

**WRITTEN STATEMENT**

**of**

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**Commissioner,  
Federal Communications Commission**

**on**

**Preserving and Advancing Universal Service**

**Before the  
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Committee on Commerce, Science, and Transportation  
Subcommittee on Communications**

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## **STATEMENT OF COMMISSIONER KATHLEEN Q. ABERNATHY**

Good morning, Chairman Burns, Senator Hollings, and distinguished members of the Subcommittee. I appreciate the opportunity to appear before you to discuss the FCC's efforts to preserve and advance universal service.

The goal of providing high-quality telecommunications services to all Americans at affordable rates is a cherished principle in U.S. telecommunications policy and one of the cornerstones of the Telecommunications Act of 1996. I know that every member of this Subcommittee understands the importance of universal service, and, as Chair of the Federal-State Board on Universal Service, I make it a top priority to ensure that the federal support mechanisms fulfill their objectives.

The 1996 Act directed the FCC to promote two key goals that at times appear to be in tension with one another: opening local markets to competition and preserving universal service. The prior monopoly environment enabled regulators to promote universal service by building implicit subsidies into local and long distance rate structures. The introduction of competition, however, erodes these subsidies as new entrants undercut rates that were set well above cost, such as business rates in urban areas. Congress accordingly directed the FCC to adopt explicit support mechanisms that would be sufficient to ensure that rates remain affordable and reasonably comparable throughout the nation. In response, the FCC developed several explicit support mechanisms for carriers that provide service in high-cost areas. High-cost support will total over \$3.2 billion in 2003.

Congress also expanded the scope of universal service by directing the Commission to establish support mechanisms for schools and libraries and for rural health care facilities. The schools and libraries program (often called the e-rate program) provides up to \$2.25 billion in annual support and has enabled millions of school children and library patrons to gain access to advanced telecommunications and Internet services. While the rural health program generally has been underutilized, the FCC is considering a variety of measures to strengthen it, as discussed below.

In addition to the high-cost support mechanisms and the programs supporting schools, libraries, and rural health clinics, the FCC's Lifeline and LinkUp programs provide discounts off monthly service charges and connection fees to ensure that low-income consumers have access to basic telephone service. Last year, these programs provided approximately \$647 million in support.

All of these programs promote the universal service goals set forth in section 254(b) of the Act, including the availability of quality services at affordable rates; access to advanced services in all regions of the Nation; comparable access to telecommunications services for all consumers, including low-income consumers and those living in rural, insular, and other high-cost areas; and access to advanced services for schools, libraries, and rural health care facilities. Shortly after Congress's enactment of the 1996 Act, the FCC adopted rules regarding the collection and distribution of

universal service support. Now, with several years of experience under our belts, we are engaged in a reexamination of many aspects of the program to ensure that each component is administered as efficiently and effectively as possible. A host of marketplace and technological developments have already prompted some course corrections, and may ultimately cause us to reassess certain fundamental policy choices made in the initial implementation period. As we engage in this review, our commitment to preserving and advancing universal service remains unwavering.

I describe below some of the challenges confronting universal service and the efforts the FCC has underway to ensure that each component of the universal service program remains faithful to the principles set forth in section 254 of the Act. These proceedings aim to improve and strengthen all of our support mechanisms, and therefore will benefit consumers in high-cost areas, families with low income, and patrons of schools, libraries, and rural health care facilities.

### **High-Cost Support**

The Commission and the Joint Board have three pending proceedings that focus on the distribution of support to high-cost areas. First, with respect to the support mechanism for non-rural carriers (the Bell operating companies and other large independent LECs), the FCC is considering a Recommended Decision from the Federal-State Joint Board in response to a remand by the Tenth Circuit Court of Appeals. The court ruled that the Commission did not adequately explain how the non-rural support mechanism is sufficient to enable states to set affordable rates that are reasonably comparable in both rural and urban areas. In particular, the court directed the Commission to consider how to induce states to develop their own support mechanisms to fund high-cost areas within their borders, since the federal mechanism aims primarily to mitigate cost differentials *among* the states. The Joint Board issued its recommendations last October, and the Commission will complete its consideration of the issues later this year.

A second FCC proceeding relating to high-cost support focuses on the definition of services that are eligible for universal service support. Supported services include voice-grade local service, access to 911, access to interexchange services, and other basic local services. In a Recommended Decision issued last July, the Joint Board recommended maintaining the existing list of supported services. One issue that is likely to be of interest to the Subcommittee was the Joint Board's discussion of providing direct support for broadband services, in addition to the support for underlying loop facilities that carriers receive today. The Joint Board recognized the increasing importance of broadband services in the lives of American consumers, but concluded that broadband fails to satisfy most of the eligibility criteria set forth in section 254(c)(1) of the Act. Specifically, the Joint Board stated that broadband services are not yet *essential* to education, public health, or public safety, because such resources are readily accessible through alternative means, such as voice service or dial-up Internet service. In addition,

broadband services have not been subscribed to by a substantial majority of residential customers. The Joint Board further opined that providing direct support for broadband services — in addition to already providing support for underlying loop facilities — would not serve the public interest, because it would place enormous financial burdens on American consumers and threaten the sustainability of the universal service fund. Moreover, because ETCs must provide all supported services to be eligible for funding, adding broadband to the list would threaten to withdraw support from those carriers that have not yet upgraded their networks to enable the provision of broadband services. The Commission is currently considering this Recommended Decision and will issue a final order later this year.

The third proceeding regarding high-cost support will focus on the intersection of competition and universal service in rural areas. The Commission referred this proceeding to the Joint Board in November 2002, and the Joint Board issued a public notice seeking comment in February. The issues for comment include the impact of providing support to competitive eligible telecommunications carriers (ETCs) on the growth of the universal service fund, the manner in which competitive ETCs receive support (often called “portability”), and the consequences of supporting multiple lines per household. The public notice also sought comment on the process for designating ETCs and whether the FCC should establish guidelines for consideration by the state commissions that make these determinations under section 214(e)(2). Following the close of the comment period, the Joint Board intends to organize a public forum involving rural LECs, wireless carriers, consumer groups, and other interested parties to gather additional information.

While this rulemaking is only in its preliminary stages, its importance is undeniable and it will accordingly be the Joint Board’s primary focal point in 2003. Of the 1,400-plus ETCs that received high-cost support in the fourth quarter of 2002, 63 were competitive ETCs (including a number of mobile wireless carriers). Competitive ETCs received approximately \$14 million that quarter, compared to more than \$800 million for incumbent LECs. Yet this support flowing to competitive ETCs was seven times higher than in the first quarter of 2001. So while the share of high-cost support distributed to competitive carriers remains small (less than 2% of the total), it is growing quite rapidly. This trend underscores the timeliness of the Commission’s review of its rules for providing support to competitive ETCs.

### **Schools and Libraries and Rural Health Care Facilities**

Now that the Commission has had significant experience overseeing the support mechanisms for schools and libraries and rural health care facilities, we are seeking in two pending rulemakings to capitalize on this experience by making these programs more effective and efficient.

The schools and libraries proceeding aims to streamline the application and appeals processes by eliminating red tape and any other needlessly burdensome

requirements. At the same time, this rulemaking focuses on potential rule changes to address issues that have been identified in the course of the Commission's ongoing oversight of the e-rate program. The Commission is fully committed to taking actions where necessary to address waste, fraud, and abuse and will consider initial rule changes based on the record in the very near future. I have also announced that, in cooperation with Chairman Powell and my other colleagues, I am organizing a public forum on May 8 focusing on several of the oversight issues raised in the rulemaking. To the extent that issues remain outstanding following the Commission's upcoming Report and Order, I hope that the public forum will enable us to quickly develop a consensus on additional means of protecting against gaming of the system. Our efforts to improve the Commission's oversight will help ensure that funds are disbursed in an efficient and evenhanded manner so that deserving school children and library patrons continue to have access to critical services.

The Commission's rulemaking on the support mechanism for rural health care facilities likewise seeks to strengthen the program. Whereas the schools and libraries program cannot fully fund applicants' requests, the rural health program has been underutilized. The notice of proposed rulemaking sought comment on ways to modify eligibility requirements to eliminate obstacles to rural health clinics' receiving support while remaining faithful to the statutory purposes. The Commission recognizes that facilitating telemedicine by connecting rural health clinics to regional hospitals and universities takes on added importance in light of the increased threat of terrorism. We accordingly hope to complete this proceeding expeditiously.

### **Low-Income Support**

The third component of the federal universal service regime is the low-income support mechanism, Lifeline/LinkUp. The Joint Board will soon release a Recommended Decision on proposals to bolster the effectiveness of this mechanism. This Recommended Decision suggests new ways for low-income consumers to qualify for support and also addresses questions regarding states' efforts to engage in outreach and to verify program eligibility. As with the e-rate and rural health care programs, the goal of the rulemaking is to remove impediments to beneficiaries' receiving support while simultaneously preserving the integrity and enhancing the efficiency of the program.

### **Contribution Methodology**

Each of the programs described above draws support from a pool of carrier contributions made pursuant to section 254(d). In a series of related proceedings, the Commission has been actively exploring changes to the methodology for assessing contributions on carriers. Since 1997, contributions to the explicit support mechanisms have been assessed on carriers as a percentage of their revenues from end-user *interstate* telecommunications services. Several trends have combined to put upward pressure on the contribution factor (which is currently 9.1%), which in turn has increased the funding

burden on consumers. While long distance revenues grew between 1984 and 1997, they have since been flat or in decline as a result of price competition and substitution of wireless services and e-mail. Because federal universal service contributions by law may be assessed only on interstate revenues, this shrinking of the revenue base has caused the contribution factor to rise steadily. Another important trend has been the increasing prevalence of bundled service plans. For years, wireless carriers have offered buckets of any-distance minutes at flat rates, and now wireline carriers such as MCI and Verizon are offering packages including local and long distance for a single price. In addition, many carriers offer business customers bundles that include local and long distance voice services, Internet access, and customer premises equipment. Such bundling has been a boon for consumers but has made it difficult to isolate revenues from interstate telecommunications services. And the problem is likely to get worse as bundling becomes more and more popular.

In December 2002, the Commission adopted a number of measures to stabilize the universal service contribution factor in an effort to mitigate the growing funding burden on consumers. For example, the Commission increased from 15% to 28.5% the safe harbor that wireless carriers may use to determine the interstate percentage of their revenues. The Commission also eliminated the lag between the reporting of revenues and the recovery of contribution costs, which lessened the competitive disadvantages facing long distance carriers with sharply declining revenues. And the Commission prohibited mark-ups of contribution costs on customers' bills to ensure that carriers cannot profit from inflated line charges.

While these were important steps, more fundamental reform may be necessary to ensure the sustainability of universal service funding in the long term. Bundling together interstate and intrastate services — and telecommunications and information services — gives carriers the opportunity and incentive to understate the portion of their revenues that are subject to assessment and increases the difficulty of identifying interstate revenues. Contribution factors therefore are likely to continue their ascent under a pure revenue-based contribution methodology.

For this reason, the Commission is continuing to consider whether a contribution methodology incorporating a component based on end-user connections, in addition to or in lieu of our revenue-based methodology, may create a more sustainable model for funding universal service in the future. The number of end-user connections has been more stable than the pool of interstate revenues, and connection-based charges can be adjusted based on the capacity of each connection to ensure an equitable distribution of the funding burden among business and residential customers. The Commission has sought comment on several proposals and will consider additional changes to the contribution methodology based on the record now being developed. The Commission also has sought comment, in the Wireline Broadband NPRM, regarding the possibility of assessing contribution obligations on facilities-based providers of broadband Internet access services. We will seek to ensure that any modifications to the contribution methodology that are designed to promote sustainability will also remain faithful to the

statutory requirement that contributions be assessed in an equitable and nondiscriminatory manner.

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Taken together, the reforms being considered by the Commission should ensure the continued vitality of the federal universal service support mechanisms. The Commission has no higher priority than delivering on the promise of ubiquitous, high-quality, and affordable services. I would like to thank you, Mr. Chairman, for calling this hearing, and I look forward to working with you and other members of the Subcommittee on these challenging and critical issues.