

**TESTIMONY OF FCC COMMISSIONER MEREDITH A. BAKER
UNITED STATES SENATE COMMITTEE ON COMMERCE, SCIENCE, AND
TRANSPORTATION
“UNIVERSAL SERVICE: TRANSFORMING THE HIGH-COST FUND FOR THE
BROADBAND ERA”**

JUNE 24, 2010

Chairman Rockefeller, Ranking Member Hutchison, Members of the Committee, it is a privilege to appear before you today. I look forward to working with you as you consider the many important issues involved with reform of the Universal Service Fund (USF) broadly and the High-Cost component of the Fund more specifically. I would like to share a few remarks with you here this morning.

The National Broadband Plan was a monumental effort that has created a base of knowledge and recommendations on which the Commission can build critical reforms to achieve Congress’ goal of “ensur[ing] that all people of the United States have access to broadband capability.” Throughout the Plan, there are places where I would have made different recommendations and suggestions, but I am grateful to the Commission’s Broadband Team for its hard work and find that significant parts of the Plan deserve careful consideration. In no part of the Plan is that more true than in the analysis of and proposed reforms for the High-Cost Fund. When the Plan was presented, the Commission—on a unanimous, bipartisan basis—laid out goals for the Commission’s work ahead. Comprehensive universal service reform is central to that consensus.

Historically, universal service has been a success story. With a combination of private investment and targeted support, nearly all Americans have telephone service today. We are well on our way to that success for broadband. Under a light-touch regulatory approach, we have gone from a narrowband dial-up world to a multi-platform broadband world by crafting a regulatory framework that promotes facilities-based competition. Private industry from every communication platform has responded, making broadband available to 95 percent of Americans, the vast majority of which have a choice among competing providers.

But there is absolutely more to be done to reach the remaining seven million unserved households that the Plan has identified. We must strive to get more broadband—with faster speeds—deployed to more Americans in more places. Broadly speaking, I support the Plan’s emphasis on comprehensive USF reform, targeted to broadband investment. A reformed and modernized High-Cost Fund is the keystone. At the same time, intercarrier compensation and middle-mile connections must be part of regulatory reform if broadband is going to be a solid platform for economic development and job creation.

It is widely recognized that our current system of explicit and implicit subsidies is inefficient, outdated and poorly suited to a world increasingly dependent on broadband connections to the Internet. I support the guiding principles of comprehensive reform laid out in the plan:

- Support broadband deployment directly.
- Maximize broadband availability.
- Avoid flash cuts to existing support.
- Coordinate reform between federal and state levels.

Of course, the details here will be challenging. It is critical that we transition in a careful way to an explicit support mechanism that will ensure accountability, efficiency, and adequate funding in areas where market forces are not sufficient to drive broadband services to America's consumers.

Many carriers are justifiably concerned about how this could affect their network investments, services to their customers, and even their financial viability. I have heard the deep concerns from rural carriers in particular. The proposal in the Plan does not answer all questions. Many of the fine points will have to be fleshed out in full Commission proceedings. We must move universal service forward into the broadband era—but we do not do that on a blank slate. We must transition in a way that avoids shock to consumers or providers that could endanger connections to the network—broadband or traditional voice services on which users depend. As we make decisions about how the new Universal Service Fund will work, we will not lose sight of the special circumstances facing rural America. We also recognize that certain areas of the nation, such as Alaska and tribal areas, face unique challenges.

But we must also be mindful that the Universal Service Fund is not without limits. The Fund has grown from \$2.3 billion in 1998 to nearly \$9 billion this year. Consumers pay for this. The universal service contribution factor has been as high as 15.3 percent. This is real money from real people. Our efforts to modernize should not lead to further growth of the overall size of the Fund. It is our obligation to ensure that money is spent wisely to achieve the goals set out by Congress—but without distorting the market or breaking the bank.

As I have said many times, comprehensive universal service reform is long overdue. Untangling these issues has been perplexing the Commission for decades. I am optimistic that following the National Broadband Plan, we now have an open window of opportunity for real reform to finally address these thorny issues. Hard choices will have to be made and not all vested interests can be satisfied. But I believe we must repurpose the nearly \$9 billion Universal Service Fund for the broadband era—and that must include reform of the High-Cost Fund.

Chairman Genachowski has announced that we will launch several related notices of proposed rulemaking in the fourth quarter of this year. I hope we will be able to achieve the ambitious schedule for reform laid out in the Plan and I am eager to work with my colleagues to achieve our consensus goals for USF reform.

Thank you again for the opportunity to be here today. I would be happy to answer any questions you may have.