

**TESTIMONY OF KYLE McSLARROW
PRESIDENT AND CEO
NATIONAL CABLE & TELECOMMUNICATIONS ASSOCIATION**

on

**UNIVERSAL SERVICE: TRANSFORMING THE HIGH COST FUND FOR THE
BROADBAND ERA**

before the

Committee on Commerce, Science, and Transportation

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**PRESIDENT & CEO, NATIONAL CABLE & TELECOMMUNICATIONS
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Good morning Chairman Rockefeller, Ranking Member Hutchison, and Members of the Committee. My name is Kyle McSlarrow and I am the President and Chief Executive Officer of the National Cable & Telecommunications Association (NCTA). Thank you for inviting me today to testify on universal service reform.

NCTA represents cable operators serving more than 90 percent of the nation's cable television households and more than 200 cable program networks. The cable industry is the nation's largest provider of residential high-speed Internet service, having invested more than \$161 billion since 1996 to build two-way, interactive networks with fiber optic technology. Cable companies also provide state-of-the-art digital telephone service to more than 22 million American consumers in urban, suburban, and rural markets – almost wholly without any high cost support. Cable operators are committed to expanding access to quality voice and Internet services, and the dramatic growth in cable broadband subscribers is evidence of their success in doing so.

The universal service program has long been a critical element of our nation's communications policy, ensuring that all Americans have access to rapid and efficient communications services at reasonable rates – and it will undoubtedly remain a cornerstone of communications policy in the broadband era. As recent disasters have pointed up, many rural and remote areas of the country still lack access to the communications technologies that consumers in urban and suburban areas take for granted. It is appropriate for this Committee to

consider reforms to the USF high cost program so that the program most efficiently and effectively fulfills its objectives in today's environment.

As a major contributor to the federal universal service fund, the cable industry has a significant interest in USF issues. We believe it is time to consider ways to transition away from a monopoly-era support program and toward a more modern, neutral, and forward-looking high cost support mechanism that focuses on bringing broadband service to unserved areas and underserved populations – and that the growth of local competition offers the opportunity for policymakers to make this transition.

The recommendations of the National Broadband Plan on universal service reform provide a welcome starting point for transforming the high cost program for the broadband era. In order to ensure that the overall size of the fund remains reasonable, the Commission has proposed to cap the high cost fund at the 2010 level and sought comment on how to reduce the overall size of the fund. It has also proposed better targeting of high cost support to non-competitive areas. Specifically with respect to broadband, the Commission has proposed the establishment of the Connect America Fund (CAF) that directly supports broadband without increasing the size of the USF over the current baseline projection.

Consistent with these objectives, NCTA itself has advanced a proposal for eliminating high cost support in competitive areas where it is no longer needed. Our proposal would target reductions in areas where there is unsubsidized facilities-based competition, thereby freeing up funding that can be used to support deployment of broadband in unserved areas.

We also support S. 2879, the bipartisan Broadband Opportunity and Affordability Act introduced by Chairman Rockefeller and Ranking Member Hutchison, Subcommittee Chairman Kerry, and Senators Snowe, Pryor, and Warner. This bill would authorize the FCC to create a

two-year pilot program to expand the Commission's existing Lifeline program to cover broadband service. NCTA, working with a wide array of stakeholders, developed one such pilot program concept, the Adoption Plus (or "A+") program, a public-private partnership to promote broadband adoption for up to 3.5 million middle school-aged children eligible for the National School Lunch Program in approximately 1.8 million low-income households that do not currently receive broadband services.

I will address each of these issues in turn.

The Local Exchange Marketplace Has Changed Substantially Since Congress Created the USF Program in 1996

When Congress directed the FCC to create the Universal Service Fund program in 1996, incumbent local exchange carriers (ILECs) had a monopoly on the local exchange market, interexchange carriers were the only companies providing long distance service, wireless was a nascent service generally considered to be a luxury, and broadband Internet access was virtually nonexistent. Fourteen years later, the marketplace has changed completely. Cable operators today provide voice service to over 22 million voice customers, often offering it in rural areas throughout the country. Already, cable's entry into the voice market has produced billions of dollars in consumer benefits and promises even greater benefits in the future.

Notwithstanding these fundamental marketplace changes, however, the high cost program operates as if nothing has changed since 1996. Even as millions of Americans take service from facilities-based wireline competitors, and millions more decide they no longer need wireline voice services at all, the high cost fund continues to provide billions of dollars of support for wireline voice services provided by local telephone companies. And because of structural flaws in the high cost program, new entry by facilities-based competitors generally does not reduce the amount of support a local exchange carrier receives. As a result, the total

size of the federal USF program, and the resulting burden on consumers, continues to escalate at a staggering rate. The current USF program is on an unsustainable path, with the contribution factor set to remain above 13% beginning on July 1 – down only slightly from its high of more than 15% earlier this year (and as compared to under 6% ten years ago).

USF Reform Requires a Cap on the Size of the High Cost Fund

A critical first step in USF reform is placing a cap on the size of the high cost fund. Unless high cost support is brought within reasonable bounds, it would be imprudent to expand the high cost fund to cover broadband services. An effective cap in the size of the high cost fund is absolutely necessary to protect consumers and promote greater efficiency. Particularly if Congress or the FCC decides to bring broadband within the scope of USF, consumers should not be expected to pay any more than they do today. In its pending USF reform rulemaking proceeding, the FCC has appropriately sought comment on capping legacy high cost support provided to incumbent telephone companies at 2010 levels. NCTA strongly supports the imposition of such a cap, provided that it is implemented in a manner that ensures sufficient USF support for tribal lands, which have been persistently underserved.

High Cost Support Can be Reduced or Eliminated in Areas Where Basic Service Can Be Provided Without Such Support

One of the fundamental problems with the current high cost scheme is that it does not include any mechanism for reassessing which providers and areas should receive support. With competition now firmly entrenched in much of the United States, we believe a mechanism that directs high cost support away from areas with unsubsidized competition can and should be added to the USF framework to ensure that support is targeted to areas that require it.

Cable voice service is available to approximately 90 percent of U.S. households, all of which also have access to broadband service. The vast majority of these customers, even in rural

areas, are served without any high cost support. Of the billions of dollars in high cost support distributed in 2009, NCTA members received only about 1 percent.

The presence of an unsubsidized competitor that serves the vast majority of consumers in a market is, in our view, clear evidence that universal service support is no longer necessary in that particular market. Last fall, NCTA proposed a two-step process by which the Commission would reassess the level of USF support for providers in areas experiencing unsubsidized wireline competition. With our proposal, we submitted an economic analysis demonstrating the extensive scope of unsubsidized competition for both voice and video services in rural areas. In many study areas that currently receive high cost support we demonstrated that cable operators are serving more than 95 percent of households. Based on this analysis, we are confident that the reform of the current system will enable significant savings that can be used to provide targeted support to programs that promote broadband deployment, without harming customers in areas that receive support from existing mechanisms.

The National Broadband Plan set forth a comprehensive plan for reducing the funding for the legacy high cost support mechanisms and distributing high cost support in a more efficient, targeted manner, and using those savings to further the goals of universalizing broadband without increasing the overall size of the universal service fund. As recommended in the National Broadband Plan, the Commission has proposed changes for all types of high cost support recipients, including freezing Interstate Common Line Support (ICLS) funding received by rate-of-return carriers; redirecting Interstate Access Support (IAS) funding received by price cap carriers toward broadband deployment; and phasing out the remaining legacy high cost support for competitive eligible telecommunications carriers. These initial steps would be

followed in the future with more fundamental reforms of existing mechanisms and creation of a new broadband mechanism.

Provided that these steps are taken in a manner that is competitively neutral and sensitive to the needs of tribal areas, we think the FCC has laid the groundwork for meaningful high cost support reform. Competitive neutrality entails two elements. First, the high cost program should be open to all communications service providers able to provide required services, rather than limiting participation to only telecommunications carriers, as in the current program. Second, the service area of an eligible provider should be defined as the area where the provider is licensed or authorized to provide services, rather than requiring all providers to serve the area defined by an underlying incumbent local exchange carrier or seek a waiver.

Universal Service Support for High-Speed Broadband

Broadband Deployment. Given the importance of broadband to our economy and society and its increasingly central role as a communications medium, we agree that it is appropriate to consider changes in the high cost program to help achieve the national goal of universal access to broadband. But the history of staggering growth in the high cost program suggests that the role of USF in promoting broadband must be carefully tailored to unserved areas and populations.

At a minimum, USF support for broadband deployment should be targeted at those areas that currently do not have broadband facilities in place. Cable broadband service – which was created from billions of dollars of private investment and without any significant government subsidy – is already available today to 92 percent of U.S. households and subscribed to by more than 40 million of those households. It would be a poor use of scarce government resources to subsidize a broadband competitor in communities – including many small, rural communities –

where cable operators have invested risk capital to deploy broadband services. Government subsidies for one competitor in markets already served by broadband also might discourage the existing provider from making continued investments in its network facilities.

The FCC's fresh look at universal service for the broadband era includes many of these elements. In particular, the National Broadband Plan proposes to cut inefficiencies in existing support of voice services and create a Connect America Fund (CAF) that directly supports broadband without increasing the size of the USF over the current baseline projection. As proposed by the Commission, the CAF would only provide funding in geographic areas where there is no private sector business case to provide broadband and high-quality voice-grade service. The CAF would also be available on a company- and technology-agnostic basis, so long as the supported broadband service provided meets the specifications set by the FCC. As I've explained, this competitive neutrality is an essential element of any reform.

The Commission has proposed that the CAF be used in unserved areas to fund broadband service with actual download speeds of at least 4 Mbps and actual upload speeds of at least 1 Mbps and an acceptable quality of service for the most common interactive applications. We believe this approach strikes an appropriate balance between the goal of extending broadband to areas that currently lack it, while ensuring that the costs of the universal service program will remain reasonable. However, it is important to note that the Commission also proposed to review and reset this target every four years, which would ensure that no area would be without access to broadband at speeds comparable to what is generally available through the operation of market choice.

Broadband Adoption. Given widespread broadband deployment, we believe that Congress should focus on promoting broadband *adoption*. Even in areas with one or more

broadband providers, there are often barriers to broadband adoption – such as affordability, lack of a computer or other equipment to connect to the Internet, and low levels of basic “digital literacy.” Of course, any broadband adoption program must be technology- and competitively neutral, with eligible consumers given the same choice of providers as all other consumers – either through a voucher program or by enabling all broadband providers to recoup the costs of subsidizing service provided to low-income households.

As a first step in extending USF support to broadband adoption, we strongly support the establishment of a pilot program as contemplated by the Broadband Opportunity and Affordability Act. S. 2879 would expand the existing Lifeline program to cover broadband service. For purposes of developing the pilot program, the bill appropriately directs the FCC to consider the prevailing market rate for broadband service and the prevailing speed of broadband service adopted by households – this is essential to ensure that the cost of the program remains reasonable while promoting the goal of broadband adoption. The bill also directs the FCC to ensure that the program is technology-neutral in order to promote competition from broadband service providers to qualify to participate in the program. As I noted earlier, this is a critical element of any broadband adoption program.

The Adoption Plus Program

NCTA has been at the forefront of developing a broadband adoption pilot program concept – the Adoption Plus (or “A+”) program. A+ would be a comprehensive program that includes (1) digital media literacy training; (2) discounted computers that can access the Internet; and (3) discounted home broadband service to households that do not currently receive broadband service. Because it is one example of how a pilot program might work, if established by legislation such as S. 2879, I include some more detail on A+ below.

First, school districts, or their state equivalent, would be responsible for providing federally funded digital media literacy training to eligible students, including online safety and the responsible use of broadband. Once an eligible student is enrolled in an A+ digital media literacy program, he or she would be eligible to purchase a single discounted computer. Participating computer manufacturers would be expected to provide their own contribution to discount the cost of computers. Finally, for any household with a computer and an eligible student enrolled in an A+ digital media literacy program, participating ISPs would provide broadband service at a 50 percent discount; provide a modem at a 50 percent discount, whether purchased or rented; provide free installation of broadband service; and provide parental control software and other online safety/security tools. Participating ISPs would provide the discounted service for a period of two years, which would consist of its entry-level broadband tier.

The program contains three eligibility criteria: participants must be middle school students (grades 6-8 or 7-9, depending on the particular school district); participants must be eligible for free or reduced-price school lunches under the National School Lunch Program; and the participant's household does not currently receive broadband Internet service. These criteria were chosen to target a population where the A+ program can have a significant impact. Low-income households have dramatically lower broadband adoption rates than the general population, and middle school students – with appropriate guidance and digital media literacy training – are developmentally capable of safely and effectively taking advantage of the benefits of broadband.

The goal of the A+ program is to help give millions of students the opportunity to become digital citizens of the 21st Century by driving sustainable broadband adoption and positively and materially affecting educational outcomes. Meeting this goal would not only

advance the economic and social well-being of participating students, it would advance the economic and social well-being of our nation for decades to come. We believe this targeted approach to expanding broadband adoption is an example of how we can bring broadband to populations that cannot afford it today.

Conclusion

NCTA welcomes the Committee's interest in USF reform. Reform is imperative if the program is to be able to continue to meet its goals and adapt to the significant changes in technology since the program's inception. We remain committed to working cooperatively and constructively with Members of this Committee and other stakeholders to address these issues. We appreciate the opportunity to share our views with you and thank you again for the opportunity to appear today.