

WRITTEN STATEMENT

of

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**Commissioner,
Federal Communications Commission**

on

The Present and Future of the Universal Service Fund

**Before the
Committee on Commerce, Science, and Transportation
United States Senate**

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**Written Statement of
Deborah Taylor Tate**

Good morning, Chairman Inouye, Vice-Chairman Stevens, and distinguished members of the Committee. I especially want to thank you, Chairman Inouye and Vice-Chairman Stevens, for your leadership and commitment to universal service.

I appreciate your invitation to participate in this hearing. It was exactly one month ago that I sat at this table before you with the other members of the Federal Communications Commission (FCC or Commission). At that time, I stated my commitment to promoting the availability of quality, affordable telecommunications services to consumers – no matter where they live – across the United States and I reemphasize that today.

I also wanted to recognize the work of this Committee on universal service issues. I applaud Senator Stevens' introduction of the Universal Service for Americans Act, S. 101, which addresses an array of universal service issues. For example, the bill addresses universal service contributions by giving the Commission discretion to assess both interstate and intrastate revenues – a solution to expanding and stabilizing the contribution base that is not available to the Commission under the existing Act. I also look forward to working with other members of this Committee who may be introducing legislation on universal service.

Today, I am here again not only as an FCC Commissioner, but also in my role as Chair of the Federal-State Joint Board on Universal Service (Joint Board), a role that I am honored to serve and greatly respect. I am pleased that I am joined by some of my Joint Board colleagues – fellow FCC colleague Commissioner Mike Copps, Commissioner Larry Landis of Indiana, Commissioner John Burke of Vermont, and Director Billy Jack

Gregg of the Consumer Advocate Division of West Virginia. All of the Joint Board members – those here today, as well as FCC Chairman Martin, Joint Board State Chair Ray Baum of Oregon, and Commissioner Edgar from Florida – deserve praise for their commitment to the in-depth study of these complex issues in addition to their full time jobs as government officials. I also appreciate our mutual desire to build consensus to address the challenges before us.

Congress required the FCC to institute a Joint Board “to recommend changes to any of [the FCC’s] regulations in order to implement sections 214(e) and [254]” of the Act. Accordingly, I welcome the opportunity to hear directly from you regarding universal service issues facing the FCC, the industries we impact and most importantly, as section 254 of the Act states, “consumers in all regions of the Nation.” Like many of you, I have seen and experienced firsthand the opportunities provided by universal service in very rural areas. I remember the day the telephone wire was rolled up a gravel road to my grandmother’s house in rural Tennessee – likely impossibility without a universal service program. At the same time, in my roles at the FCC and on the Joint Board, I have a responsibility to preserve and advance the universal fund to best serve the public interest.

Since becoming Chair of the Federal-State Joint Board on Universal Service, the Joint Board has continued its work to review the universal service policies and respond to the FCC’s referrals. I have been committed to keeping our work on a timetable paced to fulfill our statutory role in a thoughtful and deliberative manner, including holding meetings and conference calls, issuing notices, and reviewing comments. The Joint Board staff held a retreat for 3 days in June 2006 to review outstanding and new

proposals, and the Joint Board met in August 2006 during the NARUC meeting in San Francisco. Because there were several newer members of the Joint Board, including myself, in September, we hosted a two-day meeting at the FCC focusing on training. We heard from USAC, NECA and FCC Bureau experts about the mechanics of the universal service programs. The state members of the Joint Board and staff met again in November 2006 during the NARUC meeting in Miami. The full Joint Board held its recent *en banc* hearing less than two weeks ago here in Washington, D.C. We were pleased that members of your staffs attended as well.

We continue to evaluate the issues expressly delegated by the FCC to the Joint Board for consideration, including what many call the “rural review” proceeding and the “basis of support” elements of the competitive ETC review. As a part of its analysis, the Joint Board is looking at ways to improve the distribution of high cost universal service support. Accordingly, we continue to evaluate draft proposals, hear from experts, and explore solutions that will help sustain the benefits of the universal service program for years to come. As Chairman of the Joint Board, I hope to encourage discussion among my colleagues and facilitate consensus that will ensure that American consumers throughout the nation continue to have access to an evolving level of innovative services.

Although the Joint Board has been considering several options, last summer, the Joint Board sought public comment on the use of reverse auctions as a tool to improve the distribution of high cost support. On August 11, the Joint Board issued a Public Notice and sought comment on primary questions, such as the overall appropriateness and legality of implementing reverse auctions, as well as questions about the mechanics of any reverse auctions, such as federal and state jurisdictional roles, quality of service

obligations, and the unique questions regarding the treatment of incumbent local exchange carriers (LECs). The Joint Board received numerous comments and reply comments last fall, and also received additional submissions in the record. Further, as a part of last week's *en banc* hearing, the Joint Board heard experts, including witnesses from the National Telecommunications Cooperative Association, Verizon, and CTIA-The Wireless Association discussing specific proposals, benefits, and concerns regarding the use of reverse auctions. We also heard from experts on geo-spatial mapping and more targeted approaches to the distribution of support that would modify our current programs, including witnesses from the Polis Center in Indianapolis, CostQuest Associates, and Embarq. I am encouraged that you plan to hear from some of these same groups later today.

I think it is important to understand how technological change in the industry is impacting the policy discussion. The communications marketplace continues to evolve daily, as convergence shakes the foundations of the old order for industry, for government, and for consumers alike. While this convergence creates real benefits for consumers through the introduction of exciting new services and increased competition among multiple service providers, it also challenges us to adapt our regulations to keep pace with these technological changes.

The Joint Board continues to carefully evaluate the balance of issues at the intersection where the policies of universal service and competition meet. It is critical that we not lose sight of the universal service goals, as we look forward to ensuring that an evolving level of communications services are rolled out to all areas of the country.

As we heard at the *en banc*, the area of greatest growth in the high cost program relates to the increasing entry of competitive ETCs into rural areas. The fact is that overall support funding for incumbent LECs has been flat or decreasing in recent years. On the other hand, we have witnessed rapid growth in the funding of CETCs – sometimes funding a second, third or more entrants in what have been determined to be *high cost* markets. According to FCC and USAC data, competitive ETC funding has grown from \$1 million in 2000 to \$1 billion in 2006. If this continues at the present rate, CETC funding could double by funding year 2008.

This growth is not only due to multiple providers receiving high cost support, but also because CETCs receive universal service support based on the incumbent LEC's embedded costs or the per line support amount that the incumbent LEC receives. But as we heard at the *en banc*, as competitors enter areas supported by universal service high cost funding, their actual costs are likely to be very different, often lower, than the incumbent telephone carrier's costs on a per line basis.

Discussion of this issue should not be construed as critical of the dazzling array of services that competitors, including wireless providers, are bringing to the rural areas of our country. Indeed, wireless services have added a new dimension to connectivity – mobility – that is very important to many consumers. It is no wonder that wireless telephone connections now far out strip the number of wireline connections – by over 25 percent, according to the FCC's most recent figures. I have mentioned the issue to you in detail because the fact is that the growth of universal service high cost support is easily identified, and is expected to continue to grow rapidly.

As we look ahead to the long-term goals of the universal service program, we must balance the goal of encouraging competitive entry with the other challenges, such as the further deployment of advanced services. For instance, Alltel recently filed a novel proposal to allocate funding for broadband in unserved areas through competitive bidding. It is essential that as the converging communications landscape changes, we recognize how technological changes are putting strains on the mechanics of our contribution and distribution systems which must be addressed by policies that avoid subjecting the program to unsustainable growth. Like you, as a federal official, we are stewards of these consumer dollars. While doing all we can to ensure that affordable, quality services are available to consumers all across the country, we must do so in a way that is sustainable to allow new generations of Americans to have access to the latest generation of services so that our country is able to compete in the increasingly global economy.

Again, I appreciate your invitation to be here with you today. I look forward to hearing from you today and in the future, and I will be pleased to answer any questions.