



Statement by
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On behalf of the
Coalition to Keep America Connected

Before the
United States Senate Committee on Commerce, Science and Transportation
“Universal Service Distributions”

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Good afternoon. I am Shirley Bloomfield, Vice President of Government Affairs and Association Services for the National Telecommunications Cooperative Association. I am here today to testify on behalf of the Coalition to Keep America Connected. We thank you for the opportunity to testify before you.

The Coalition to Keep America Connected effort is organized by The Independent Telephone & Telecommunications Alliance, the National Telecommunications Cooperative Association, the Organization for the Promotion and Advancement of Small Telecommunications Companies and the Western Telecommunications Alliance, whose memberships include more than 700 small and midsize communications companies. Together these companies serve millions of consumers and 40% of the landmass across America.

Our Mission is dedicated to ensuring that all consumers have access to affordable telecommunications services and the latest technologies - no matter where they live. We are guided by three main principles. They are: Fairness, Affordability and Access. Fairness means that urban, suburban and rural consumers alike deserve to stay connected to their families, friends and the world through communications technologies. Affordability means that technology is only useful when it's affordable to consumers. Congress must ensure that all Americans can receive communications technologies at affordable prices. Lastly, access means that every American should have access to the latest, modern technologies, no matter where they live.

Universal Service has remained the cornerstone of our nation's telecommunications policy for more than six decades, ensuring that we enjoy the benefits of a nationwide integrated communications network. The Universal Service Fund is an essential element to ensure the fairness, affordability and access I just described. In addition, the nation's economic and national security insists that this policy be preserved.

Today, the program emphasizes an assurance that necessary cost recovery is available to those that make the commitment to serve the nation's most economically challenging markets. Policymakers must understand that this is the key to building the nationwide network that has guaranteed all Americans the ability to enjoy an unprecedented era of access to information.

The Coalition has come up with four main principles that we feel should guide future policy on the distribution side of universal service. They are:

1. Support must be used to construct, maintain and upgrade networks to benefit all consumers and must not be voucher, auction, or block grant based.
2. Support must be based upon a provider's actual cost of service.
3. Support must not be used to artificially incite competition.
4. The rural and non-rural fund distinctions must be maintained.

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In the infancy of the telephone industry large monopoly companies realized it was not economically feasible to serve much of rural America due to low population density, relatively isolated and often rugged terrain. Thus, they did not build networks serving rural America. As a nation, we quickly realized the economic burdens of serving rural and high cost areas with vital telecommunications services. As a result, the nation stood behind the idea of universal service bringing comparable services and comparable rates to all Americans no matter where they live. Due to this highly successful policy, over 1,000 small, community-based telecom providers prospered in rural America to serve the telecommunications needs of their communities. Without the national commitment to universal service, these networks would not have been built.

Policymakers must understand that universal service support is for the deployment, maintenance and upgrading of communication networks. Communications providers do not build networks one connection at a time. Rather, networks require substantial financial investment and are built to be scaleable and expandable to meet future consumer demands for new technologies and services. Regulations that force carriers to build and maintain networks one connection at a time ignore real-world economics and will create vast inefficiencies and increased costs to all consumers. Voucher, auction, and block grant based universal service support will never work.

These alternatives do not take into account the capital intensive nature of the telecommunications industry. Network deployment is only the beginning. Continual investment in network maintenance and upgrades must be done to remain competitive and these alternatives do not meet the long-term business planning needs of community based providers. Support must be predicible, stable and long-term to encourage necessary investment to meet the communications needs of our nation. The current industry funded mechanism that we have in place today can continue to meet the needs of the industry so long as a few glaring FCC regulations are modified to assure these funds are put to the best use.

Let me clarify that today, support from the universal service fund has a direct correlation to a particular carriers network investment and the cost of providing that service. This cost based system has proven to work efficiently and effectively for over six decades. We believe this framework generally can help us to achieve the same successful penetration and adoption rates in broadband services that we have seen in traditional voice service. Policymakers must keep in mind the purpose of universal service is to help alleviate the burdens of building networks in high cost areas.

Support must be based upon a provider's actual cost of service

Requiring all universal service fund recipients to receive support based on their own costs will increase program accountability as well as reduce demand for funds. Currently, a

competitive carrier entering an ILEC territory receives support based on the incumbents cost. Requiring each universal service recipient to document its cost will greatly improve program accountability and ensure that funds are being used for their intended purpose.

The vast majority of growth in universal service is due to competitive eligible telecommunications carriers (ETCs). Universal service support to competitive ETCs grew by over 115% in the last year. During this same period ILEC support grew by only 0.6%. As a percentage of the overall fund, CETCs accounted for approximately 0% of all universal service funds in 2000¹. At the end of 2005, their distributions have skyrocketed to more than 18% of the total fund. This may seem like a small percentage, but if left unchecked the fund will become insolvent.

Support must not be used to artificially incite competition

Many rural areas in our nation can't support more than one gas station, grocery store or other commodity service let alone multiple communications providers. While rural carriers welcome competition in areas that can support it, universal service should not be used to artificially incite competition in areas it would otherwise not occur. Tightening of the ETC requirements will help ensure that universal service monies support the intended goal of guaranteeing all Americans have access to comparable services at rates comparable to those in urban areas.

When deciding to grant ETC status the following qualifications must be met: (1) the designation must ensure ubiquitous comparable rates and services (2) the designee must actually serve the entire ILEC market area (3) the benefits of the designation must not outweigh the burdens on the funds (4) the designee must demonstrate its actual costs (5) the designation must not cause excessive market support (6) the designee must agree to quality-of-service and other standards (7) the funds must not incite unnecessary artificial competition.

The rural and non-rural fund distinctions must be maintained

Separate funds allow the FCC to specifically tailor rural high cost support mechanisms to fit the conditions of rural local exchange carriers serving high cost areas in rural America. Many rural carriers lack population density, serve smaller exchanges and lack the economies of scale of larger urban centric carriers.

In the 1996 Act, Congress wisely established a definition of a "rural telephone company" and included special provisions, including ones related to universal service, that recognize the unique characteristics of these carriers. Requiring separate high-cost support mechanisms for rural and non-rural carriers would ensure that the FCC continues to recognize the significant differences between small rural carriers and large, urban carriers and ensure that the support rural carriers receive is sufficient to achieve the goals

¹ Wireless Communications and Universal Service by Bob Rowe, Senior Partner, Balhoff & Rowe, LLC @ Columbia Institute for Tele-Information. Slide 12.

of universal service. Clearly, the amount of support needed for a huge carrier with millions of lines and serving primarily metro areas to adequately serve their rural territories would not at all be sufficient for a rural telephone company, with no low-cost metro areas, to continue to achieve universal service and bring advanced services to their communities.

Conclusion

I would be remiss to not point out that our thoughts on universal service distribution are dependant upon some key changes to the contribution side of universal service. The coalition believes the following steps need to be taken to bring contributions in line with the realities of today's communications marketplace.

- The base of contributors must be expanded to include all providers utilizing the underlying infrastructure, including but not limited to all providers of 2-way communications regardless of technology used.
- Support shall be made available for the cost recovery needs of carriers deploying broadband capable infrastructure.
- The contribution methodology must be assessed on all revenues or a revenues hybrid that ensures equitable and nondiscriminatory participation.
- The regulatory authority to modify the scope of contribution obligations as technology evolves must be clarified and strengthened.

If the policy recommendations we've outlined were implemented, universal service would be on a sound footing and continue to play a key role in ensuring all Americans are connected to a high quality communications network.