

TESTIMONY OF KATHLEEN Q. ABERNATHY
SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
“UNIVERSAL SERVICE REFORM—BRINGING BROADBAND TO ALL
AMERICANS”

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Good afternoon Chairman Rockefeller, Ranking Member Hutchison, and Members of the Committee. It is a privilege to appear before you this afternoon to discuss proposed reforms to universal service that will further promote broadband deployment to all Americans. Universal Service Fund (USF) reform, intercarrier compensation (ICC) reform, and broadband deployment are all issues I have been working on for a long time – as a telecommunications attorney in private practice, as a commissioner at the FCC, and now as Chief Legal Officer and Executive Vice President of Regulatory Affairs at Frontier Communications.

Frontier is the largest provider of broadband, voice and video services focusing on rural America and the fourth largest incumbent local exchange carrier in the Nation. During the last century, Frontier’s mission was ensuring that everyone in its service area had access to reliable voice telephone service – the main means of communication. While Frontier continues to provide quality voice service, broadband has become the communications technology of the 21st Century, and Frontier has redefined its mission to provide reliable broadband service throughout its footprint.

At Frontier, we embrace the position expressed by this Committee, Congress, the Administration and the FCC that broadband is the essential infrastructure of our time, capable of advancing job creation and economic growth, ensuring public safety, providing access to improved healthcare, enhancing education, and opening the doors of opportunity for all. But, to achieve these benefits, broadband should be available to all. Frontier is committed to deploying broadband to some of the hardest-to-serve areas in the Nation – areas where the population is scattered and the terrain challenges are hard to manage.

Despite these challenges, Frontier has been aggressively deploying broadband throughout rural America. As of 15 months ago, Frontier had deployed high speed Internet to 91% of the households in its footprint. In July 2010, Frontier extended its commitment to serving rural America when we purchased the rural wireline operations of Verizon in 14 states. As a result, Frontier now has a coast-to-coast rural footprint in 27 states and is the largest service provider in West Virginia. Frontier made clear that it would focus on deploying broadband in these newly acquired areas. Over the past year, Frontier has invested heavily in the network with the goal of bringing broadband access from approximately 60% availability up to 85% in the newly acquired markets by the end of 2013. Additionally, over the same period, Frontier has invested more than \$750 million in capital expenditures. And, our commitment to the rural markets we serve is demonstrated by our 100% U.S. workforce.

Frontier's mission of providing high speed Internet to rural America is directly aligned with the Committee's objective of ubiquitous broadband. At the same time, we are well aware of the challenges of delivering service to the last 10% to 15% of the population that remain unserved. The economics of deploying broadband to this hardest-to-serve segment of the population with private capital alone are daunting. The cost of deployment is exponentially higher than in the more densely populated areas and the base of customers is limited, which in turn limits potential return on investment. Even given Frontier's existing infrastructure, which provides traditional phone service to these areas, the cost of upgrading the existing facilities to make them broadband-capable dwarfs any potential revenues. Simply stated, there is no business model for providing broadband service in these areas without an effective government support program to bridge the gap.

The National Broadband Plan accurately concluded that serving most of the currently unserved areas of the country would be a money-losing proposition. To address this, the National Broadband Plan recommended transitioning the current Universal Service Fund for voice to a

broadband fund while also reforming the arcane and outdated intercarrier compensation system. After reviewing various proposals, FCC Chairman Julius Genachowski announced last week that the FCC would act on a recommendation later this month. Frontier has been active in the FCC proceeding and joined with AT&T, CenturyLink, FairPoint, Verizon and Windstream in support of the America's Broadband Connectivity Plan, or ABC Plan. The ABC Plan, in conjunction with the reform proposal for rate-of-return providers offered by the rural local exchange carrier associations NTCA, OPASTCO and WTA, provides a consensus framework for key areas of universal service and intercarrier compensation reform.

It was no small task to find common ground among the six largest incumbent local exchange carriers. All of the companies have historically had varying and adverse positions on how to reform the existing system. But after several months of deliberations, negotiations and compromises, we were able to agree on a proposal that meets the principles articulated by Chairman Genachowski: a transition to broadband, fiscal responsibility, accountability and market-driven policies.

- The ABC Plan transitions the current voice support mechanism to one that supports broadband. The newly created broadband fund will provide millions of Americans in high-cost areas with broadband access.
- The ABC Plan is fiscally responsible. It does not increase the size of the current High Cost Fund.
- The ABC Plan requires accountability. Funding recipients are required to provide defined results.
- The ABC Plan has market-driven policies. It uses a forward-looking model to distribute funds quickly and efficiently, where applicable.

Transition to broadband with limited funds.

It is a complex project to transition the fund that currently supports voice service to one that supports deployment and operation of broadband service, all while maintaining the size of the fund. The ABC Plan meets these goals by more precisely targeting support for broadband to the most expensive and hardest-to-reach areas of the country on a granular, census block level. In addition, no support will be available where an unsubsidized broadband provider such as cable already offers service.

Funding framework provides for quick and efficient deployment.

In addition, the ABC Plan leverages existing broadband investment in certain areas to achieve rapid build-out to adjoining unserved areas. In particular, where an existing provider has already built out broadband to 35% of an area, the proposal offers that provider the opportunity to speedily complete build-out to the entire area with support calculated by the approved cost model. Some oppose this aspect of the proposal and recommend instead a lengthy, complex and burdensome reverse auction process to determine how new broadband support should be distributed. Before even getting to the “race to the bottom” with a reverse auction, the FCC will have to develop the ground rules for this cumbersome approach to funding the 900,000 census blocks in play. The initial result will be to delay broadband build-out for several years. Yet, incumbent carriers such as Frontier have been providing voice service under Title II, as well as under state regulations such as Carrier of Last Resort requirements, to these areas for some time. With incremental investment, the existing voice infrastructure can be upgraded to provide broadband. It is unlikely that a new provider would have both existing infrastructure and experience in the area to produce similar efficiencies within the same timeframe. Given the need for rapid deployment of broadband service to these high cost, unserved areas, and the fact that these areas are already served by traditional phone service, the ABC proposal best accomplishes the FCC’s goals.

Ubiquitous broadband benefits all.

Clearly, this Committee recognizes the great benefits that broadband will bring to Americans – in both rural and urban areas. While Frontier chiefly serves rural America and focuses on the benefits that broadband will bring to its residents, urban and suburban residents will benefit from this Plan as well. On a very basic level, the Plan maintains the size of the fund, which means that the FCC will not require increased contributions from urban and suburban ratepayers. Most importantly, the entire country benefits from having access to 21st Century technology; friends, relatives, businesses and potential customers can connect with each other – whether in urban or rural markets.

Intercarrier compensation reform is inextricably linked to modernization of USF.

I hesitate to discuss intercarrier compensation because it can make USF reform seem like a walk in the park. But I must stress that reform of ICC is inextricably linked to USF reform. The intercarrier compensation system – which dictates how much carriers pay each other to complete calls over each other's networks – grows more outdated as communications technology shifts from legacy voice networks to broadband. The ABC Plan proposes a five year transition of the many intercarrier compensation rates to a much lower uniform rate, and gives carriers options to try to make up revenue lost to mandated rate cuts. In particular, the proposed uniform intercarrier compensation rate for the termination of voice traffic will go from as much as 36¢/minute for some intrastate rates, to .07¢. That means that long distance and wireless providers will be paying significantly less to have their customers' calls terminated on the public switched telephone network (PSTN), and we believe that benefit – which has been estimated to translate to \$9 billion per year nationwide in consumer benefits – will get passed on to consumers in numerous forms including long distance rate reductions and increased investment and innovation. In addition, a unified terminating rate will eliminate arbitrage opportunities such as phantom traffic and traffic pumping, which have resulted in significant administrative costs,

lost revenues and uncertainty for providers.

Revenue replacement for losses in access revenues.

With this significant decrease in intercarrier compensation rates, many providers will lose revenues used to maintain and upgrade networks in high cost areas. Incumbent local exchange carriers' monthly basic service rates for consumers are generally regulated by state public utility commissions and range from under \$10 to \$30 or more, depending on the state. In addition to the state component of the basic service rate, the federal government permits carriers to apply a limited subscriber line charge (SLC). Under the ABC Plan, in areas where local telephone rates plus the SLC and all taxes are below a benchmark of \$30, carriers may raise their subscriber line charges by 50¢ to 75¢ per year to help compensate for some revenue losses that result from intercarrier compensation reform. These potential increases are optional, and in some places carriers will not be able to raise their SLCs because their rates already hit the benchmark, while in other markets the companies will need to forego the opportunity to recover the revenue as competitive or other factors will not enable an increase in local voice rates. Frontier takes any rate increase very seriously, as do our customers, but we note that our voice competitors, such as competitive local exchange carriers, wireless providers and cable through voice over Internet protocol (VoIP), have no similar rate regulation or service area requirements.

In closing, we believe the time to act on comprehensive reform of universal service and intercarrier compensation is now. As the senior Members of this Committee and the panelists sitting with me here know well, updating universal service and intercarrier compensation is difficult. The ABC Plan along with the rate-of-return proposal provides a framework for comprehensive reform of the existing systems while observing the key principles laid out by FCC Chairman Genachowski and providing significant benefits to consumers. It is a carefully negotiated proposal among the carriers with the most history and involvement in universal service and intercarrier compensation. We urge the FCC to take momentous action later this

month by implementing as closely as possible, our comprehensive proposal. And we hope you will support us in this process. Thank you.