you flow that through to a contribution obligation, it's about 25 cents a month. So, what we're proposing is a 50 percent discount from the dollar for those types of connections, those types of numbers. So, it would be an increase. It wouldn't be as great of an increase if you went all the way to the full dollar.

On the wireline side, from what I understand, second lines typically are not given that same amount of a discount, as compared to first lines. So, for example, the subscriber line charge, which is the basis of Universal Service contributions for first and second lines on the wireline side, for local exchange carriers are essentially the same, so there's no justification, in our mind, for providing that additional discount.

We do provide a complete exemption from contribution obligations for Lifeline customers, for low-income customers that take advantage of the Lifeline and Link-up mechanism. So, they would have no contribution obligation. And, as we all know at least 90 percent of those Lifeline and Link-up dollars go to local exchange carriers. They would be able to benefit from that.

Senator BURNS. Well, the reason I'm looking at this flexibility is just for the reason that when we wrote the 1996 Act—and some of us were around here when we did that—we missed the estimate of wireless users so bad. It's unbelievable now that we've got more cell phone numbers than we've got hardwired numbers. And how we look at that, I think, is that flexibility, is going to become very important, because I think the landscape will continue to change. And we get wired—well, that's not a very good term—we get locked into a situation where circumstances change, we have a hard time of dealing with that.

So, I appreciate all of your testimony today, because I think flexibility will be the key, as far as contributions are concerned, and how we approach that. And I want to thank all of you for coming.

By the way, Ms. Cramer, you live at Raleigh, North Carolina?

Ms. CRAMER. I do, yes.

Senator BURNS. I've got a brand new grandchild there. Would you take care of it?

[Laughter.]

Ms. CRAMER. I'll be glad to take your greetings.

Senator BURNS. Well, it's not Raleigh. It's kind of Holly Springs. But you know where that is.

Ms. CRAMER. It's very close by. Yes, I do.

Senator BURNS. [presiding] OK. Now we move to Senator DeMint.

Senator DEMINT. Thank you, Senator Burns.

We've talked a lot today about how to get more money into the system. I'm concerned about how to get more people to pay into the system. But we really haven't talked that much about how to reduce the number who are getting paid. And the thought I have, as I look at States like Alaska, where there's still a long way to go, a need for applying telecommunications to telemedicine in other places, we—they may need more Universal Service Funds. But I know—also know there are places in my State within a few miles of a major metropolitan area that are still getting Universal Service Funds, where they may have access to satellite, cable, wireless, phone lines, VoIP. How do we phase out Universal Service Funds in different parts of the country as we're looking at re-regulating or deregulating or changing this? Do any of you have any ideas on criteria we could use to basically eliminate the Universal Service Fund in parts of the country? And I know there are some things in existence now, but clearly it's not working. the Fund is growing at such a rate, we can't possibly sustain it. And I would just like to hear from any of you, particularly those of local phone exchanges, to see who might have any ideas on that. How do we discontinue use?

Mr. POST. I will begin the answer, Senator.

First of all, 35 percent of CenturyTel subscribers today are payers into the Fund, they're not receiving funds. So, it's not every

subscriber. However, 35 percent of our access lines, or our customers, are also in such rural areas that there's not even a cable company there. It's just too rural. So, it's those folks in between, as you say, close to the urban areas.

I think as technology comes down in price, in some instances, as we're able to utilize the advantages of an IP network, I think we'll see reductions in cost. And even in the Fund guidelines today, our rules today, there are comparative costs compared to average nationwide averages. And if you're below a certain level—start out at 115 percent of cost, now it's 130 percent of the average. You have to be at least 130 percent of the average cost in order to receive any funds today.

Senator DEMINT. Are those costs based on hardlines, as far as just the estimate of serving, or is that something——

Mr. POST. Based on actual costs of the companies whose numbers are pooled in the Fund, the nationwide averages.

Senator DEMINT. But the cost of serving, we arrive at that based on servicing with a hardline, is that——

Mr. POST. Basically, that's correct. There is some wireless in the wireline areas, but it's——

Senator DEMINT. Yes, well——

Mr. POST.—but it's primarily wirelines.

Senator DEMINT.—let me keep throwing a few ideas at you, because I know one of the Senators mentioned the Rural Electric Act that got electricity to farms. And I think it was Senator Burns. There's no other way to get electricity to a farm than on a line. But I'm worried that the whole concept of Universal Service Fund is basically subsidizing, or based on an old technology. A lot of developing countries are showing us that, when they began with no hardline infrastructure, that they can actually go in and create a better system than we have, because it's no longer based on the presumption of old technology. I'm afraid that what we're doing here is, there's such a predisposition toward added costs, but costs of distance on a line, the number of people on a line, like we still do with electricity. There's got to be a way of recognizing that Alaska may need more money, but we need to phase out Universal Service Funds when certain other technologies exist. And that may not even be a hardline.

I know we're talking about ways to get more money into it. And, as a lot of you know, I've introduced a bill that includes a numbers-based system that would share the cost, which I think is reasonable. The experts show that the average customer would pay less than a dollar a month under that system if we spread the cost to everyone who's using a phone number. But as we look at fairer ways to charge and to spread the cost out, I think we need some ideas from this group on how we can move areas away from subsidization and into the area of competition. And some of the rest of you may want to comment on it.

Yes, sir. Mr. Boaldin?

Mr. BOALDIN. Senator DeMint, yes, there are a couple of things that I think of when you talk about controlling that piece. Obviously, it's raising the bar to entry to being eligible to receive it, so making the bar to be an ETC is high enough, limiting those that draw from the pool. Another thing, I obviously see that what's im-

portant to you is global competition, and I would think that for you, since global competition is so important to you, then you'll obviously see the need for broadband. And I think that by clearly defining and making sure that the services that are supported, because I see that you are in support of this global competition, this broadband piece, making sure that the definition of those that receive it are truly providing the broadband, and that it is needed.

Senator DEMINT. I may be out of time, but I wanted to just make a quick point to Ms. Cramer, if I could.

I'm concerned about the idea of the rates based on usage, because if there's any group of folks we need to encourage to use the Internet, it's seniors. And to create a cost per use, I think, would be a disservice to seniors. I think it would also be an obstacle to rural areas attracting industries that would locate and basically have to pay based on their use of telecommunications. I just hope you'll rethink that, because I'm just concerned that that's not the best way to make that—make our system work.

Mr. Chairman, I will yield back.

The CHAIRMAN. [presiding] Thank you very much.

We're going to recognize Senator Dorgan. He has to leave immediately.

Senator Dorgan?

STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. Mr. Chairman, thank you very much.

I apologize for missing the testimony. Senator McCain and I are holding hearings over in Russell on Indian Affairs. And I have had a chance to review most of the testimony.

I just wanted to say, in one minute, that there's not much more important for this Committee to do than to try to resolve this Universal Service Fund issue. I was around when we wrote the 1996 Act. You know, I agree with the Chairman, I—in many ways, I wish that we took the "tele" off and just had the word "communications" as we deal with these issues.

But the FCC now, very soon, may finally have five members at the FCC. With the Federal Communications Commission sinking its teeth into these things with a full complement, and with the Chairman now holding these hearings in preparation to making some judgments about this—and they're—they are difficult and complicated, and also controversial judgments—maybe we'll finally get some—make some progress. But we have to do this. This system is going to fall of its own weight. It doesn't have a funding base that's adequate. And a lot of things are changing around us. And we have to try to make some sense of it.

So, Mr. Chairman, I appreciate your holding the hearings. I wanted to mention, Senator Gordon Smith and I have cosponsored S. 1583, also cosponsored by Senator Pryor on this Committee. That's one approach on the Universal Service issue. And there are others. And I'm just—I'm anxious to work with you and other Members of the Committee to address this issue.

[The prepared statement of Senator Dorgan follows:]

PREPARED STATEMENT OF HON. BYRON L. DORGAN,
U.S. SENATOR FROM NORTH DAKOTA

Section 254 of the 1996 Telecommunications Act codified the principles of Universal Service that have actually been at the forefront of telecommunications policy for decades.

Section 254 states that all citizens, including rural consumers, deserve access to telecommunications services that are reasonably comparable to those services provided in urban areas, at reasonably comparable rates.

I was part of the negotiations that brought about that section, and it is just as important today as it was when we wrote it.

Some have called for the end of Universal Service, they allege it is outdated or unnecessary.

Let me say this to the critics—Universal Service continues to be essential and a benefit to all.

Universal Service was designed to ensure that rural consumers are not left behind their urban counterparts. And it is just as necessary today in working towards tomorrow's broadband network as it was in building the phone network.

It will *always* be more expensive to serve rural areas, and Universal Service support recognizes that.

But Universal Service does not only benefit rural consumers.

We put the Universal Service section into the 1996 Act because everyone understood that a ubiquitous network benefits everyone.

Communications are a two-way street, rural folks can call into town, and people in New York City can to pick up their phone and call a friend, or order something from a company in Minot, ND.

Frankly, the same is true over broadband networks, your ability to send an e-mail or access Internet content to and from anywhere in the country benefits from a ubiquitous broadband network as well.

Unfortunately, the fact is that the Universal Service Fund is in serious trouble. The contribution base is in steep decline as the entire industry is in the midst of a digital transformation.

For the most part this digital migration has been great for consumers, but as new forms of communication such as cell phones, e-mail, instant messaging and now Voice over the Internet Protocol (VoIP) are invented and popularized, they present new challenges on how to preserve the fund.

In my view we need to take decisive action to broaden the base and fix the problem.

My colleague Gordon Smith and I have done that by introducing S. 1583, the Universal Service for the 21st Century Act. Our bill will ensure the sustainability and longevity of the Universal Service Fund, and support the deployment of broadband to unserved areas.

Our bill will further that goal in two ways. First, it will ensure that the Federal Communications Commission (FCC) will address reform of Universal Service and inter-carrier compensation. to support the cost of a national, quality communications network.

In addition, our legislation will set up an account within the Universal Service Fund for broadband deployment to unserved areas. This will enable deployment of broadband to areas of the country that remain prohibitively expensive to serve, leaving consumers in those areas behind the technological curve. According to a Pew/Internet study that was just released. *24 percent of rural Americans have high-speed internet connections at home compared with 39 percent of urban and suburban dwellers.* The study attributes this not to a lack of interest by rural consumers, but rather to availability and in some cases, income.

We have heard comments from many stakeholders with an interest in this subject, and we look forward to working with our colleagues and the Chairman and Ranking Member on our legislation and moving this important issue forward.

The CHAIRMAN. Thank you very much.

Senator Snowe?

STATEMENT OF HON. OLYMPIA J. SNOWE, U.S. SENATOR FROM MAINE

Senator SNOWE. Thank you, Mr. Chairman. I want to thank all of you for being here today.

I agree that this is a significant goal for us this year. We must do what we can to address many of the issues in expanding the Universal Service Fund to more providers. Universal Service is a vital program for so many parts of our country that otherwise would not benefit from the communications services that they have access to today.

The question before us is, how do you incorporate broadband services in a way that does not cause an explosion of the Universal Service Fund? We have to demonstrate some type of flexibility in supporting broadband service deployment with Universal Service Fund revenues.

[The prepared statement of Senator Snowe follows:]

PREPARED STATEMENT OF HON. OLYMPIA J. SNOWE, U.S. SENATOR FROM MAINE

Thank you, Mr. Chairman, for holding this day of hearings on the Universal Service fund. This morning we address issues surrounding the Universal Service Fund contribution methodology.

As we all know, the value of a network increases as additional users join the network. This principle, known as Metcalfe's law, has been the foundation for the concept of Universal Service. The Universal Service Fund embodies the policy that as many people as possible—whether it be a blueberry farmer is Aroostook County, a fourth-grader in Waterville, Maine, or a senior citizen in a library in Lewiston, Maine—should have access to the system.

Section 254 of the Telecommunications Act of 1996 is well-written law that has served our Nation's Universal Service needs in the past decade. However, like many of our other telecommunications laws, changes in technology and industry structure are causing a need for some updates. While there are many aspects of the law that could be improved, I believe some are more timely than others, and I hope this Committee will be able to act on those issues in need of immediate attention this Congress.

Most importantly, the contribution base of the Universal Service Fund must be expanded. Too few users of the network are required to pay into the Universal Service fund. Those sectors of the industry are disproportionately affected. Everyone who benefits from the network should contribute. Congress needs to give the Federal Communications Commission the authority to assess intrastate revenues, broadband service providers and IP-enabled voice service providers. the Fund will be sustainable if its cost is spread out fairly among network users.

Second, this Committee should consider expanding the Universal Service Fund to include limited broadband infrastructure support. Today in Maine, 73 percent of households do not have a broadband service—either because it is too expensive or simply unavailable. The Funds resources should be able to be used, in a limited way, to support the deployment of next generation communications technologies.

Third, another component that is vital to successful Universal Service reform is inter-carrier compensation. Universal Service cannot be addressed in its entirety until the Commission concludes its work on inter-carrier compensation reform. These two issues are so closely intertwined, that many of Congress's efforts to reform the distribution side of the program will be fruitless without certainty of inter-carrier compensation rules.

Finally, Congress should act to pass S. 241, legislation that would make permanent the Universal Service fund's Anti-Deficiency Act exemption. Without certainty in which accounting principles apply, the Universal Service Fund will not be stable. S. 241 was introduced over a year ago and to date has a total of 47 co-sponsors, including myself, Chairman Stevens, Co-Chairman Inouye, Senator Rockefeller and a majority of Members on this Committee. I hope that S. 241 will be considered on the Commerce Committee's next mark-up.

I look forward to working with Chairman Stevens and Co-Chairman Inouye on Universal Service reform. I also want to continue the dialogue with Senators Smith, Rockefeller, Dorgan and others who share the same principles I have discussed today.

Thank you, Mr. Chairman.

So, Mr. Post, I'd like to start with you. Can I get your sense on what you think about expanding Universal Service to broadband?

Mr. Simmons, you indicated cable industry does not want to be assessed. On the other hand, in the final page of your testimony, you indicate that any Government program designed to promote broadband deployment must be carefully defined and targeted to areas that lack broadband service. How do we incorporate this vital service into the Universal Service Fund? In my State, 73 percent do not subscribe to broadband. The United States is 16th in the world in terms of broadband penetration. We're really behind the curve.

So, Mr. Post, what would your recommendations be?

Mr. POST. First of all, I think it's crucial we broaden the base for it, and on a fair and—competitively and technologically-neutral basis. I believe that's crucial.

Second, you know, the real growth in the Fund, in recent years, has been from the CTC side of the business, from—basically $49 million in 2002, and now expected to be over $900 million, according to USAC, in 2006. The rural telephone companies, that portion of the Fund in the last 3 years, has actually only increased about .6 percent. And the funding from many of the companies, such as CenturyTel, has gone down significantly. Actually, our funding has gone down by $35 million the last 3 years.

I believe broadband should be part of the building of Universal Service, as you say, in rural America. That's going to be the only way to get it there, in my view. Just the back-haul cost and transport cost alone make it unaffordable for many rural Americans.

I believe in broadening the base so you can reduce the burden. No single entity, no single service will bear the brunt of what it costs to bring those services to rural America. It makes sense, and I think we'll see—actually, the impact, on the individual consumer that Ms. Cramer was talking about, actually could be alleviated, rather than increased, if the base is broad enough.

Senator SNOWE. Thank you.

Mr. Simmons?

Mr. SIMMONS. Well, I'm encouraged by the discussion of the requirement to right-size the distribution side. There's a lot of talk about how we must find, on the contribution side, to grow the Fund to take care of all the needs. But, of course, the assumption is that all the needs are, in fact, correct and accurate and appropriate. And I'm not necessarily convinced of that.

I know that Universal Service has been around for a very long time. There are a lot of companies that use that as a standard business model. And perhaps that business model has to change, as well.

So, the hearings that you're conducting, I think, are, frankly, appropriate and timely to measure both sides, contribution and distribution. But I think you start with, really, the distribution side of what's necessary before you start talking about what contributions are going to be necessary to cover those costs.

Senator SNOWE. Mr. Boaldin, do you want to address this question?

Mr. BOALDIN. I'm not sure where you got that in the statement, but, yes, all broadband, all providers should be supported. We need to broaden the base of supporters. Yes, we do.

Senator SNOWE. You do?

Mr. BOALDIN. Yes.

Senator SNOWE. OK. And broadband service, do you think it should be incorporated into the Universal Service Fund?

Mr. BOALDIN. Well, I think that broadband service is absolutely critical to things we're trying to accomplish, yes, with Universal Service.

Senator SNOWE. OK.

Ms. Cramer?

Ms. CRAMER. Our position has been that all voice communications providers should contribute to the Universal Service Fund. And any service that markets itself as voice telephone service or that connects to the local public-switched telephone network should contribute.

And on the distribution side, our position has been that the Fund can be constrained by limiting the support to a single line for each household.

Senator SNOWE. Mr. Garnett?

Mr. GARNETT. Yes. We believe that the basis for Universal Service contributions should be expanded to include broadband. Under our proposal, residential broadband providers would contribute based on the numbers that they provide their end-user customers. And then, on the business side, they would contribute based on capacity.

On the distribution side, we're already spending $3.7 billion a year on high-cost support, and $6 and a half billion overall for Universal Service. So, we do think that there are opportunities to look at this amount of money we're spending already, and review that, and see whether or not those amounts are sufficient already to fund broadband deployment. We recognize that's an important issue, and we're open to considering all the alternatives that are out there.

Senator SNOWE. I understand that advocates of the wireless industry have been urging Congress and the FCC to preempt local regulation of wireless carriers, on the basis that they primarily are mobile interstate service. However, for the purposes of the Universal Service Fund, you consider yourself primarily intrastate, but for this purpose of local regulation preemption, you're interstate. Can you explain this contradiction?

Mr. GARNETT. The FCC and the courts have long recognized that interstate services can also have intrastate components to them. So, even though we believe that mobile wireless services are, by their very nature, interstate services, not all aspects of that essentially interstate service are necessarily all interstate. And under the current contribution system, we contribute based on interstate and international end-user telecommunications revenues, just like everybody else. Most wireless carriers use traffic studies to do that, and, on average, report about 23 percent of their telecom revenues as interstate. But what we're proposing, actually, is to go away from that system and basically treat a number as a number, a connection as a connection, and it doesn't matter what percentage of your services are interstate or intrastate. We're going to a world of mobility, both in the wireless sphere and also in the wireline sphere, for that matter, with VoIP services. So, that's the direction

we see the industry going, in general. And we support changes to regulation to reflect that.

Senator SNOWE. So, given the trend of bundling services, do you think that the FCC should be able to assess both interstate and intrastate calls?

Mr. GARNETT. I think that in the revenue-based context, we already have a court decision that basically tells the FCC that it can't assess intrastate revenues. And that's part of the issue that the FCC has been dealing with for the last 5 years on this contribution issue. But if you go to a numbers- or connections-based system, you don't have to address that direct issue. You basically can assess a connection or a number, which provides a customer with access to the interstate public-switched network, and that's enough, in our view.

Senator SNOWE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Smith?

STATEMENT OF HON. GORDON H. SMITH, U.S. SENATOR FROM OREGON

Senator SMITH. Thank you, Mr. Chairman, for this hearing and for understanding. I've had to be in three different hearings today. And I wanted very much to make my statement, so I'll use my question time to do that.

For more than 70 years, the preservation and advancement of Universal Service has been a fundamental goal of our telecommunications laws. Universal Service Funds have brought affordable telecommunications services to rural, insular, and high-cost communities, provided phone service to low-income consumers, connected schools and libraries to the Internet, and linked health care providers in rural areas with urban medical centers.

Now, this need has not gone away, and the need for robust and sustainable Universal Service certainly remains. But it's become increasingly clear that major reforms are imperative if the Fund is to meet the evolving communication needs of the American people.

It is to that end that I introduced the Universal Services for the 21st Century Act, with Senators Dorgan and Pryor; in part, to address the structural crisis in the Universal Service Fund. Today, the burden of Universal Service Fund contributions are placed only on a limited class of telecommunications companies, mainly long-distance carriers, causing inequities in the system and incentives to avoid payments.

As demands on the Universal Service Fund increase, the shrinking base of contributors and ordinary customers are being forced to pay even more. To address these inequities and to ensure a stable Universal Service system for the next 70 years, our bill authorizes and directs the FCC to establish a broad, permanent mechanism to support Universal Service. The FCC may consider any collection methodology that promotes competitive and technological neutrality, assesses all communications services capable of two-way voice, takes into account low- and high-volume users, and does not assess a carrier more than once for the same transaction, activity, or service.

In a hearing later this week, this Committee will address the second component of my bill, adapting the Universal Service system to bring broadband to even more Americans, spur economic development in rural and high-cost areas, and make America more competitive globally.

Alarmingly, as many policymakers have noted, the United States has fallen from 15th to 16th in global broadband penetration. Direct investment in broadband infrastructure through the universal system—Universal Service system is the solution to this disturbing trend.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Pryor?

STATEMENT OF HON. MARK PRYOR,
U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Thank you, Mr. Chairman.

Ms. Cramer, if I can start with you, looking at your statement, you said that you're concerned that a connections-based system would unfairly burden low-income customers. Can you elaborate on that a little bit, please?

Ms. CRAMER. The distinction we have drawn is that the assessments ought to be on the basis of the actual usage of the system. And so, we have drawn a distinction with individuals. We've given, as an example, those on fixed incomes who take great care to limit the amount of long-distance calling that they make, that that should be—their usage, their actual usage of the system, should be the basis, not a numbers-based system.

Senator PRYOR. OK. Now, does everybody agree with that, or—you disagree with that.

Mr. GARNETT. Yes.

Senator PRYOR. OK. Does—do you all disagree with that, as well?

[A nod of heads.]

Senator PRYOR. OK. Well, we'll have that discussion, and I'd like to get more into that. But, first, let me ask—I guess, Mr. Garnett, I'll ask you. Most telecom services are regulated both at the Federal level and the State level. And many States have their own State Universal Service Fund. So, like, in Arkansas, we have Federal and State. Are there relationships between the FCC and various State USF regulators and regulations that should be considered when we're looking at Federal contributions?

Mr. GARNETT. Typically, what happens is, Senator, most States look to the FCC for guidance on how to develop their own Universal Service contribution methodologies. The FCC, as you know, currently assesses interstate and international telecommunications revenues. And most States have followed suit in assessing intrastate telecommunications revenues. So, essentially a revenue-based system both at the State level and the Federal level, that's right. It's not uniform, but that's typically the model.

Senator PRYOR. Even though it's not uniform, it's not necessarily unfair, because you're—all the competitors in the various States are getting equal treatment?

Mr. GARNETT. Correct.

Senator PRYOR. OK.

Mr. GARNETT. Correct. In most instances, that's correct, yes.

Senator PRYOR. OK.

Mr. GARNETT. The Federal/State joint-board process, has been one that the FCC has used on numerous occasions to coordinate activity, as between the FCC and various States. There currently actually are some joint-board issues being dealt with on the distribution side. And I would imagine that the joint-board process could be something that the FCC could use on the contribution side as it implements a new system.

Senator PRYOR. All right. Well, let me—let me ask this, while we're talking about that. If I—it's going to—and we'll change gears just ever so slightly. But we have a lot of changing dynamics in the marketplace. We all know that. You can look over the last 15–20 years, the telephone world is very different today than it was 2 decades ago. As we look at it today, is it your view that we should have a major rewrite of USF? Or can we do this more in—you know, with minor adjustments to correct some of the problems with USF?

Mr. GARNETT. We think, on the contribution side first, there needs to be a major change. The current revenue-based system isn't working anymore. Revenues are migrating from the current revenue base to services that are not assessed. So, we want fundamental change in the contribution methodology.

Chairman Martin has expressed his support for a numbers-based system. We've thought long and hard about the issue, and are now supporting that change.

On the distribution side, CTIA has very specific proposals for reforms in that area. The primary problem on the distribution side, generally, is that carriers are paid for what they spend, not where they serve customers. So, you have a lot of situations where you have carriers that serve large rural areas that don't receive support. And then, on the other hand, you have some carriers that serve essentially suburban and urban areas that are receiving support, just because they happen to spend a lot of money. We need to change that system. We need to look at all of the high-cost mechanisms that currently exist and think about fundamental reforms to them. That doesn't necessarily mean that carriers serving rural areas are going to get less support. We just want to make sure that support is directed to the right areas.

Senator PRYOR. I'd like to hear from the other witnesses on that, whether you think we need a major rewrite, or if we can just tweak a couple of things in the USF to get this right. Let me start with CenturyTel, down there on the end.

Mr. POST. Senator Pryor, I think we can do this without a major rewrite. I think if we seek a major rewrite, it could take years to do. And action on Universal Service needs to be taken today. If this Committee and this Congress do not act on Universal Service, consumers in rural America will be left behind, in terms of communications technology, affordable communications technology and comparable services.

Mr. SIMMONS. I believe I'd agree with Mr. Garnett, we need some major work on the Universal Service portion. The program, as it is today, is not working. I don't know that we'd go so far as to say "broken," but almost. I think we're dealing with different tech-

nologies than we have before, and it requires a different program. But rather than start with the mechanics of the program, we should be starting with what we want that program to do. And that's why, as I suggested earlier, we spend some time considering what the requirements are, or the right sizing of the program, before we get after what the contributions should be.

Senator PRYOR. OK. Mr. Boaldin, go ahead.

Mr. BOALDIN. Thank you, Senator Pryor. I think the important thing is to act now. And in order to——

Senator PRYOR. On USF.

Mr. BOALDIN. Yes.

Senator PRYOR. Act now on USF.

Mr. BOALDIN. Yes. In order to broaden the base of contributors and to support the networks and to reach into the interstate piece, I think, yes, we are talking about a significant reform, and now.

Senator PRYOR. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

I thank you all. I hesitate to keep us any longer. I'm still a little confused about the consensus here as to whether all communications should pay into the Fund. Could I just ask you all, is there any system that could be deemed a "communications system" today—wireless, cable, whatever—that you think should be exempt from Universal Service? Any of you want to totally exempt any communications service from Universal Service payments?

Mr. SIMMONS. Mr. Chairman?

The CHAIRMAN. Yes?

Mr. SIMMONS. I don't know that we would look to necessarily exempt, but just to simply say that broadband, as broadband, whatever that might be, should pay into Universal Service, I believe, would be an error. The communications portion of that, the telephone service portion of that, certainly should pay into Universal Service. At least that's my opinion and the opinion of my company.

The CHAIRMAN. I think Ms. Cramer said "voice only." Are you saying voice only?

Ms. CRAMER. Well, we have used two criteria for our distinction. We have said all voice communications—if you market it as a voice communication or if you are switched to the local public telephone network, that would qualify.

The CHAIRMAN. Well, do you think any of those systems that you've just discussed should receive payments from Universal Service?

Ms. CRAMER. Our restriction on that has been that, yes, as long as it could be constrained by one line per household and not multiple lines per household.

The CHAIRMAN. Well, I don't know about the rest of the Committee, but, for this Senator, I think that the concepts of payment on this in the future ought to be based on a definition of "communications," because this technology is tumbling so fast. We didn't even anticipate some of the systems that are in being today, in 1996, and that's only 10 years ago. So, if we're going to have a bill that's going to last for a while—the last one only lasted from 1994 to 1996—we ought to not write a bill knowing that within the next 10 years, the whole thing's going to have to be changed again.

Our goal is to try and establish a means by which every American has a new right, and that is the right to communicate. And, if we can, we've got to find a way to assure that that Fund that comes in is a fund that is assessed against all systems that provide communications.

And, Ms. Cramer, we understand your situation. I would like to find a way to encourage telephone companies, anyone else providing communication services, to offer discounts for the elderly so that instead of having to have some special type of subsidy, they're recognized. We get that as we go into the movies. I should think that people would understand that it's very much of a marketing technique. They get the elderly out of the house and go to the movies. I agree with Senator DeMint. I think we should find a way to encourage people to use their telephone when they're sitting home alone, not discourage them. But we will work hard on this, and we appreciate your assistance.

Some members who are not here may submit written questions. So, if they do, we would urge you to respond to them as quickly as you can.

The CHAIRMAN. We will be trying to mark this bill up sometime toward the end of the month, or at the latest, the first part of the next month. Thank you for your help.

[Whereupon, at 11:35 a.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. E. BENJAMIN NELSON, U.S. SENATOR FROM NEBRASKA

Mr. Chairman, in the 10 years since the last major telecommunications bill was passed, Universal Service has been an important catalyst for deployment of communications infrastructure in rural areas of this Nation.

Universal Service has ensured rural access to telephone services at rates similar to urban areas, and it has contributed toward making communications affordable for schools, libraries, and rural health facilities.

However, since 1996, wireless communications and the Internet have blossomed and become an important enabler of economic growth.

Universal Service is now being challenged by these technological changes in two ways.

First, the long term viability of Universal Service is in danger from shifts in the usage of alternative telephone technologies.

We must reform Universal Service to make it sustainable in a manner that survives future changes in technology.

Second, innovation and competition must be encouraged in even the most remote areas of our country.

Universal Service should be modernized to promote deployment of new communications technologies, such as broadband Internet, in rural areas.

To respond to these two challenges, I believe we should:

1. Ensure the stability of Universal Service in order to preserve affordable telephone service in rural areas, and for all Americans, as well as to continue support for schools, libraries and rural health care providers.

2. Promote private investment in and deployment of broadband Internet and other advanced telecommunications services, in rural America.

3. Encourage increased wireless coverage and introduction of new wireless services to rural America.

To achieve these goals, I advocate that Universal Service reform legislation do the following:

1. Broaden the goals of Universal Service, to encourage the deployment of new and future communications services in rural areas. Place limits on Universal Service funding, so that it is tightly focused on these goals.

2. Encourage competition for telecommunications services, so that rural Americans can have access to modern communications technologies at equitable prices.

3. Reform the Universal Service contribution base, to ensure long-term viability, to make it sustainable under future changes in technology, and to make it consistent with future program goals.

Communications technology holds enormous economic promise to rural America, and I look forward to being involved in this reform effort.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES (NASUCA)

For a number of years, the opinion has been expressed that the Federal Communications Commission's current Universal Service contribution mechanism, which bases contributions on interstate revenues, is "broken" and needs to be replaced by

a connections-based or numbers-based mechanism.[1] In the past, it was asserted that the revenues-based mechanism was in a "death spiral."[2] This view is supposedly grounded in concerns about the level of interstate revenues. *The facts show these concerns to be exaggerated.*

The National Association of State Utility Consumer Advocates (NASUCA)[3] seeks to bring the Committee's attention to the fact that interstate revenues as reported to the Commission have remained stable, as shown on the attached charts. The contribution base in the first quarter of 2006 (1Q06) is actually slightly higher than the contribution base from the first quarter of 1999 (1Q99), a period of seven years. The current level of $18.45 billion is only 12 percent less than the high of $20.96 billion in 4Q00 but is 12 percent higher than the low of $16.43 billion in 1Q05. Indeed, in the face of increasing USF need (as discussed below), the contribution factor has remained relatively stable over the last five quarters.

This means there is no pressing need—indeed, possibly no long-term need—for the Commission to adopt a contribution mechanism other than the current mechanism based on interstate and international revenues.

Some stakeholders argue that the revenue-based mechanism needs to be changed because, they allege, it is becoming more difficult to identify interstate traffic, given the increasing bundling of services. Again, the facts show otherwise. For example, carriers currently disaggregate their interstate and intrastate revenues for a variety of purposes, including the assessment of taxes and regulatory charges. And the "safe harbors" that the Commission has adopted for some services probably understate the current level of interstate traffic.

Some also argue that the move to Internet-based services threatens the traditional wireline long-distance revenue base, and requires movement to a connection-based mechanism. Yet the Commission has already asserted exclusive jurisdiction over these services; it is clearly within the Commission's ability and, moreover, entirely appropriate to require such services to make USF contributions.[4] Other means of increasing the revenue base were described in appendices to NASUCA's September 30, 2005 comments filed in the CC Docket No. 96–45.

Of course, the key task is to keep the draw on the Fund within reasonable levels. The Commission has many proposals before it to limit the growth in the fund; NASUCA's proposals in this regard were also presented in the September 30 comments.

Despite these facts, some continue to argue that the revenue-based mechanism needs to be replaced with a connections-based or a numbers-based mechanism. NASUCA continues to oppose these proposals because a connection-based mechanism inevitably shifts USF responsibility from those who use interstate services (as with the current revenue mechanism) to those who merely have access to the local network, regardless of their interstate usage, or even of their intrastate usage. This inevitably shifts the burden of supporting the entire USF and all the programs it contains onto lower use and lower income consumers. This shifting of burdens is not in the public interest.

Neither is it in the public interest that a connections-based mechanism allows carriers who provide interstate services but have no end-user connections to evade re-

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[1] See, e.g., February 1, 2006 ex parte presentation by CTIA—The Wireless Association®; remarks of Senator Ted Stevens to the National Association of Regulatory Commissioners (February 2006), *http://commerce.senate.gov/newsroom/printable.cfm?id=251507.*

[2] See CC Docket No. 96–45, Coalition for Sustainable Universal Service *ex parte* (November 14, 2001).

[3] NASUCA is a voluntary, national association of 45 consumer advocates in 42 states and the District of Columbia, organized in 1979. NASUCA's members are designated by the laws of their respective states to represent the interests of utility consumers before State and Federal regulators and in the courts. *See, e.g.*, Ohio Rev. Code Chapter 4911; 71 Pa. Cons. Stat. Ann. § 309–4(a); Md. Pub. Util. Code Ann. § 2–205(b); Minn. Stat. Ann. Subdiv. 6; D.C. Code Ann. § 34–804(d). Members operate independently from state utility commissions, as advocates primarily for residential ratepayers. Some NASUCA member offices are separately established advocate organizations while others are divisions of larger state agencies (*e.g.*, the state Attorney General's office). Associate and affiliate NASUCA members also serve utility consumers, but have not been created by state law or do not have statewide authority.

[4] *In the Matter of Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, CC Docket No. 02–33, Report and Order, FCC 05–150 (rel. September 23, 2005), ¶ ¶ 112–113. In that order, the Commission continued assessing digital subscriber line service until June 20, 2006. NASUCA urges the Commission to make that policy permanent, and also to assess other similar services. The Commission should not hesitate to assess these services despite the fact that they cannot currently receive funds from the Federal USF. Wireline interstate long-distance services are the traditional source for Universal Service funding, despite the fact that none of the USF benefits such services; nonetheless, they benefit from the ubiquitous network.

sponsibility for USF assessments.[5] These carriers—typically interexchange carriers—have traditionally been the source of USF contributions.

Many of those who predict doom for the revenue-based contribution mechanism do so not only because of the supposed threats to the contribution base—which, as noted, have not materialized—but because of the dangers of substantial increases to the USF itself. That is clearly part of the message of the Intercarrier Compensation Forum (ICF). ICF's original "solution" to the intercarrier compensation issue is to move to a system where carriers do not compensate each other for use of their networks (i.e., pure "bill-and-keep"). ICF proposes to make up all lost revenues resulting from the change through a combination of direct end-user rate increases and a huge increase in the USF. Skeptics might, therefore, view ICF's reliance on a connections-based mechanism as largely window dressing, reasonably thinking that massive changes to the mechanism will create enough confusion to hide the increase in the USF. As NASUCA has previously demonstrated, however, the revenue-based mechanism is actually more robust and equitable than a connection-based mechanism, especially where the needs of the Fund grow substantially.[6]

Those who support the transition from the current revenue-based mechanism to another mechanism do not discuss the costs of that transition,[7] which are certain to be substantial and are certain to result in demands by carriers seeking a mandatory pass-through of those costs. Those costs will be magnified, of course, if the transition period is brief.[8]

In considering all these facts, NASUCA supports the current revenue-based USF contribution mechanism. There are more gradual, less radical changes that will adequately preserve and advance the USF.

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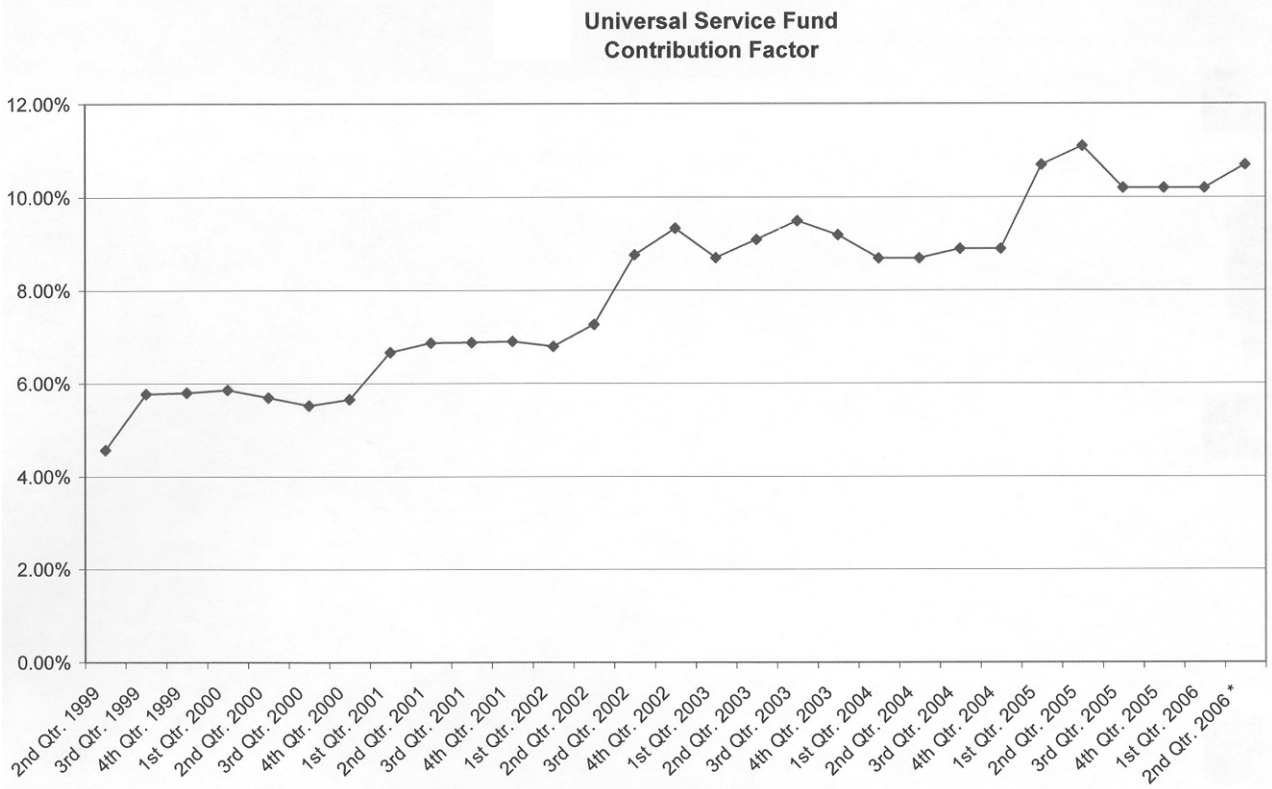
[5] 5 CTIA proposes a revenue mechanism for carriers that have no connections or numbers. CTIA February 1, 2005 ex parte at 7. Carriers will likely obtain *de minimis* numbers of connections in order to have their revenues exempt from assessment. And carriers are equally likely to take advantage of arbitrary definitions and assessments of connections. See id. at 5.

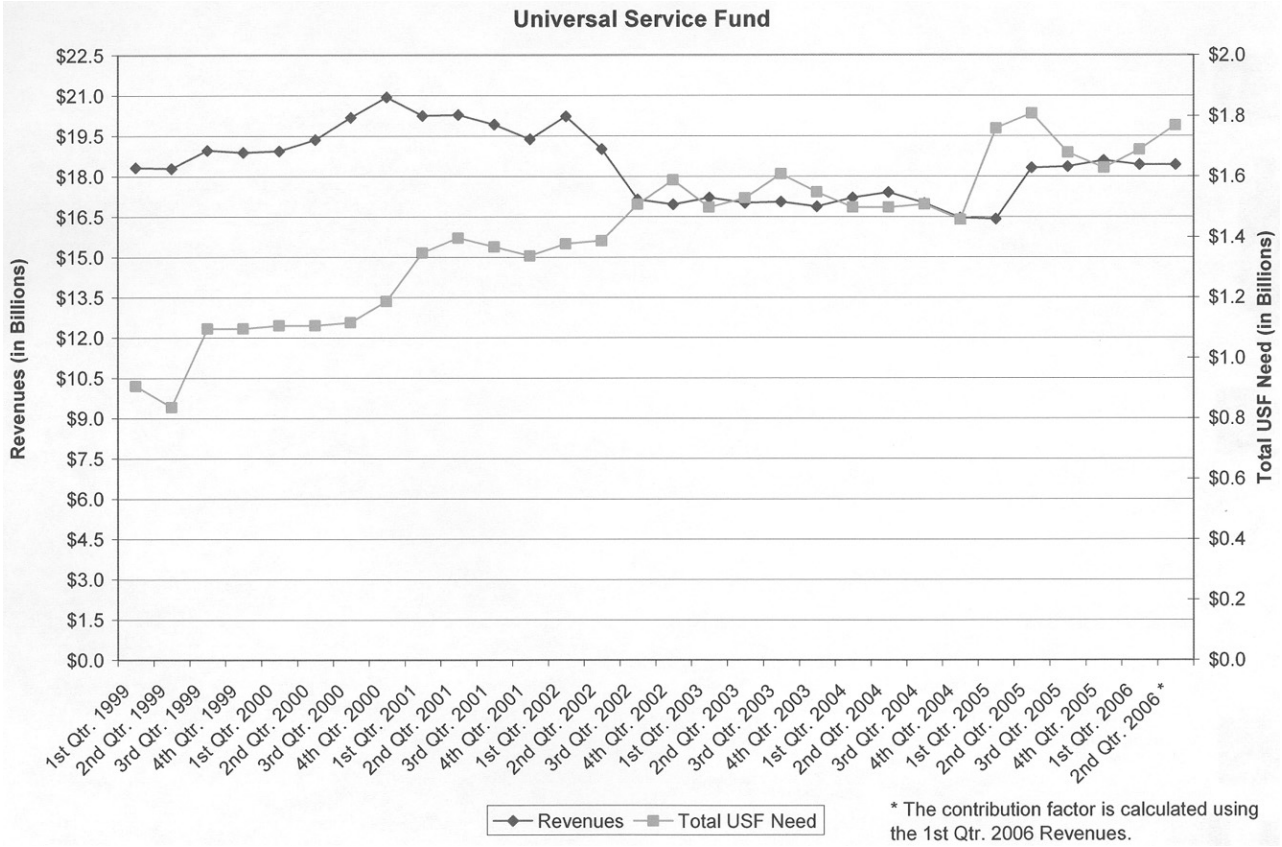
[6] CC Docket No. 96–45, et al., NASUCA Reply Comments on Staff Study (May 16, 2003) at 7–11. No party has, to NASUCA's knowledge, attempted to refute these findings.

[7] See CTIA February 2, 2006 ex parte.

[8] Id. at 7.



* The contribution factor is calculated using the 1st Qtr. 2006 Revenues.


Universal Service Fund
Revenues (in Billions)
Total USF Need (in Billions)
$22.5
$21.0
$19.5
$18.0
$16.5
$15.0
$13.5
$12.0
$10.5
$9.0
$7.5
$6.0
$4.5
$3.0
$1.5
$0.0
$2.0
$1.8
$1.6
$1.4
$1.2
$1.0
$0.8
$0.6
$0.4
$0.2
$0.0
1st Qtr. 1999
2nd Qtr. 1999
3rd Qtr. 1999
4th Qtr. 1999
1st Qtr. 2000
2nd Qtr. 2000
3rd Qtr. 2000
4th Qtr. 2000
1st Qtr. 2001
2nd Qtr. 2001
3rd Qtr. 2001
4th Qtr. 2001
1st Qtr. 2002
2nd Qtr. 2002
3rd Qtr. 2002
4th Qtr. 2002
1st Qtr. 2003
2nd Qtr. 2003
3rd Qtr. 2003
4th Qtr. 2003
1st Qtr. 2004
2nd Qtr. 2004
3rd Qtr. 2004
4th Qtr. 2004
1st Qtr. 2005
2nd Qtr. 2005
3rd Qtr. 2005
4th Qtr. 2005
1st Qtr. 2006
2nd Qtr. 2006 *
Revenues
Total USF Need
* The contribution factor is calculated using the 1st Qtr. 2006 Revenues.

USF Contribution Fund

	Revenues	Total USF Need	Contribution Factor
1st Qtr. 1999	18.35	0.91	0.050
2nd Qtr. 1999	18.31	0.84	0.046
3rd Qtr. 1999	18.99	1.10	0.058
4th Qtr. 1999	18.91	1.10	0.058
1st Qtr. 2000	18.96	1.11	0.059
2nd Qtr. 2000	19.38	1.11	0.057
3rd Qtr. 2000	20.20	1.12	0.055
4th Qtr. 2000	20.96	1.19	0.057
1st Qtr. 2001	20.26	1.35	0.067
2nd Qtr. 2001	20.30	1.40	0.069
3rd Qtr. 2001	19.94	1.37	0.069
4th Qtr. 2001	19.40	1.34	0.069
1st Qtr. 2002	20.25	1.38	0.068
2nd Qtr. 2002	19.03	1.39	0.073
3rd Qtr. 2002	17.16	1.51	0.088
4th Qtr. 2002	16.98	1.59	0.093
1st Qtr. 2003	17.23	1.50	0.087
2nd Qtr. 2003	17.03	1.53	0.091
3rd Qtr. 2003	17.07	1.61	0.095
4th Qtr. 2003	16.89	1.55	0.092
1st Qtr. 2004	17.22	1.50	0.087
2nd Qtr. 2004	17.42	1.50	0.087
3rd Qtr. 2004	17.02	1.51	0.089
4th Qtr. 2004	16.47	1.46	0.089
1st Qtr. 2005	16.43	1.76	0.107
2nd Qtr. 2005	18.33	1.81	0.111
3rd Qtr. 2005	18.37	1.68	0.102
4th Qtr. 2005	18.61	1.63	0.102
1st Qtr. 2006	18.45	1.69	0.102
2nd Qtr. 2006*	18.45	1.77	0.107

Source: Contribution Factor Public Notices.
Note—For the fourth quarter of 2005, because of the impact of Hurricane Katrina, the FCC adjusted the contribution base to $17.87 billion to maintain the contribution factor at 10.2 percent.
*The contribution factor is calculated using the 1st Qtr. 2006 Revenues.

PREPARED STATEMENT OF THE IDT CORPORATION (IDT)

IDT Corporation (IDT), a $2.5 billion company, is a significant contributor to the Universal Service Fund (USF) and provides a wide variety of services that could be impacted by Universal Service reform. IDT provides prepaid calling cards; prepaid wireless cards; local and long-distance phone service; Voice over the Internet Protocol (VoIP) service through its Net2Phone subsidiary; and wholesale "carrier's carrier" services. IDT is headquartered in Newark, New Jersey and is led by its Vice Chairman and CEO, Jim Courter, a former U.S. Congressman from New Jersey.

IDT is pleased to provide the following comments to the Committee as it considers reforms to the contribution methodology to support the USF.

1. IDT Supports the USF and the Effort to Ensure That Basic Telephone Service Is Affordable for all Americans

Telephone consumers benefit from being able to call their family, friends, and business associates all across the country and around the world. The more people that are connected to the public-switched telephone network, the greater the value to every other telephone consumer. Consumers of prepaid calling cards such as those provided by IDT, benefit from universal connectivity just as much as other users of the telephone network. IDT pays millions of dollars every year into the USF to help make basic telephone service affordable for all Americans.

2. IDT is Concerned That the Current Revenue-Based Mechanism Is Not Sustainable and That, as a Result, the Future of the USF Is In Jeopardy

Currently, USF contributions are collected from carriers based on their retail, interstate telecommunications revenues. According to the March, 2005 report of the Congressional Budget Office (CBO), the base of retail, interstate telecommunications

services revenue peaked at $80.6 billion in 2000 and declined to $76.3 billion in 2004.[1] There are many causes for this:

Long distance telecommunications prices have fallen over the past few years, due to competitive pressures and Federal and state reductions in access charges. Some customers are replacing or reducing their use of traditional telephone services with VoIP services, which are not currently classified as telecommunications services. Furthermore, the FCC has re-classified several services from "telecommunications services" to "information services."

At the same time that the base of funding has decreased, the size of the Universal Service Fund increased from $3.7 billion in 1999 to $6.4 billion in 2004, primarily because of increases in the high-cost fund.

As a result of a declining base of revenues and the increasing needs of the fund, the percentage fee assessed on interstate telecommunications revenue has increased from 3 percent in 1999 to its current rate of 10.2 percent[2] This percentage is likely to increase further in the future, as the base of funding continues to decline and the demands on the Fund continue to increase.

IDT is concerned that, if these trends continue, the sustainability of the Universal Service Fund will be put in jeopardy. Carriers collect these Universal Service fees from their customers with an identifiable line item on the telephone bill. Consumers are likely to become increasingly concerned about the size of this surcharge on their telephone bills and may question the legitimacy of the entire Universal Service program. This public outcry would be unfortunate given the many benefits that the USF provides.

3. The Current Method of Collection Universal Service Support Based on Interstate Telecommunications Revenues Distorts the Marketplace, Creates Inequities Among Carriers, Harms Economic Growth and Causes Harm to Consumers

There are many other problems with the revenue-based approach:

a. *Effect on the Market:* The revenue-based collection mechanism creates inefficiencies in the marketplace. It skews business decisions toward services that do not directly contribute to the USF, such as VoIP services. This disparity in treatment discourages investment that might otherwise be economic and beneficial to consumers. Furthermore, revenue-based assessments are extremely complicated to administer because carriers must attempt to segregate their traffic into separate "buckets" (interstate vs. intrastate: retail vs. carrier; telecommunications vs. information services). As carriers increasingly offer "all-you-can-eat" pricing plans, these distinctions are irrelevant and artificial. This methodology is also inconsistent with industry accounting practices: it is difficult for firms to quantify precisely how much revenue should be placed into each category. It also creates both risks of possible manipulation and arbitrage on the one hand, and on the other, of imposing devastating liabilities on companies that have made good-faith attempts to classify services correctly.

b. *Effect on Consumers:* The current revenue-based fee is harmful to consumers. First, because the fee is based on interstate telecommunications revenues, it discourages consumers from making long-distance (i.e. interstate) phone calls. This inhibits the social interaction and communication that brings our Nation closer together. Second, as telecom service providers increasingly bundle local and long-distance, intra- and interstate, and telecommunications and information services into one charge, it is extremely difficult for consumers to know in advance which services they use will be subjected to a USF fee and which will not.

c. *Effect on the National Economy:* Revenue assessments send the wrong economic message by discouraging consumers from making phone calls, resulting in a welfare loss to society as a whole. The recent CBO report noted that, according to one estimate, USF fees cost the economy an additional $0.64 to $1.47 for each dollar collected. This drag on telephone usage becomes even larger as the contribution factor continues to increase (as it likely will).

4. FCC Chairman Martin's Plan to Replace the Current Revenue-Based System of Collecting Universal Service Subsidies With a System Based on Telephone Numbers, or Connections, Will Solve Many of These Problems

In contrast to the revenue-based mechanism, collecting USF funds based on telephone numbers or connections will ensure the sustainability of the Universal Serv-

[1] Financing Universal Telephone Service, a CBO Paper, March 2005, Summary Table 2. p. ix.

[2] FCC Public Notice, December 15, 2005, DA 05–3203, available at *http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA–05–3203A1.pdf.*

ice fund, ease the burden on consumers, and promote equity among competing telecommunications providers.

a. Most consumers will pay less under a numbers-based collection plan than under a revenue-based system. Under the leading proposal submitted to the FCC, a numbers-based collection method would require a charge of only about $1 per month per telephone number. This flat monthly fee would replace the current 10 percent surcharge on interstate revenues. Currently, every consumer pays a monthly "Subscriber Line Charge" of $6.50, which is considered an interstate service subject to the 10 percent surcharge. Thus, consumers who make absolutely no long-distance phone calls still pay a charge of $.65 on their monthly phone bill today. The number-based fee would replace this $.65 charge with a $1 charge. Thus, any consumer who currently places more than $3.50 of interstate phone calls per month will see a net reduction in their telephone bills.

Those who claim that a numbers-based fee will harm low-income American consumers are simply mistaken. First, under the leading proposal submitted to the FCC, low-income consumers would be completely exempt from the $1 fee. Second, as stated above, any consumer that makes more than $3.50 in interstate calls will enjoy a rate decrease. As interstate revenues continue their decline, causing the contribution factor to rise, more and more consumers will benefit from shifting away from revenue-based to a numbers-based system. Furthermore, the number of telephone numbers in use is increasing, which means that the flat charge under a number-based fee may decrease below $1 in the future. Finally, prepaid calling card providers such as IDT provide service to tens of millions of immigrants and low-income consumers who would benefit greatly from a numbers or connections-based plan.

b. A flat monthly per-number or per-connection fee does not distort the market or create anticompetitive inequities.

A revenue-based fee gives industry incentives to bypass the fee by switching to VoIP or other non-telecommunications services. In contrast, a flat monthly fee is easier to administer and levels the playing field for all telecommunications service providers. Once a consumer is connected to the public-switched telephone network, he or she may use that connection for telecommunications services, VoIP services, video services or any other uses without worrying about whether one use will trigger an additional fee. This makes it simpler for consumers and removes any artificial advantages that one service enjoys over another.

c. There is no evidence that telephone numbers will be replaced anytime in the near future.

Although some have suggested that telephone numbers will be disappearing in the near future, there is no evidence to suggest that is the case. The North American Numbering Plan Administration (NANPA) predicts that area codes are likely to be exhausted around the year 2035, indicating that the numbers of allocated telephone numbers will continue to increase in the future.[3] Even if some consumers use the Internet or other means to place telephone calls, this is more likely to supplement the basic telephone number scheme and not replace it. Every consumer will likely retain their existing telephone number in order to communicate with those people who do not have access to computers or the Internet.

5. In General, any Company That Is Required to Contribute to the USF Should Also Be Eligible to Withdraw From the Fund if it Is Serving Universal Service Goals

Later this week, the Committee is scheduled to convene a hearing on USF Distributions. IDT would like to take this opportunity to point out one anomaly in the distribution process. The FCC's programs for low-income consumers do not currently allow calling card providers to receive Universal Service payments, even though calling cards serve the same social goals. Because IDT's calling cards provide very affordable rates, IDT's principal customers tend to be low-income persons, including many ethnic minorities. IDT's cards often provide these consumers with their only means of placing telephone calls. Enabling calling cards to participate in the low-income programs would foster increased access to the telephone network for this underserved segment of the U.S. population. As it addresses Universal Service reform, Congress should consider reforming the low-income provisions to give recipients a choice of applying some or all of their Universal Service benefits to calling cards.

6. Conclusion

The Universal Service program is tremendously important to ensuring that every American is connected to the public-switched telephone network. The communications marketplace is shifting and the current Universal Service subsidy mechanism

[3] *See, http://www.nanpa.com/pdf/NRUF/October_2005*_NANP_Exhaust_Analysis.pdf.

is simply not sustainable. We believe a numbers-based or connections-based program, as proposed by FCC Chairman Martin, is the best option available to preserve the viability of the Universal Service program, to reduce the burden on consumers, and promote equity among providers.

PREPARED STATEMENT OF F.J. POLLAK, PRESIDENT/CEO, TRACFONE WIRELESS, INC.

My name is F.J. Pollak. I am President and Chief Executive Officer of TracFone Wireless, Inc. TracFone is headquartered in Miami, Florida. With more than 6 million customers, TracFone is the Nation's leading provider of prepaid wireless telecommunications services. Since its inception in 1996, TracFone has been able to grow its business to over 6 million customers by focusing on a segment of the wireless marketplace largely ignored by other wireless companies. Specifically, TracFone's service is directed mainly to low volume, often low-income, consumers. TracFone offers a "pay-as-you-go" service. There are no duration or volume commitments, no early termination penalties, no advance deposits; no credit checks. TracFone's customers pay only for the wireless service they need, when they need it. For many TracFone customers, wireless telephone service would otherwise be unavailable or, if available, would be unaffordable.

As a provider of interstate telecommunications services, TracFone is required to contribute to the Federal Universal Service Fund (USF). Although TracFone contributes to the USF based on its actual interstate revenues, it has no means for recovering its USF contribution costs from consumers in the form of billed surcharges. Unlike traditional providers of post-paid wireline and wireless services, prepaid providers do not send monthly invoices and therefore, cannot add Federal Universal Service Fund surcharges as line items on customer bills.

TracFone believes that the current USF contribution methodology based on interstate revenues is fair to all and is consistent with the legal requirements of the Communications Act. To the extent that there are concerns about the ability of the revenues-based system to provide sufficient support for the USF, TracFone believes that certain adjustments could significantly increase the level of USF funding. Specifically, there no longer is any need for a wireless safe harbor as all wireless providers are able to identify which of their usage is interstate. In addition, TracFone believes that Internet-based telephone calling services (often called Voice over the Internet Protocol or "VoIP") should be required to contribute to the USF based on their interstate revenues in the same manner as do the traditional circuit-switched telephone services which consumers correctly perceive as competitive substitutes. Also, the law empowers the FCC to impose USF contribution obligations on others who provide services which use interstate telecommunications including, for example, broadband Internet access services. TracFone believes that the contribution base could be expanded to include those services with no reduction in demand for those services.

A contribution methodology based on working telephone numbers would significantly and unnecessarily increase the costs of service for low volume low-income consumers. Today, based on its actual interstate revenues, TracFone remits to the USF about $0.06 per customer per month. While this may seem like a small amount, TracFone's average revenue per user is only $14 per month as compared with the wireless industry average of about $56. Moreover, TracFone customers, like most prepaid wireless customers, make few interstate calls. Therefore, almost all of its customers' $14 average revenue is derived from intrastate and local service—services which, by law, may not be subject to assessment for the Federal USF.

If the FCC were to implement a numbers-based contribution methodology and the initial per number charge were to be set at $1 per month, TracFone's per customer USF contribution would increase from $0.06 to $1—more than a 1,600 percent increase, or approximately $70 million more per year based on TracFone's 12/31/05 customer base of $6.1 million. Since TracFone's customer base has grown rapidly (by over 1 million in the fourth quarter of 2005), future increases under a numbers-based plan would be much greater. TracFone either would have to absorb the entirety of these increases from its operating revenues or it would have to raise its rates to recover the additional amount since it has no means to impose a monthly per number USF surcharge on its customers, none of whom receive bills for their prepaid services.

In short, a numbers-based contribution plan would not work for certain types of telecom providers, including prepaid wireless providers. Not only are those companies' services not billed, those companies do not provide service on a monthly basis. Some consumers make multiple purchases of prepaid airtime in a month; other consumers may go several months or more without making any purchases.

Consumer groups have recognized that a numbers-based plan would dramatically increase the costs of the USF borne by low-income low volume consumers. That is why a coalition of such groups called the Keep USF Fair Coalition has opposed the implementation of a numbers-based contribution proposal at the FCC. In a report released February 27, 2006 entitled "Exposing the Hoax: The Phony 'Crisis' of the Universal Service Fund," the Keep USF Fair Coalition articulated the view that a flat per-working telephone number tax would significantly increase the monthly telecommunications costs for low volume consumers and would force many low-income consumers to drop their telephone service. The Coalition report also demonstrated that abandonment of a revenues-based system in favor of a numbers tax is not necessary, pointing out that the contribution base has been stable and that available data demonstrate that there will not be a sharp decline in interstate telecommunications revenues.

Moreover, the potentially devastating impact of a regressive numbers tax to finance Universal Service is not limited to residential consumers. Many so-called "enterprise" customers—users of large quantities of telephone numbers—would also be hit hard by a numbers tax. One prominent example of such users is the higher education community. Recently, the FCC has heard from numerous colleges and universities, large and small, about how their telecom costs will increase dramatically if a per number tax is implemented. For example, Harvard University estimates that its annual USF contributions would increase from $70,000 to $400,000; Rice University anticipates monthly increases from $400 to $10,000; Southern Illinois estimates that its annual USF fees would increase from $12,000 to more than $200,000 per year; Calvin College, a small liberal arts college in Michigan, would have its monthly USF costs skyrocket from $700 to over $11,000. The list goes on.

These institutions differ from each other in many respects. However, the ability of each institution to provide telecommunications services to its students and faculty would be undermined by the FCC numbers tax proposal. Several (including Harvard) even report that their ability to provide E–911 access for their students would be jeopardized. Given the high priority which the FCC properly has placed in E–911 access, it would be a sad and cruel irony if the FCC's numbers tax had the perverse impact of limiting E–911 access for students residing on college campuses throughout the country.

There is another problem with a numbers tax. Typically, telephone numbers are provided as part of local telecommunications service. Many customers of wireline and wireless telephone service make few, if any, interstate calls. Yet the FCC's proposed monthly numbers tax to finance the Federal Universal Service Fund would be imposed on such customers without regard to whether consumers derived any interstate usage whatsoever in any given month. Imposition of USF funding obligations on such consumers was not what Congress had in mind in enacting Section 254 of the Communications Act; nor would it be sound public policy to require that consumers who use little, if any, interstate service, to bear a large—and increasing—share of underwriting the USF.

If the FCC adopts a numbers tax to fund Universal Service, it will be necessary for it to provide alternative contribution mechanisms for certain types of carriers. Many providers of interstate telecommunications service do not provide customers with working telephone numbers as part of their service offerings. Since the law requires that "every" provider of interstate telecommunications service must contribute to the USF, there must be a mechanism appropriate for all carriers.

TracFone recommends that those interstate telecommunications service providers who are unable to recover their USF contributions through billed charges to their customers be allowed to continue to have their contributions based on their interstate revenues. Alternatively, in order to prevent pricing their services beyond the reach of the low volume, low-income users they serve, TracFone suggests that those carriers' USF contributions under any methodology be capped at the levels of their contributions under the current revenues-based methodology.

Finally, TracFone reminds the Committee that another component of the efforts to ensure that USF contributions not unduly burden the provision of telecommunications services is to demand that the fund's growth be limited and carefully managed. TracFone urges the Committee to continue to encourage the FCC to protect against waste, fraud and abuse, and other sources unintended and avoidable growth of the USF. Congress and the FCC must enact and implement requirements and procedures which limit availability of USF support to those who truly need the support and which ensure that the funds are disbursed in an efficient and targeted manner, with safeguards to prevent waste, fraud and abuse. Implementation of such requirements and procedures will ensure that there will be a sufficient USF in the future without the need for disruptive and inequitable numbers taxes imposed on

consumers and on those enterprise customers, including colleges and universities and health care institutions, which utilize large quantities of phone numbers.

PREPARED STATEMENT OF SCOTT TURICCHI, PRESIDENT/CHIEF FINANCIAL OFFICER, J2 GLOBAL COMMUNICATIONS, INC.

Mr. Chairman and distinguished Members of the Committee, thank you for the opportunity to submit this written statement for today's hearing on Universal Service Fund (USF) contributions.

My name is Scott Turicchi, and I am President and Chief Financial Officer of j2 Global Communications, Inc., www.j2global.com.

Summary

j2 Global supports broadening the USF funding base under the existing revenues-based model to include every conceivable kind and type of communications service. Under an expanded revenues-based contribution methodology, those who consume more communications services—by whatever means—will tend to shoulder a greater share of Universal Service funding. The expanded revenues-based model will bolster the Fund over the long-term as use of communications services grows with economic expansion and technological improvements. At the same time, the expanded revenues-based model fairly treats those who make minimal use of telecommunications services—including the poor and elderly.

A flat monthly fee on every issued telephone number or connection, in contrast, is both regressive and ineffective. A flat fee does not account for a consumer's degree of use and thus penalizes those who use communications services the least—while subsidizing those who use them the most. Moreover, consumers unwilling to pay the flat fee will inevitably turn back their lightly-used, but overtaxed, numbers to the numbering pool—thereby threatening the long-term viability of the USF through a downward spiral of returned numbers, followed by rate increases, followed by more returned numbers, and so on.

With respect to j2 Global, a numbers-based or connections-based model will force j2 Global to discontinue the advertising-supported, "free" fax and voice-mail services enjoyed by its almost ten million U.S. customers—resulting in the loss of a valued service without any corresponding benefit to the fund. Put more bluntly, advocates of the numbers-based approach should reduce their USF funding estimate calculation by upwards of $100 million per year to account just for the loss of a substantial portion of the approximately ten million numbers used by j2 Global's free customers.

Large firms and institutions that currently hold unused numbers in reserve will undoubtedly join that movement to save costs, resulting in the loss of millions more numbers subject to the USF fee and hundreds of millions of dollars annually to the fund.

In the event Congress either requires or allows the FCC to implement a telephone numbers-based or connections-based mechanism to fund the USF, it should exempt numbers not used for real-time voice communications, numbers used exclusively for fax, voice-mail and other non-real-time services, and numbers employed in services provided at nominal or no cost to subscribers.

Who We Are

j2 Global provides business-critical communications and messaging services through its global communications network to more than 11 million customers worldwide, including approximately ten million customers in the United States.

Headquartered in Los Angeles, with smaller offices in Santa Barbara and San Diego, California, and Glencoe, Illinois, our company is publicly traded on NASDAQ (symbol: JCOM) and has had 16 consecutive quarters of positive and growing earnings. Our market capitalization was more than $1 billion as of February 21, 2006.

We help our clients efficiently and effectively manage their fax needs by providing a service (eFax®) that delivers incoming faxes to the subscriber's personal e-mail InBox. In addition to increased convenience and lower costs (as compared with traditional methods of faxing), our service also significantly increases the security and privacy of the customer's fax environment. As a result, companies are also using our service to meet their regulatory compliance needs under, for example, Gramm-Leach-Bliley, Sarbanes-Oxley, and HIPAA, by providing a digital record of their fax messaging. For those customers who would also like to receive their voicemail messages via e-mail, we offer a combined fax-and-voicemail-to-e-mail solution.

j2 Global's customers range from individuals, to small and mid-sized businesses, to large enterprises, government agencies, and nonprofits. The Federal Reserve Bank, several Fortune 500 companies including GE and Ford, major national and regional law, accounting, and consulting firms, as well as local real estate agents

and self-employed entrepreneurs, have all come to rely on our integrated messaging services.

Though almost all of j2 Global's revenue comes from subscription fees charged to our paying customers who use more than 750,000 phone numbers, we also offer a free service to almost ten million U.S. subscribers. Our "free" customers receive a telephone number that provides delivery of a limited number of faxes, or faxes and voicemails, to the subscriber's personal e-mail InBox. j2 Global obtains these telephone numbers from local exchange carriers. The carriers pay a percentage of their interstate end-user revenues to the Universal Service Fund. On a quarterly basis, this percentage, also known as the contribution factor, increases or decreases depending on the needs of the Universal Service programs. j2 Global has devised and administers a set of applications that the public finds desirable and the applications, in turn, lead to greater use of the telephone network and thus to larger usage-based USF payments. We recover the operational costs of this free service primarily through advertising, which we deliver to the free customers as a condition of their service. We do not have a direct billing relationship with our free customers, and we do not make much if any money from them while they maintain their free status.

The USF Contribution Issue

j2 Global agrees with Chairman Stevens that "the current contribution mechanism of assessing only interstate revenue is broken and needs reform" ("Stevens Promotes Internet Subsidy," *Fairbanks Daily News*, Feb. 14, 2006). Rapid change in the telecommunications marketplace (e-mail, wireless, VoIP, broadband services) is slowly eroding the traditional USF financing base. We and our customers benefit from a strong telecommunications infrastructure. This Committee has led the way in ensuring that a vibrant USF is one of that infrastructure's vital components.

The Committee has at least three bills pending before it that address the USF contribution challenge—S. 1583 by Senators Smith, Dorgan and Pryor, S. 2113 by Senators DeMint and Ensign, and S. 2256 by Senator Burns. We share Chairman Stevens' and Ranking Member Inouye's goal that the Committee fashion a bipartisan, consensus approach that draws upon the best elements of the three bills, the views expressed at these hearings, and the subsequent deliberations among the Senators.

One of the ideas under consideration for USF financing is to impose a flat monthly fee on every issued telephone number in the U.S.—regardless of how or how often the number is used. This flat fee is a very poor solution to the challenge of finding new USF funding sources. It is indeed the *least* equitable of the several ideas under consideration to address this challenge and only worsens the current policy challenges facing USF financing.

A USF fee based on telephone numbers or connections has three key inherent weaknesses—

1. It fails to reflect customers' relative degrees of use and reliance on the telephone network, and is a regressive approach that unfairly burdens those least able to absorb the cost. A senior citizen on a fixed income who makes only a few calls per day and a profitable business that makes hundreds of calls per day would pay the same amount.

2. With demands for USF funding growing, the projected $1 per month fee may prove inadequate. Each fee increase will accelerate the return of numbers to the number pool and endanger the long-term viability of the USF fund—which is, after all, the overarching goal of the legislation under consideration.

3. Carriers, large companies, universities, charities, and other institutions often have more numbers than they actually use at any given time to facilitate growth and seasonal fluctuations. A numbers-based mechanism—at the margin—likely will cause these customers to drop unused or lightly used numbers, resulting in an increased fee well beyond $1 per month per phone number—a mere projection based on the volume of numbers currently assigned. This will in turn further accelerate the return of unused and lightly used numbers. For this reason, we view a numbers-based approach as inviting a downward spiral that will ultimately destroy the USF itself by provoking ever-increasing public outrage over an ever-increasing USF fee on customers' telephone bills.

With respect to j2 Global, a numbers-based or connections-based USF fee would force us to discontinue our advertising-supported, free limited service to nearly ten million Americans who now use it. Our discontinuation alone would reduce the amount anticipated for the USF fund by up to $100 million per year—assuming $1 per month per telephone. As noted above, we would expect others with large inven-

tories of lightly used or unused telephone numbers to make similar business decisions—thereby undermining the USF.

Admittedly, the existing revenues-based model for financing USF has its own challenges and complications, as evidenced by the FCC's difficult deliberations over the past several years. However, its benefits include a built-in amount of flexibility to alter the contribution factor four times per year in order to adjust for fluctuations in demand for Universal Service programs. A numbers-based system, on the other hand, may limit the Fund's ability to respond to consumer needs. In addition, the FCC made good progress in shoring up the USF in its December 2002 Order modifying carrier assessments and raising the interstate safe harbor for wireless carriers, despite the limitations on its authority under current law (*Federal-State Joint Board on Universal Service,* Report and Order, CC Docket No. 96–45, 17 FCC Rcd 24952 (2002)).

We ask that Congress approve legislation that will give the FCC the necessary tools to find a long-term solution to the USF financing challenge consistent with the Commission's long experience and deep expertise with the revenues-based mechanism. Congress should not allow the Commission to adopt a sudden, radical change in policy to a numbers-based mechanism that would almost certainly result in unforeseen consequences for consumers and industry participants that could undermine the USF. An expanded contribution base applicable to all types and kinds of communications services (intrastate and international long-distance, cable, broadband, VoIP, etc.) would permit the FCC to fashion a modern revenues-based model that adequately funds the USF, imposes a relatively light cost burden on various communications services in a growing marketplace, accounts for technological change, and treats American consumers fairly depending on their degree of use.

Much of the services offered by j2 Global are interstate long-distance in nature and thus now generate revenue for the USF under the current financing mechanism, though we are not a carrier and thus do not pay directly into the fund. We recognize that some of our services do not currently generate revenue for the fund, most notably intrastate long-distance fax transmissions and voicemail messages and the increasing amount of our traffic carried by broadband. Still, we have no objection to Congress enlarging the USF financing base with a modernized revenues-driven contribution mechanism under which all consumers of all communications services pay their fair share.

Turning to the specifics of the legislation before the Committee, we agree with the approach in Senator Burns' bill that the USF funding mechanism "should be equitable, nondiscriminatory, competitively neutral, and ensure affordable communications for all Americans" and that the contributions "be applied as broadly as possible to all types of providers" and be "competitively and technologically neutral" (S. 2256, sec. 2(a)(7), page 3, lines 7–10, sec. 5(a), page 15, lines 14–23). We also support the language in the Smith-Dorgan-Pryor bill that the USF funding mechanism, among other things, should "take[] into account the impact on low volume users, and proportionately assess[] high volume users, through a capacity analysis or some other means" (S. 1583, section 3(b)(2)(C), page 4, lines 18–21). While we disagree with the provision in the DeMint-Ensign bill that the USF mechanism should be "based upon the assignment of numbers in the North American Numbering Plan or any successor methodology," we appreciate the bill's recognition of a "discounted contribution rate for paging services" and believe that the rationale for this discount (or for an exemption) should extend to fax and voice-mail services. (S. 2113, section 304(a)(2), page 23, lines 4–6, section 304(b)(2), lines 13–15).

Although the USF contribution issue is undoubtedly complex, and under any approach the FCC inevitably will have much discretion, the Congress must provide the FCC with firm parameters to ensure that the FCC adheres to the goals of equity, nondiscrimination, competition, and affordable communications that we anticipate will be in the final legislative product. We do not believe that a numbers-based approach can be consistent with these overriding goals—and Congress should either prohibit the FCC from adopting a numbers-based approach outright, or at a minimum allow it to be adopted only with exemptions for numbers not used for real-time voice communications, numbers used exclusively for fax, voice-mail and other non-real time services, and numbers employed in services provided at nominal or no cost to subscribers. These exemptions necessarily flow from the anticipated overriding goals of the legislation.

Thank you again for the opportunity to submit this testimony, and we look forward to working with this Committee as it develops USF legislation. I welcome the opportunity to answer questions.

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