

**Testimony of
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**Before the
Communications Subcommittee
Senate Commerce, Science and Transportation Committee
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**“The Challenge of Adapting Universal Service
to a Competitive Environment”**

My name is Billy Jack Gregg and I am the Director of the West Virginia Consumer Advocate Division. My office is charged with the responsibility of representing West Virginia utility ratepayers in state and federal proceedings which may affect rates for electricity, gas, telephone and water service. My office is also a member of the National Association of State Utility Consumer Advocates (NASUCA), an organization of 43 state utility consumer advocate offices from 41 states and the District of Columbia, charged by their respective state statutes with representing utility consumers before state and federal utility commissions and before state and federal courts.¹ I am a former member of the Board of Directors of the Universal Service Administrative Company (USAC) and the Rural Task Force, and have served on the Federal-State Joint Board on Universal Service since March 2002. I greatly appreciate the opportunity to testify at this legislative hearing on the challenges currently facing the Federal Universal Service Fund (USF or the Fund).

¹NASUCA has the unique position of representing consumers in states which benefit from universal service, as well as consumers who must pay the cost of universal service. In most respects, my testimony reflects the positions taken by NASUCA, although there are some areas where NASUCA has not yet reached a consensus position.

I. Background

The most important issue facing the Federal USF today is adapting the Fund to a competitive environment and ensuring its long term sustainability. As the telecommunications market changes rapidly, we must ensure that the USF is sufficient, predictable and affordable for all parties involved: fund recipients, telecommunications providers and consumers. Before I address the current problems facing the USF, I believe it is appropriate to review the Fund's achievements since the passage of the Telecommunications Act of 1996 (the Act).

The nation's commitment to universal service was codified in Section 254 of the Act. The purpose of Section 254 was to ensure that all Americans have access to affordable, quality telecommunications services.² Based upon the requirements of Section 254, the FCC, after consultation with the Federal-State Joint Board on Universal Service, created a new Federal USF in 1997 containing several distinct support mechanisms. Total USF funding has grown from \$1.8 billion in 1997 to approximately \$7.2 billion during 2007. While these support amounts are large, they must be kept in perspective. Total telecommunications revenues in the United States last year were in excess of \$230 billion. By annually collecting and redistributing approximately 3% of these total revenues, we are able to: provide affordable access to phone service in all high-cost areas of the nation; support low-income customers; assist rural health care providers; and connect all classrooms to the Internet. Moreover, all states and territories benefit from the USF as shown on **Attachments 1 and 2**.³ That's quite an accomplishment, and one that everyone involved in the USF should be proud of as we move forward to ensure the long-term sustainability of the fund.

² Section 254 of the Act enshrined and expanded universal service principles which had been followed by the FCC for decades.

³ Attachments 1 and 2 show actual disbursements to states during 2005 under each of the federal USF support mechanisms. Attachment 1 ranks the states based on total support received. Attachment 2 considers the number of

However, as with all things, somebody must pay for the Fund's benefits. That somebody is the American telecommunications consumer in every state and territory. Although all states benefit from the USF, some states pay far more into the fund than they receive back in support, as shown on **Attachments 3 and 4**.⁴ The concept of sustainability encompasses both the size of the Fund and the relative burden it imposes. In order to ensure that the USF is sustainable for the long term, we must ensure that the USF remains affordable for the individual consumer and for the payer states. As I will discuss in detail later, the biggest threat to the long term sustainability of the USF is the burden imposed by the unrestrained growth of the High Cost Fund.

II. The Long Term Sustainability of the Universal Service Fund

As previously mentioned, the Federal USF has grown from \$1.8 billion to \$7.2 billion since the Act was passed. During this same time the USF assessment factor, which is paid by all local, long distance and wireless customers in the United States based on interstate revenues, has more than doubled, from less than 5% to over 11%.⁵ Almost everyone who addresses the issue of the long-term sustainability of the USF has the same prescription: broaden the contribution base and properly control the distribution of funds from the USF. However, depending on the interest group making the recommendation, the actual method of broadening the base and controlling the distribution of funds can vary wildly.

The FCC and Congress have wrestled with the issue of the funding base for over four years. Although numerous ideas and proposals to broaden the contribution base have been brought forth,

access lines in each state, and ranks the states based on monthly support received per line.

⁴ Attachments 3 and 4 show the same disbursements as Attachments 1 and 2, but also include the USF payments made by consumers in each state during 2005. Attachment 3 ranks the states based on total net support received, while Attachment 4 ranks the states on net per line support received. Negative numbers indicate that states paid more in USF assessments than they received in USF benefits.

⁵ The assessment factor was 9.7% during the first quarter of 2007 and is expected to rise above 11% for the second quarter.

none have been implemented. Many parties oppose broadening the contribution base on the grounds that it will only lead to more profligate spending of money paid into the USF. I am firmly convinced that unless we first bring the distribution of the High Cost Fund under control, no progress will be made on the contribution side.

In looking at the long-term sustainability of the Fund, we need to review the status of funds paid out by the individual support mechanisms which make up the overall USF. A quick review of the four funds making up the Federal USF – the High Cost Fund, the Low Income Fund, the Schools and Libraries Fund, and the Rural Health Care Fund - shows that the High Cost Fund is the most problematic. Set forth below are the collections for each of these funds in 2003 and projected for 2007.⁶

**CHANGE IN USF FUNDING MECHANISMS
2003 – 2007**

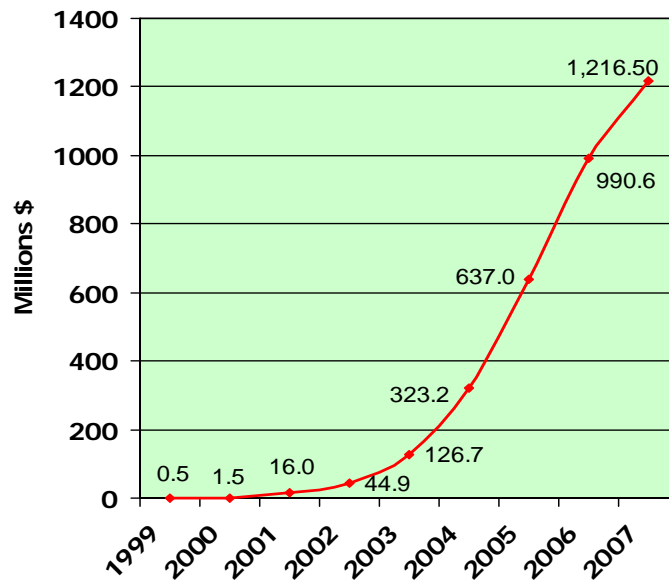
USF Fund	\$ Millions		
	2003	2007	Change
High Cost Fund	3,261.1	4,270.8	1,009.7
Low Income Fund	712.9	766.8	53.9
Schools & Libraries Fund	2,184.0	1,988.5	-195.5
Rural Health Care Fund	27.9	160.0	132.1
TOTAL	6,185.9	7,186.1	1,000.2

As can be seen, the High Cost Fund has grown by over a billion dollars since 2003, while the other funds have shown modest or negative growth in the same period. The Schools and Libraries Fund has been capped at \$2.25 billion a year since its inception. The Rural Health Care Fund has likewise been capped at \$400 million a year, although annual expenditures have come nowhere near that level. The Low Income Fund has been the focus of repeated state and federal efforts to increase participation, yet funding has not grown substantially over the past four years. The High Cost Fund is clearly the main driver in the growth in the overall Fund and the USF contribution factor.

⁶ The 2007 figures are based on USAC demand projections for the first two quarters, with funding for the third and fourth quarter assumed to be the same as in the second quarter. A graphic display of the growth of each of the funds

Within the High Cost Fund, support for competitive eligible telecommunications carriers (ETCs), and more particularly wireless carriers, has been the sole cause of growth since 2003. As shown below, payments to competitive ETCs have soared from \$126.7 million in 2003 to \$1.2 billion projected for 2007.⁷

GROWTH IN HIGH COST SUPPORT FOR WIRELESS CARRIERS 1999-2007



While USF support payments to competitive ETCs have increased tenfold, payments to both rural and non-rural incumbent ETCs have actually declined, as shown below.⁸

since 2000 is set forth on **Attachment 5**.

⁷ Once again, the 2007 figures for CETCs are based on USAC projections for the first two quarters of 2007, with funding for CETCs for the third and fourth quarters assumed to be the same as the second quarter.

⁸ The totals shown in the table differ slightly from the High Cost Fund totals shown in the table on page 5 because they are not adjusted by interest earnings, administrative costs and out-of-period adjustments.

**CHANGE IN FUNDING TO ETCS
2003 – 2007**

ETCS	\$ Millions		
	2003	2007	Change
Rural Incumbents	2,467.0	2,415.5	-51.5
Non-rural Incumbents	767.9	689.8	-78.1
Competitive ETCs	126.7	1,220.2	1,093.5
TOTAL	3,361.6	4,325.5	963.9

Payments to rural incumbents have been held in check by a cap on the High Cost Loop Fund. This cap does not apply to competitive ETCs. Payments to non-rural incumbents have been limited by loss of lines and a ceiling on the Interstate Access Support Fund.

It should not be surprising that funding for competitive ETCs has increased. After all, before the advent of competition incumbents received 100% of high cost funding. It was expected that as competitors gained ETC status and won customers in high cost areas, their high cost funding would rise. What is surprising is that incumbent support has not dropped by an amount proportionate to the increase in competitive ETC funding. In other words, the advent of competition has actually caused a substantial increase in the size of the High Cost Fund, and increased the burden on all consumers. It did not have to be this way.

III. Competition and the Universal Service Fund

It has often been said that the twin pillars of the 1996 Telecommunications Act were competition and universal service. Competition would allow consumers to enjoy lower prices and better services, while universal service would ensure that all Americans, even those in rural and high cost areas, would share in the benefits. Not only was the introduction of competition expected to lower prices of telecommunications services, it was supposed to lower the cost of universal service as providers competed for the universal service subsidy. As the House and Senate Reports on the

Act stated:

...as the current system of internal and external subsidies is replaced by a system consisting primarily of external subsidies, the total amount of subsidies collected from low-cost customers and passed on to high-cost customers would not change significantly. Over time, CBO [Congressional Budget Office] expects that the operating costs of telephone companies would tend to fall as a result of competitive pressures and the total amount of subsidies necessary would decline.⁹

...competition and new technologies will greatly reduce the actual cost of providing universal service over time, thus reducing or eliminating the need for universal service support mechanisms as actual costs drop to a level that is at or below the affordable rate for such service in an area...¹⁰

This view was echoed by Senator Stevens during debate on the Act:

[The Act] opens up the local market to competition while still preserving the concept of universal service. It does so by taking advantage of new technologies which are intended to reduce the cost of all services, including universal service. In fact, I find it interesting that the Congressional Budget Office has said that this bill will reduce the cost of universal service from the existing system by at least \$3 billion over the next five years.¹¹

The High Cost Fund began in a monopoly environment prior to the passage of the Act. Since 1996 the FCC has struggled to adapt the USF to a competitive environment where multiple providers could offer the same or similar services to consumers. In implementing the universal service provisions of the Act, the FCC initially kept true to the Act's intent. In the First Report and Order on Universal Service, the Commission described its overall approach to universal service:

...universal service will be sustainable in a competitive environment; this means both that the system of support must be competitively neutral and permanent, and that all support must be targeted as well as portable among eligible telecommunications carriers. ...By following the principle of competitive neutrality, we will avoid limiting providers of universal service to modes of delivering that service that are obsolete or not cost effective.¹²

⁹ House Report No. 104-204 (I)(1995), Arnold & Porter Legislative History P.L. 104-104 (A&P) at 60.

¹⁰ Senate Report No. 104-23, A&P at 254 (1995).

¹¹ 141 Congressional Record S7881 (1995), A&P at 210.

¹² *In re: Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report & Order (May 8, 1997); as corrected by Erratum, FCC 97-157 (June 4, 1997) at ¶¶19 & 49; aff'd in relevant part sub nom. *Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393 (5th Cir. 1999). This order will be referred to as the "First Report & Order."

The Commission also dealt directly with the issue of which ETC would receive high cost support:

We adopt the Joint Board's recommendation to make rural carriers' support payments portable. ...[A] CLEC [competitive local exchange carrier] that qualifies as an eligible telecommunications carrier shall receive universal service support **to the extent that it captures subscribers formerly served by carriers receiving support** based on the modified existing support mechanisms or adds new customers in the ILEC's study area. We conclude that paying the support to a competitive eligible telecommunications carrier that wins the customer or adds a new subscriber would aid entry of competition in rural areas. [Emphasis added.]¹³

In short, universal service high cost support, as modified by the Commission for the advent of competition, was a technologically and competitively neutral "zero sum game:" the universal service subsidy was portable to whichever ETC won the customer. The ETC gaining the customer won the subsidy, the ETC losing the customer lost the subsidy. As part of this framework, the Commission revised its rules to add Section 54.307(a)(4) which stated:

The amount of universal service support provided to such incumbent local exchange carrier shall be reduced by an amount equal to the amount provided to such competitive eligible telecommunications carrier.¹⁴

The Commission stated that this rule change was necessary to ensure that when a competitive ETC received support for a customer, "...the incumbent LEC will lose the support it previously received that was attributable to that customer."¹⁵ The Commission's approach was upheld by the Fifth Circuit Court of Appeals in the case of *Alenco Communications, Inc. v. FCC*:

The FCC must see to it that **both** universal service and local competition are realized; one cannot be sacrificed in favor of the other. The Commission therefore is responsible for making the changes necessary to its universal service program to ensure that it survives in the new world of competition. ...

...[T]he [FCC's universal service] order provides that the universal service subsidy be portable so that it moves with the customer, rather than stay with the incumbent LEC, whenever the customer makes the decision to switch local service

¹³ First Report & Order, ¶311. See also ¶¶287-289; 312.

¹⁴ *In re: Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Fourth Order on Reconsideration (Dec. 30, 1997) at ¶84; App. A, Item 6, 47 CFR §54.307(a)(4).

¹⁵ *Id.*

providers... The purpose of universal service is to benefit the customer, not the carrier. “Sufficient” funding of the customer’s right to adequate telephone service can be achieved regardless of which carrier ultimately receives the subsidy.¹⁶ [Emphasis in original.]

Unfortunately, in November 1999, without explanation the Commission abandoned its rulemaking proceeding to define “captured and new lines” and deleted Section 54.307(a)(4) of its rules which had reduced support to an incumbent when a competitive ETC won a customer.¹⁷ Finally, in April 2000, the Commission effectively abandoned the distinction between “new,” “captured,” and “other” lines served by ETCs, stating “...a competitive eligible telecommunications carrier **receives support for each line it serves** based on the support the incumbent local exchange carrier would receive for serving the line.”¹⁸

The unforeseen consequences of these actions have been dramatic. By deciding to support all lines of all ETCs in high cost areas, the Commission opened the door to supporting multiple wireless networks which supplied supplementary, rather than substitute services. As previously discussed, this supplementary support to wireless ETCs has added a billion dollars to the High Cost Fund since 2003.¹⁹ Far from being a “zero sum game” in which ETCs compete for customers while the size of the fund stays relatively the same, the current system is a “no losers” support system in which all ETCs receive support for all lines they serve in high cost areas, no matter how duplicative or costly this additional support may be.²⁰

Under the current system, far more than affordable access to the telecommunications network

¹⁶ *Alenco Communications, Inc. v. FCC*, 201 F.3d 608, 615 & 621 (5th Cir. 2000).

¹⁷ *In re: Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report & Order and Eighteenth Order on Reconsideration (Nov. 2, 1999), at ¶90; App. C, Item 7.

¹⁸ *In re: Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order (April 7, 2000), at ¶16.

¹⁹ In essence, the USF has created a \$1 billion wireless infrastructure fund. This was done without any explicit policy decision or directive by either the Congress or the Commission. It just happened, based on the incentives created by the high cost support rules.

²⁰ The fact that multiple providers are able to offer service within a particular area raises the question of

is being provided. The High Cost Fund now provides support to multiple networks in high cost areas, where previously none had been able to exist without a subsidy. If a customer in a high cost area receives two landlines from the incumbent wireline ETC, and three wireless phones from a competitive ETC, all of these lines receive high cost support. Even more bizarre, if the rural incumbent ETC actually loses lines, support for both the incumbent ETC and the competitive ETC will go up as a result of the equal support rule.²¹ The result has been a rapid escalation of support as competitive ETCs have rushed in to take advantage of the rules created by the FCC.

One outrageous example of the current system is found in the AT&T (BellSouth) service territory in Mississippi. AT&T as the incumbent non-rural carrier receives \$101.2 million in High Cost Support annually. In addition, there are sixteen (16) other competitive ETCs receiving \$118.5 million in High Cost Support annually for providing service in the same study area.²² Most of this CETC support goes to wireless ETCs, including \$59.1 million to AT&T's wireless subsidiary, Cingular. While there is no doubt that Mississippi is a high cost area, the Act's requirement to provide affordable access does not require providing subsidies to multiple networks serving the same customers. The current system of providing support to all lines of all ETCs in high cost areas must be ended if we are to have rational and sustainable high cost support system.

Because of the complex, disparate and often unrelated bases of the different high cost support mechanisms, and the rapidly escalating size of the High Cost Fund caused by increasing payments to competitive ETCs, the Joint Board has begun to look at new alternatives to bring rationality back to

whether that area should properly be able to receive continued high cost support.

²¹ The equal support rule, found in 47 CFR §54.307(a)(1), provides that a competitive ETC will receive per line support equal to the support received by the incumbent ETC. Because the High Cost Loop mechanism is designed to recover an incumbent's full revenue requirement regardless of the number of lines served, the loss of lines by the incumbent will increase per line support, all other things being equal.

²² Universal Service Administrative Company, *Federal Universal Service Support Mechanisms Fund Size Projections for the First Quarter 2007* (Nov. 2, 2006), App. HC01. Ironically, if AT&T's support in Mississippi was determined under the rural support mechanism, its support for 2007 would fall from \$101.2 million to \$24.7 million. See, National Exchange Carrier Association, *Submission of 2005 USF Study Results* (Sept. 29, 2006), App. E. Because of the

the High Cost Fund. One of these proposals is reverse auctions; another is newer, more sophisticated modeling and more precise targeting of support based on new mapping technology. These proposals will need much work before it is determined if they are ready to be implemented on a national or even a pilot project scale.

Unfortunately, while we contemplate these proposals, the fund will continue to grow to an ever more unsustainable size. The High Cost Fund has increased by \$1 billion over the past three years driven by new payments to competitive ETCs. In addition, the FCC currently has pending before it over thirty (30) applications for ETC status from wireless carriers, including two from Cingular for the states of Virginia and Georgia. The FCC has estimated that if it grants all of the ETC applications pending today, the High Cost Fund will rise to \$5.5 billion by 2009. If Cingular, the largest wireless carrier, continues to seek ETC status, Verizon Wireless, the second largest, will be forced to follow suit. The result will be a High Cost Fund surpassing \$6 billion and approaching \$7 billion. A fund of this size will not only impose unacceptable burdens on American consumers, but will severely limit our ability to add new services, such as broadband, to the list of services supported by universal service.

As a result, the Joint Board is currently considering several proposals to cap the High Cost Fund while we consider long term solutions on how to adapt the universal service system to the new competitive environment by properly targeting support and ensuring that the fund does not grow to an unsustainable size. In fact, one of the difficulties confronting policy makers in this area is the lack of any upward limit on the fund expressed by Congress. It is interesting to note that in the currently pending S. 101, the *Universal Service for Americans Act*, Section 202 creates a \$500 million a year Broadband for Unserved Areas Program. This is similar to funding under the existing cap on the Schools and Libraries Fund. Moreover, Section 202 makes clear that distributions from

equal support rule, the support paid to competitive ETCs would fall as well.

the Broadband fund may only be made to one facilities-based broadband provider in each unserved area. Based on the wording of Section 202, policymakers know exactly how much they have to spend, and can then attend to the issues of how to equitably distribute the fund in accordance with the principles established by Congress. While a limitless universal service fund may have made sense when we were faced with making previous implicit subsidies explicit, eleven years after the passage of the Act it may be time for Congress to also express its opinion on the ultimate size of the High Cost Fund.

IV. The Contribution Base

Ensuring the long term sustainability of the fund will require not only controlling the size and distribution of the fund, but also broadening the contribution base. Moreover, until the distribution and sizing issues are solved, it is not likely that a consensus will develop concerning how to address the contribution base.

The funding base for the USF has not kept pace with the growth in the fund, resulting in higher and higher USF assessments on carriers and their customers. The contribution base problem stems in large part from the wording of the Act itself. Section 254(b)(4) states that: “**All providers of telecommunications services** should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.” However, Section 254(d) states: “Every telecommunications carrier that provides **interstate telecommunications services** shall contribute on an equitable and non-discriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service.” In other words, even though the principle set forth in the Act is that **all** telecommunications providers should contribute to the fund, and even though the fund benefits **all** areas of the country, Section 254(d) limits the obligation to support the fund to a subset of telecommunications carriers - providers of **interstate**

telecommunications services.²³

In 1997 the FCC decided to base the funding for the high-cost and low-income support mechanisms on each carrier=s interstate and international revenue, while the funding for schools and libraries and rural health support mechanisms were supported by assessments on all revenues, interstate and intrastate. The use of intrastate revenues for USF assessment purposes was struck down by the Fifth Circuit Court of Appeals in 1999.²⁴ Since that time the contribution base for the USF has been limited to only interstate and international revenues. As the USF has grown, and as the interstate revenue base has leveled off, the assessment rate has increased rapidly.

So long as interstate revenues grew at a reasonable rate, the ultimate impact of fund growth on the USF assessment rate and customers= bills was fairly moderate. However, beginning in 2000 interstate revenue growth began to flatten out, and during 2002 started to decline. The result has been a steep escalation in the USF assessment rate, from 5.7% in the fourth quarter of 2000 to 9.7% in the first quarter of 2007.²⁵ Based on the latest projections from USAC, the assessment factor for the second quarter of 2007 is likely to exceed 11%.

There are several alternatives available in order to broaden the USF contribution base. One alternative would be to retain the current system, but remove restrictions in current rules which artificially depress the existing interstate revenue contribution base. One such restriction is the so-called “safe harbors” which limit the contribution responsibility of certain classes of carriers, such as wireless carriers and Voice over Internet Protocol (VoIP) carriers. Another restriction limits the contributions from broadband providers, one of the fastest growing areas of telecommunications.

²³ As a practical matter, virtually all telecommunications carriers provide some sort of interstate service.

²⁴ *Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393 (5th Cir. 1999) at 448.

²⁵ These increases have been flowed through to most customers by means of line items. Beginning in the second quarter of 2003, carriers can no longer mark up these assessments, but can only flow through the assessment rate approved by the Commission.

Currently, providers of broadband are exempt from paying to support the USF.²⁶ If the Commission includes broadband in the list of USF supported services, it is obvious that broadband providers should also contribute to the fund.

A second alternative would be to grant the FCC the authority to base contributions to the fund on total telecommunications revenues. Shown on **Attachment 6** is a comparison of changes in the universal service fund, the interstate revenue base, and total telecommunications revenues from 1997 to 2007.²⁷ As you can see, total telecommunications revenues currently amount to approximately \$230 billion and would provide an adequate funding base for the USF. In fact, if total telecommunications revenues had been used as the funding base from the start, we would not be discussing this issue today. The growth in the fund could have been accommodated while keeping the assessment rate around 3%.

Use of total revenues would also eliminate disputes about whether revenues are intrastate or interstate, and would equitably spread the obligation to support universal service to all providers and to all customers based on their use of the network. However, basing federal universal service on total revenues would require a statutory change to clarify that the FCC has the authority to base contributions on all revenues, intrastate as well as interstate. In addition, a total revenues base could be susceptible to erosion in the future as more and more traffic, including voice traffic, migrates to the internet and is classified as “information services,” currently exempt from USF assessment.²⁸ Finally, in order to prevent any uncertainty concerning state authority, any statutory change to allow

²⁶ Digital subscriber line service (DSL) providers previously paid into the Fund, but were exempted by FCC action in 2006.

²⁷ On Attachment 6 USF Funding and the Interstate Revenue Base are taken from USAC reports. The Total Revenue Base is taken from the FCC's Trends in Telephone Service reports. The funding base for 1997 is estimated. Beginning in the second quarter of 2003, the USF funding base has been based on carriers' projected revenue collections.

²⁸ It should be noted that the FCC already has the discretionary power under 254(d) to require contributions from any other provider of interstate telecommunications “if the public interest so requires.”

assessment of total telecommunications revenues for the federal fund should specify that states have the reciprocal right to use total revenues as the basis for assessments for state universal service programs.

A third alternative would be to base assessments on connections to the public switched telephone network, or on assigned telephone numbers. The FCC has considered several such proposals over the past few years. While these connection-based or numbers-based proposals do enlarge the base of the USF, and minimize problems with classification of services or revenues as information services, they do have several flaws: (1) each proposal radically shifts the funding of the USF among industry groups; (2) each proposal appears to exempt pure providers of interstate long distance from making any contribution to the fund in contravention of the plain wording of Section 254(d); (3) each proposal requires capacity-based connection equivalents for high-capacity customers; and (4) each proposal shifts responsibility for payment of USF charges from high-use to low-use customers.

A final alternative, which my office has proposed to the FCC, would be a hybrid of the proposals described above. For example, the Commission could continue to base 50% of the universal service assessment on interstate revenues, and assess the remaining 50% on end-user connections to the public switched network. Such a hybrid would not require a statutory change and would ensure that all providers of interstate services, even those that did not provide end-use connections, would continue to contribute to support universal service. In addition, this 50/50 hybrid approach would mitigate impacts on low-usage customers, and result in contributions from various industry sectors that are very close to those produced by use of total telecommunications revenues.

In this regard, I should note that Section 101(a) of the *Universal Service for Americans Act* is particularly helpful. Section 101(a) empowers the Commission to assess for universal service based

upon interstate revenues, intrastate revenues, connections, numbers, capacity or any combination of these methods. In short, Section 101(a) provides the Commission with a full set of tools to address different contribution circumstances that may arise as the telecommunications marketplace evolves.²⁹ Moreover, Section 101(a) also provides reciprocal flexibility for state commissions in assessing providers to support state universal service funds.

In finding a solution to the contribution base problem, I agree with Senator Stevens of Alaska who has previously said: “All companies that use the network, in my judgment, should contribute to universal service, regardless of the type of service they provide.”³⁰ I believe we must expand contribution responsibility to encompass all revenues and all services that connect to the telecommunications network. Since all benefit, all should contribute.

V. Conclusion

In order to be stable and sustainable in the long-term, the USF must be configured like a pyramid: it must have a broad and stable base of contributions at the bottom, and a narrow but sufficient distribution of support at the top. The current universal service fund requires work on both ends of this structure. Issues related to the contribution base must be resolved. Since all benefit, all should contribute. In addition, the limited resources of the fund must be properly distributed and targeted to carry out the purposes of the Act. In order to continue the public policy success of the universal service fund, we must support access, not excess.

²⁹ For this same reason, I oppose Section 206 of the *Universal Service for Americans Act*, which prohibits the use of primary lines in distributing support. As discussed above, the major problem confronting the Fund currently is on the distribution side. Congress should broaden, not limit, the tools available to the Commission in addressing the problems of adapting the USF to competition.

³⁰ TR Daily, March 26, 2003.

**FEDERAL UNIVERSAL SERVICE SUPPORT
RANKED BY SUPPORT IN EACH STATE
2005 DISBURSEMENTS IN MILLIONS**

<u>State</u>	High Cost Support	Low Income Support	Rural Health Support	Schools & Libraries Support	Total Support
	\$ Millions				
1 California	\$98.9	\$304.7	\$0.5	\$220.8	\$624.9
2 Texas	\$230.0	\$72.3	\$0.1	\$274.2	\$576.6
3 New York	\$51.8	\$52.5	\$0.0	\$298.3	\$402.6
4 Mississippi	\$209.3	\$3.6	\$0.1	\$29.4	\$242.4
5 Oklahoma	\$120.2	\$32.4	\$0.1	\$44.0	\$196.7
6 Kansas	\$178.7	\$3.1	\$0.3	\$10.6	\$192.7
7 Georgia	\$111.7	\$8.3	\$0.1	\$50.1	\$170.2
8 Florida	\$91.5	\$17.8	\$0.1	\$53.4	\$162.8
9 Wisconsin	\$130.2	\$8.8	\$1.0	\$21.0	\$161.0
10 Arkansas	\$141.0	\$2.4	\$0.1	\$15.7	\$159.2
11 Alaska	\$120.3	\$7.4	\$14.9	\$15.9	\$158.5
12 Louisiana	\$111.2	\$2.4	\$0.0	\$41.5	\$155.1
13 Pennsylvania	\$65.5	\$19.2	\$0.1	\$67.1	\$151.9
14 Puerto Rico	\$133.8	\$13.3	\$0.0	\$3.0	\$150.1
15 Illinois	\$63.5	\$9.3	\$0.2	\$73.4	\$146.4
16 Alabama	\$109.3	\$3.2	\$0.0	\$28.0	\$140.5
17 Minnesota	\$113.4	\$6.0	\$0.8	\$19.9	\$140.1
18 North Carolina	\$80.2	\$14.5	\$0.2	\$37.0	\$131.9
19 Arizona	\$74.6	\$20.3	\$0.7	\$36.0	\$131.6
20 Washington	\$94.4	\$19.8	\$0.1	\$16.7	\$131.0
21 Ohio	\$37.8	\$35.0	\$0.0	\$57.4	\$130.2
22 Missouri	\$85.2	\$5.4	\$0.1	\$36.3	\$127.0
23 Tennessee	\$54.7	\$6.1	\$0.1	\$59.5	\$120.4
24 Kentucky	\$83.6	\$7.5	\$0.7	\$26.5	\$118.3
25 Virginia	\$87.3	\$2.3	\$0.3	\$25.2	\$115.1
26 South Carolina	\$76.3	\$2.9	\$0.0	\$27.6	\$106.8
27 Iowa	\$90.3	\$6.2	\$0.2	\$10.1	\$106.8
28 Michigan	\$53.6	\$11.4	\$0.7	\$34.7	\$100.4
29 Colorado	\$79.3	\$3.5	\$0.1	\$11.3	\$94.2
30 South Dakota	\$77.8	\$7.3	\$0.5	\$5.4	\$91.0
31 New Mexico	\$58.5	\$10.7	\$0.3	\$17.8	\$87.3
32 Oregon	\$68.5	\$7.3	\$0.0	\$11.4	\$87.2
33 Montana	\$76.7	\$2.6	\$0.5	\$3.8	\$83.6
34 Indiana	\$56.6	\$5.7	\$0.1	\$12.5	\$74.9
35 West Virginia	\$66.3	\$0.7	\$0.1	\$7.7	\$74.8
36 North Dakota	\$62.7	\$3.8	\$0.5	\$3.0	\$70.0
37 Nebraska	\$55.9	\$2.4	\$0.7	\$6.3	\$65.3
38 Idaho	\$55.1	\$3.9	\$0.2	\$2.8	\$62.0
39 Wyoming	\$56.6	\$1.4	\$0.1	\$0.7	\$58.8
40 New Jersey	\$1.3	\$14.5	\$0.0	\$39.4	\$55.2
41 Maine	\$28.8	\$8.8	\$0.1	\$9.1	\$46.8
42 Vermont	\$35.2	\$2.8	\$0.0	\$1.2	\$39.2
43 Massachusetts	\$3.6	\$14.3	\$0.0	\$21.0	\$38.9
44 Nevada	\$29.6	\$4.1	\$0.0	\$3.2	\$36.9
45 Utah	\$23.6	\$2.9	\$0.4	\$7.5	\$34.4
46 Hawaii	\$29.5	\$0.7	\$0.3	\$1.8	\$32.3
47 Connecticut	\$2.2	\$5.3	\$0.0	\$19.3	\$26.8
48 Virgin Islands	\$22.6	\$0.2	\$0.1	\$3.9	\$26.8
49 Guam	\$19.2	\$0.4	\$0.0	\$3.1	\$22.7
50 Maryland	\$4.3	\$0.5	\$0.0	\$12.7	\$17.5
51 D.C.	\$0.0	\$0.9	\$0.0	\$10.8	\$11.7
52 Rhode Island	\$0.0	\$4.6	\$0.0	\$6.9	\$11.5
53 New Hampshire	\$8.7	\$0.6	\$0.0	\$1.7	\$11.0
54 American Samoa	\$2.3	\$0.1	\$0.0	\$2.4	\$4.8
55 N. Mariana Is.	\$0.7	\$0.1	\$0.0	\$1.4	\$2.2
56 Delaware	\$0.3	\$0.3	\$0.0	\$0.4	\$1.0
TOTAL	\$3,824.2	\$808.5	\$25.5	\$1,861.8	\$6,520.0

Note: Numbers may not add due to rounding. Annual support amounts less than \$50,000 show as \$0 due to rounding. Support amounts shown are actual amounts disbursed. Amounts assessed and collected may be higher.

Source: USAC 2005 Annual Report
NECA 2005 Annual USF Filing

**FEDERAL UNIVERSAL SERVICE SUPORT
RANKED BY PER LINE SUPPORT IN EACH STATE
2005 DISBURSEMENTS**

<u>State</u>	High Cost Support	Low Income Support	Rural Health Support	Schools & Libraries Support	Total Support	Total Lines	Monthly Support Per Line
	\$ Millions						
1 American Samoa	\$2.3	\$0.1	\$0.0	\$2.4	\$4.8	10,872	\$36.79
2 Virgin Islands	\$22.6	\$0.2	\$0.1	\$3.9	\$26.8	69,425	\$32.17
3 Alaska	\$120.3	\$7.4	\$14.9	\$15.9	\$158.5	414,396	\$31.87
4 Guam	\$19.2	\$0.4	\$0.0	\$3.1	\$22.7	67,059	\$28.21
5 South Dakota	\$77.8	\$7.3	\$0.5	\$5.4	\$91.0	348,183	\$21.78
6 Wyoming	\$56.6	\$1.4	\$0.1	\$0.7	\$58.8	289,052	\$16.95
7 North Dakota	\$62.7	\$3.8	\$0.5	\$3.0	\$70.0	347,899	\$16.77
8 Mississippi	\$209.3	\$3.6	\$0.1	\$29.4	\$242.4	1,328,966	\$15.20
9 Montana	\$76.7	\$2.6	\$0.5	\$3.8	\$83.6	506,462	\$13.76
10 Kansas	\$178.7	\$3.1	\$0.3	\$10.6	\$192.7	1,380,168	\$11.64
11 Puerto Rico	\$133.8	\$13.3	\$0.0	\$3.0	\$150.1	1,180,127	\$10.60
12 Arkansas	\$141.0	\$2.4	\$0.1	\$15.7	\$159.2	1,371,860	\$9.67
13 Oklahoma	\$120.2	\$32.4	\$0.1	\$44.0	\$196.7	1,732,719	\$9.46
14 Vermont	\$35.2	\$2.8	\$0.0	\$1.2	\$39.2	407,202	\$8.02
15 New Mexico	\$58.5	\$10.7	\$0.3	\$17.8	\$87.3	940,723	\$7.73
16 N. Mariana Is.	\$0.7	\$0.1	\$0.0	\$1.4	\$2.2	24,480	\$7.49
17 Idaho	\$55.1	\$3.9	\$0.2	\$2.8	\$62.0	714,999	\$7.23
18 Nebraska	\$55.9	\$2.4	\$0.7	\$6.3	\$65.3	815,003	\$6.68
19 West Virginia	\$66.3	\$0.7	\$0.1	\$7.7	\$74.8	980,333	\$6.36
20 Iowa	\$90.3	\$6.2	\$0.2	\$10.1	\$106.8	1,540,622	\$5.78
21 Louisiana	\$111.2	\$2.4	\$0.0	\$41.5	\$155.1	2,268,720	\$5.70
22 Alabama	\$109.3	\$3.2	\$0.0	\$28.0	\$140.5	2,275,897	\$5.14
23 Kentucky	\$83.6	\$7.5	\$0.7	\$26.5	\$118.3	2,003,264	\$4.92
24 Maine	\$28.8	\$8.8	\$0.1	\$9.1	\$46.8	808,894	\$4.82
25 Wisconsin	\$130.2	\$8.8	\$1.0	\$21.0	\$161.0	3,089,638	\$4.34
26 Minnesota	\$113.4	\$6.0	\$0.8	\$19.9	\$140.1	2,703,043	\$4.32
27 Arizona	\$74.6	\$20.3	\$0.7	\$36.0	\$131.6	2,577,209	\$4.26
28 Texas	\$230.0	\$72.3	\$0.1	\$274.2	\$576.6	11,590,562	\$4.15
29 South Carolina	\$76.3	\$2.9	\$0.0	\$27.6	\$106.8	2,174,893	\$4.09
30 Hawaii	\$29.5	\$0.7	\$0.3	\$1.8	\$32.3	665,486	\$4.04
31 Oregon	\$68.5	\$7.3	\$0.0	\$11.4	\$87.2	1,933,674	\$3.76
32 Missouri	\$85.2	\$5.4	\$0.1	\$36.3	\$127.0	3,247,315	\$3.26
33 Tennessee	\$54.7	\$6.1	\$0.1	\$59.5	\$120.4	3,085,923	\$3.25
34 Washington	\$19.4	\$19.8	\$0.1	\$16.7	\$131.0	3,419,234	\$3.19
35 Georgia	\$111.7	\$8.3	\$0.1	\$50.1	\$170.2	4,611,880	\$3.08
36 Colorado	\$79.3	\$3.5	\$0.1	\$11.3	\$94.2	2,606,818	\$3.01
37 New York	\$51.8	\$52.5	\$0.0	\$298.3	\$402.6	11,284,257	\$2.97
38 Utah	\$23.6	\$2.9	\$0.4	\$7.5	\$34.4	1,056,543	\$2.71
39 California	\$98.9	\$304.7	\$0.5	\$220.8	\$624.9	21,285,036	\$2.45
40 Nevada	\$29.6	\$4.1	\$0.0	\$3.2	\$36.9	1,267,684	\$2.43
41 North Carolina	\$80.2	\$14.5	\$0.2	\$37.0	\$131.9	4,596,547	\$2.39
42 Virginia	\$87.3	\$2.3	\$0.3	\$25.2	\$115.1	4,290,319	\$2.24
43 Rhode Island	\$0.0	\$4.6	\$0.0	\$6.9	\$11.5	491,107	\$1.95
44 Indiana	\$56.6	\$5.7	\$0.1	\$12.5	\$74.9	3,492,042	\$1.79
45 Pennsylvania	\$65.5	\$19.2	\$0.1	\$67.1	\$151.9	7,345,084	\$1.72
46 Ohio	\$37.8	\$35.0	\$0.0	\$57.4	\$130.2	6,372,077	\$1.70
47 Illinois	\$63.5	\$9.3	\$0.2	\$73.4	\$146.4	7,323,440	\$1.67
48 Michigan	\$53.6	\$11.4	\$0.7	\$34.7	\$100.4	5,688,091	\$1.47
49 Florida	\$91.5	\$17.8	\$0.1	\$53.4	\$162.8	10,356,878	\$1.31
50 D.C.	\$0.0	\$0.9	\$0.0	\$10.8	\$11.7	791,292	\$1.23
51 New Hampshire	\$8.7	\$0.6	\$0.0	\$1.7	\$11.0	754,305	\$1.22
52 Connecticut	\$2.2	\$5.3	\$0.0	\$19.3	\$26.8	2,135,021	\$1.05
53 Massachusetts	\$3.6	\$14.3	\$0.0	\$21.0	\$38.9	3,779,199	\$0.86
54 New Jersey	\$1.3	\$14.5	\$0.0	\$39.4	\$55.2	5,983,090	\$0.77
55 Maryland	\$4.3	\$0.5	\$0.0	\$12.7	\$17.5	3,606,266	\$0.40
56 Delaware	\$0.3	\$0.3	\$0.0	\$0.4	\$1.0	546,439	\$0.15
TOTAL	\$3,824.2	\$808.5	\$25.5	\$1,861.8	\$6,520.0	165,977,717	\$3.27

Note: Numbers may not add due to rounding. Annual support amounts less than \$50,000 show as \$0 due to rounding. Support amounts shown are actual amounts disbursed. Amounts assessed and collected may be higher.

Source: USAC 2005 Annual Report
NECA 2005 Annual USF Filing

NET UNIVERSAL SERVICE SUPPORT PAYMENTS BY STATE: 2005
(Annual Payments and Contributions in Thousands)
Sorted by Net Support Received

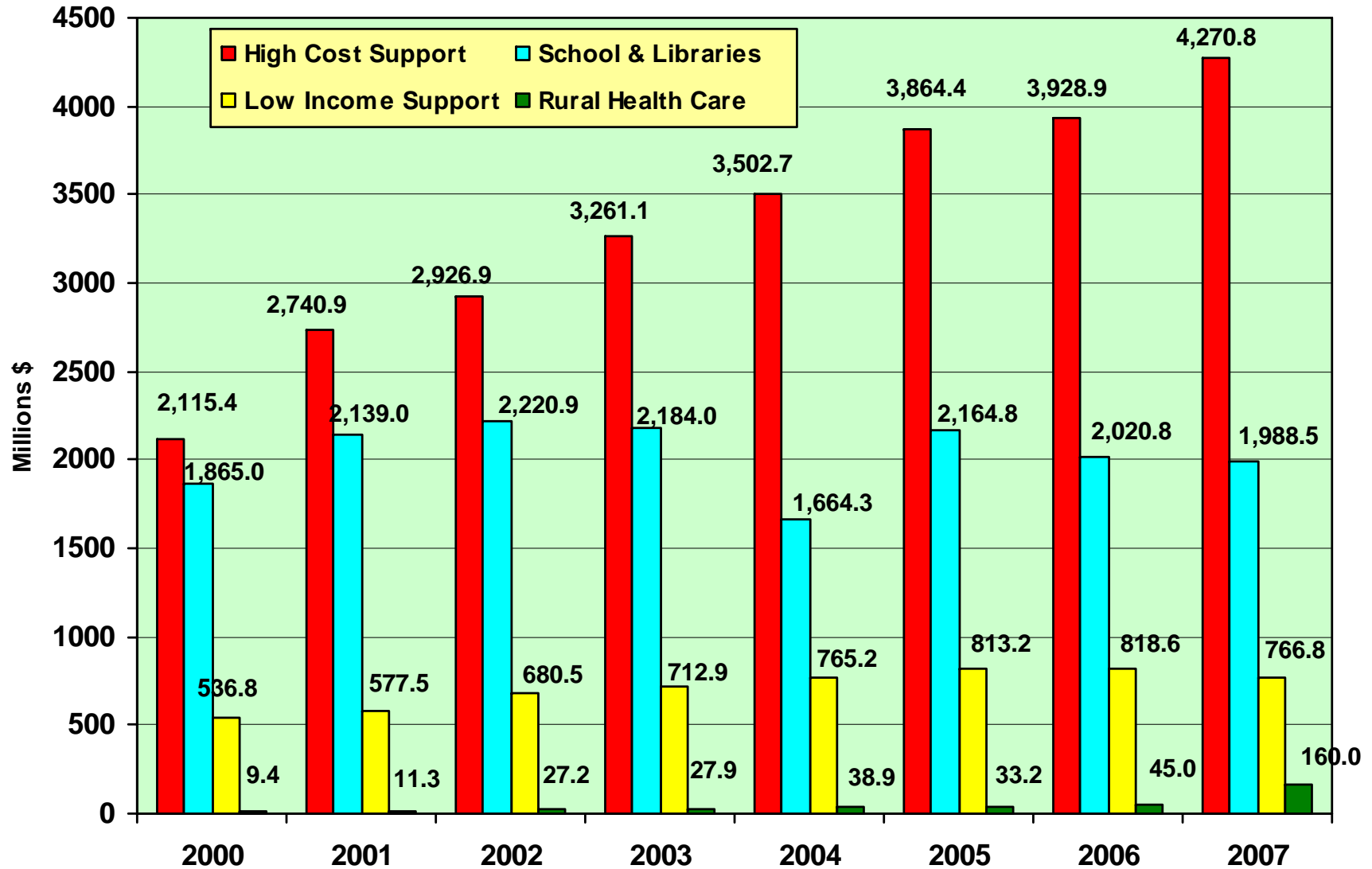
State or Jurisdiction	Payments from USF to Service Providers*					Estimated Contributions**	Estimated Net Dollar Flow***
	High-Cost Support	Low-Income Support	Schools & Libraries	Rural Health Care	Total		
Florida	\$91,450	\$17,761	\$53,437	\$107	\$162,755	\$474,550	-\$311,795
New Jersey	1,332	14530	39,404	0	55,266	246,120	-190,854
Maryland	4,327	502	12,644	0	17,473	147,285	-129,812
Pennsylvania	65,504	19,156	67,149	75	151,884	276,859	-124,975
Illinois	63,506	9,291	73,442	196	146,435	267,388	-120,953
Massachusetts	3634	14270	20,954	0	38,858	157,471	-118,613
Ohio	37,754	35,022	57,444	45	130,265	224,776	-94,511
California	98,866	304,668	220,789	456	624,779	716,580	-91,801
Michigan	53,575	11,425	34,722	694	100,416	187,795	-87,379
Virginia	87,312	2,257	25,263	299	115,131	193,412	-78,281
Connecticut	2,249	5,315	19,307	0	26,871	100,797	-73,926
North Carolina	80,179	14,504	36,946	149	131,778	200,447	-68,669
Indiana	56632	5716	12516	112	74976	122,711	-47,735
Georgia	111,693	8,282	50,126	114	170,215	212,680	-42,465
Nevada	29,639	4,075	3,166	36	36,916	68,888	-31,972
Colorado	79,277	3,514	11,256	120	94,167	121,551	-27,384
Delaware	259	277	377	0	913	24,842	-23,929
New Hampshire	8,732	632	1,736	2	11,102	34,363	-23,261
Dist. of Columbia	0	893	10,840	0	11,733	31,241	-19,508
Utah	23,579	2,927	7,542	363	34,411	49,090	-14,679
Washington	94,387	19,823	16,679	64	130,953	145,534	-14,581
Rhode Island	44	4,622	6,925	0	11,591	22,577	-10,986
Tennessee	54,684	6,141	59,517	61	120,403	125,508	-5,105
New York	51,833	52,544	298,250	6	402,633	406,561	-3,928
Missouri	85,146	5396	36,291	118	126,951	126,036	915
Northern Mariana Is.	668	85	1,364	0	2,117	1,056	1,061
Hawaii	29,525	694	1,812	277	32,308	28,039	4,269
American Samoa	2,318	60	2,421	0	4,799	184	4,615
Oregon	68,469	7,307	11,394	22	87,192	82,192	5,000
Arizona	74,550	20,310	36,008	675	131,543	125,949	5,594
South Carolina	76,322	2,869	27,579	41	106,811	95,834	10,977
Maine	28812	8,795	9,099	49	46,755	29,995	16,760
Guam	19,165	421	3,093	0	22,679	3,402	19,277
Virgin Islands	22,618	158	3,976	102	26,854	6,739	20,115
Vermont	35,244	2,842	1,236	20	39,342	16,024	23,318
Nebraska	55,890	2,406	6,254	746	65,296	37,675	27,621
Idaho	55,055	3,923	2,797	153	61,928	32,363	29,565
West Virginia	66,318	710	7,658	91	74,777	42,624	32,153
Minnesota	113,352	5,993	19,911	845	140,101	106,743	33,358
Kentucky	83,600	7,537	26,481	720	118,338	80,627	37,711
New Mexico	58,511	10655	17,819	293	87,278	45,014	42,264
Wyoming	56,598	1,395	684	100	58,777	14,719	44,058
Alabama	109,343	3,224	28,023	19	140,609	95,271	45,338
Iowa	90,336	6198	10,042	186	106,762	60,490	46,272
Wisconsin	130,225	8,829	21,021	940	161,015	111,194	49,821
North Dakota	62,718	3,804	2,956	503	69,981	14,669	55,312
Montana	76,731	2,631	3,807	542	83,711	23,456	60,255
Louisiana	111,241	2,414	41,487	5	155,147	90,833	64,314
South Dakota	77,788	7,280	5,434	469	90,971	15,846	75,125
Puerto Rico	133,786	13,286	2,966	0	150,038	52,930	97,108
Arkansas	140,997	2,369	15,662	120	159,148	58,606	100,542
Oklahoma	120,188	32,358	44,003	129	196,678	74,099	122,579
Kansas	178684	3149	10,545	290	192,668	58,672	133,996
Alaska	120,274	7,374	15,909	14949	158,506	22,070	136,436
Texas	230,017	72,330	274,218	132	576,697	434,538	142,159
Mississippi	209,251	3619	29,364	133	242,367	58511	183,856
Total	\$3,824,187	\$808,568	\$1,861,745	\$25,568	\$6,520,068	\$6,605,426	-\$85,358

MONTHLY NET USF PAYMENTS PER LOOP 2005
Sorted by Net Payments Per Loop

State or Jurisdiction	USF Loops	Net USF Payments	Monthly Net Payments Per Loop
Delaware	530,802	-\$23,929,000	-\$3.76
Maryland	3,483,388	-\$129,812,000	-\$3.11
Connecticut	1,997,944	-\$73,926,000	-\$3.08
New Jersey	5,577,359	-\$190,854,000	-\$2.85
Massachusetts	3,529,151	-\$118,613,000	-\$2.80
New Hampshire	719,375	-\$23,261,000	-\$2.69
Florida	9,875,661	-\$311,795,000	-\$2.63
Nevada	1,248,633	-\$31,972,000	-\$2.13
Rhode Island	431,042	-\$10,986,000	-\$2.12
Dist. of Columbia	766,942	-\$19,508,000	-\$2.12
Virginia	4,097,788	-\$78,281,000	-\$1.59
Pennsylvania	7,034,040	-\$124,975,000	-\$1.48
Illinois	6,944,463	-\$120,953,000	-\$1.45
Michigan	5,105,300	-\$87,379,000	-\$1.43
Ohio	5,887,158	-\$94,511,000	-\$1.34
North Carolina	4,362,919	-\$68,669,000	-\$1.31
Indiana	3,317,961	-\$47,735,000	-\$1.20
Utah	1,022,713	-\$14,679,000	-\$1.20
Colorado	2,474,508	-\$27,384,000	-\$0.92
Georgia	4,416,698	-\$42,465,000	-\$0.80
Washington	3,259,380	-\$14,581,000	-\$0.37
California	20,610,893	-\$91,801,000	-\$0.37
Tennessee	2,987,705	-\$5,105,000	-\$0.14
New York	10,230,291	-\$3,928,000	-\$0.03
Missouri	3,081,156	\$915,000	\$0.02
Arizona	2,419,556	\$5,594,000	\$0.19
Oregon	1,855,141	\$5,000,000	\$0.22
South Carolina	2,073,761	\$10,977,000	\$0.44
Hawaii	632,638	\$4,269,000	\$0.56
Texas	10,945,498	\$142,159,000	\$1.08
Minnesota	2,565,929	\$33,358,000	\$1.08
Wisconsin	2,877,855	\$49,821,000	\$1.44
Kentucky	1,904,145	\$37,711,000	\$1.65
Alabama	2,196,302	\$45,338,000	\$1.72
Maine	767,662	\$16,760,000	\$1.82
Iowa	1,468,226	\$46,272,000	\$2.63
Louisiana	2,002,682	\$64,314,000	\$2.68
West Virginia	953,275	\$32,153,000	\$2.81
Nebraska	764,517	\$27,621,000	\$3.01
Idaho	694,630	\$29,565,000	\$3.55
New Mexico	909,041	\$42,264,000	\$3.87
Northern Mariana Is.	22,770	\$1,061,000	\$3.88
Vermont	397,603	\$23,318,000	\$4.89
Oklahoma	1,635,403	\$122,579,000	\$6.25
Arkansas	1,313,238	\$100,542,000	\$6.38
Puerto Rico	1,158,243	\$97,108,000	\$6.99
Kansas	1,284,666	\$133,996,000	\$8.69
Montana	480,860	\$60,255,000	\$10.44
Mississippi	1,250,753	\$183,856,000	\$12.25
Wyoming	273,429	\$44,058,000	\$13.43
North Dakota	332,667	\$55,312,000	\$13.86
South Dakota	333,770	\$75,125,000	\$18.76
Virgin Islands	68,956	\$20,115,000	\$24.31
Guam	65,044	\$19,277,000	\$24.70
Alaska	389,001	\$136,436,000	\$29.23
American Samoa	10,956	\$4,615,000	\$35.10
Total	151,029,353	-\$85,358,000	

CHANGE IN USF FUNDING

2000 – 2007



CHANGES IN USF FUNDING AND TELECOM REVENUES

1997 – 2007 (est).

