

**Remarks of  
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**I. Introduction**

Thank you. It’s an honor to appear before so many Governors, including my very own, Mike Rounds of South Dakota. My Dad serves with him as a member of the South Dakota State Legislature, so I’ve got to watch what I say or I’ll hear about it later.....

Coming from a small town, I obviously really care about the role of the states in the future of telecommunications. And your role now faces a bigger challenge than it has ever faced in the 100 years since the invention of the telephone.

The reason is simple: the rise of broadband. All information is increasingly flowing through fatter and fatter broadband pipes directly into homes and businesses throughout the country – by wireline, cable, wireless, satellite, and other new technologies. Broadband makes possible the convergence of plain old telephone service, data transmission, mobile calling, and even transmission of video, whether television programming or video clips that you record and send with your wireless phone. And they can all travel over the Internet as indistinguishable digital packets – you won’t be able to tell if it’s a phone call or a TV show.

This raises big questions about the role of the states. This is because the Internet is largely interstate or even international, in nature and has evolved relatively free from government regulation. As anyone who has gotten spammed email knows, we can’t even tell where an email comes from. Much the same may be true with voice calls made over the Internet. It challenges our historical tests for determining jurisdiction. Just as you can check your email from an Internet café in Paris, you may soon be able to send and receive calls from your home number, no matter where you are – even if you are in a city or country far from home. The days of easy-to-track point-to-point transmissions – which enabled us to distinguish easily between intrastate and interstate services – appear to be numbered, as tomorrow’s digital packets will be routed dynamically through overlapping networks.

And major fights are now taking place in the states and at the FCC about whether or how to federalize these burgeoning technologies.

I’ve already heard from Governors and other state officials who are very concerned about this push for federalization for at least one big reason – the future of a state’s economy

can depend on the quality of its communications infrastructure. They are concerned about losing control over something so central to their economy.

We see that in today's debate over the outsourcing of jobs overseas. Tax returns are being shipped by broadband to India for processing cheaper than Americans can do it. Medical scans are being shipped to China for their radiologists to review. Broadband networks make that possible. The outsourcing of jobs overseas concerns everyone. But we won't put our heads in the sand and lock in our communications technologies. Rather, we've got to give our communities the tools and technology they need to compete effectively.

Here within our borders, similar "outsourcing" is shifting work from high-cost areas, often urban areas, to areas with lower costs of doing business, often less populated areas. I imagine that puts pressure on you to keep your tax rates and business climate as friendly as possible to remain competitive. But it also means you need to ensure top-rate broadband telecom infrastructure throughout your states – both in rural states and in the more rural areas of larger states.

As a South Dakotan, ensuring a smooth rollout of broadband throughout rural America is a real focus of mine. It should be for each of you, as well, even if you come from a more urbanized state. The broader and deeper the high-speed networks in this country, the more valuable they will be for every American consumer and business. And improving our networks will help our overall economy perform more competitively both at home and abroad.

### *Universal Service*

One area where I work especially closely with my state colleagues is on the Federal-State Joint Board on Universal Service. This is a panel of FCC commissioners and colleagues from state utility commissions. We're working to make sure that the federal universal service fund continues to ensure that every American has access to the best telecommunications services at comparable rates. I believe that a critical part of this effort is to ensure that universal service supports an evolving level of telecommunications services, especially as broadband becomes the means by which all communications – including voice calls – will travel. All communities and consumers must have access to these new and innovative services. On the Joint Board, we're trying to address the future of universal service without expanding the size of the fund beyond Congress' expectations.

Particularly when it comes to serving rural and insular communities, universal service has always supported the development of networks. I'm concerned with proposals that are gaining traction that would limit support to just one primary line. That would simply put rural consumers and businesses at a disadvantage.

Consumers in non-rural areas have access to a variety of telecom services -- voice, data, fixed, and mobile. If universal service provides rural customers with access to just one of

these, and to only one connection at that, it may render their access to other services unaffordable, and is likely to reduce network investment. This could undermine small businesses that operate in rural areas and undercut economic development. So I'm opposing efforts to curtail the scope of this 70-year old undertaking.

Although I serve on the FCC, we maintain a close partnership with our colleagues in the state public utility commissions. As Commissioner Nelson will tell you, state commissions play a key role in protecting consumers. While that role varies among states, state commissions generally ensure that companies provide quality telecommunications service to consumers at reasonable prices, terms, and conditions. And they play a critical role in promoting competition. They review interconnection agreements between competing telephone companies and play a key role in matters such as telephone numbering and 911 service.

That Federal-State relationship remains critical even as the line is quickly blurring between interstate and intrastate communications, between voice and data, and, indeed, between our computers and our phones.

### *VoIP*

The FCC's debate over the future of telecommunications moved front and center last week when we considered issues related to Voice over Internet Protocol or VoIP.

We began a comprehensive rulemaking to examine every aspect of this growing field. Internet Protocol (IP) transforms information – voice calls, data, and video – into digital packets of information that can travel over the Internet. It is forcing a technological revolution away from traditional circuit-switched phone lines to data-centric networks. The next speakers from industry will discuss this from the front lines. Suffice it to say that IP is a key ingredient for the explosion of consumer choices that we are starting to see in the marketplace, such as video phones, voice through instant messaging-like services, voice mail converted to e-mail – you name it.

We are turning our attention to this just in time. Enabled by the rise of broadband, IP is fast becoming the building block for the future of telecommunications. VoIP providers have their sights set on the mainstream residential consumer. Some in the industry are certain that the whole system will move to VoIP in some form or another.

This transformation holds huge implications for consumers and providers. It challenges the entire regulatory structure that has been built around telephony over the last century. It presents a real opportunity – indeed a necessity – for the FCC and the states to make it happen in a way that everyone benefits – including consumers in every area of the country.

The FCC has dual roles. First, we need to facilitate the deployment of VoIP and promote innovative technologies. At the same time, though, we are charged with ensuring that the goals set out by Congress are fulfilled.

The Communications Act charges us to maintain universal service programs, which provide nearly six billion dollars to support phone service for low income consumers and those in rural areas, and give our nation's schools and libraries access to the Internet and all of the opportunity that it brings. State universal service programs, which may be affected by FCC rulings, provide significant additional support. We will need to look closely at how IP-enabled services affect our ability to fund and deliver these services. I fought to ensure that our new rulemaking asks direct questions on the implications for Rural America and we will need your input.

As we go forward, we also must understand how VoIP will affect the provision of 911, E911, and other emergency services. Let's look at its effect on the ability of people with disabilities to access communications services – and the ability of our law enforcement officials to protect public safety and national security. We also need to watch out consumer privacy and network reliability. The importance of public safety is more important than ever in this age where criminals and terrorists are constantly evolving to evade detection.

We need to reach out to consumers, network providers, and hardware and software manufacturers in finding answers. We also need to reach out to you, because you play such a critical role.

*Pulver.com*

I'm not sure we've been reaching out enough to states on this. On the same day we opened our broad inquiry on VoIP, we also ruled on the nature of one particular type of service, offered by a company called pulver.com (Pulver). Pulver's service allows people to communicate by special Internet phones for free over their broadband connection to other members of the service.

While I agree that aspects of Pulver's service seem different from the services traditionally provided by our local phone companies, I disagreed with that part of the Order that decided the statutory classification of Pulver's service as an interstate information service. I am concerned that the FCC got ahead of the game by making declarations about federal jurisdiction and the "unregulated" nature of the service that seem to presume the outcome of the broader rulemaking launched that very same day.

I'm particularly concerned that the FCC already classified this service as "interstate," and then reached other conclusions limiting the ability of states to regulate it. I thought we should have deferred these broad decisions until a more comprehensive record is developed, with the participation of so many stakeholders, including yourselves, who should be part of this debate.

But it's not too late. We really need you to weigh in and get involved in the broader VoIP inquiry.

## *Triennial Review*

There are a lot of other areas that need your input, as well. For example, in our Triennial Review decision, the FCC adopted rules concerning the local competition provisions of the 1996 Telecommunications Act. One of the primary purposes of the Triennial Review proceeding was to create opportunity and incentives for multiple carriers to build networks that can carry the new and innovative services that are transforming our country. The decision we adopted last fall uses a key partnership with our state commission colleagues to preserve the burgeoning competition that so many have worked so hard to promote. As a result of that hard-fought decision, millions of American residential consumers have a choice of local phone providers. State commissions are working through that framework right now to finalize the rules for competing carriers.

Of course, that order is now on appeal before the D.C. Circuit Court of Appeals, and I'm hopeful it will be upheld. Critics challenged the partnership we crafted with the states, but I believe our approach recognized the critical role that states play in crafting telecom policy. I'm committed to defending the order strongly.

On all of these issues, my message to you is to stay involved.

On so many fronts, we're in the midst of a transformation that demands our immediate attention. Let's work together to get it right.

And Governor Rounds, I'm counting on you to send a good report card back home.