

**Remarks of
Jonathan S. Adelstein
Commissioner, Federal Communications Commission**

**“Rural Telecommunications – Big Challenges and Bigger Opportunities”
2004 NTCA Legislative and Policy Conference
Hyatt Regency - Washington, D.C.
March 22, 2004
[As prepared for delivery]**

I. Introduction

It's great to be back with you this morning.

It's been about a year since I last addressed all of you in Phoenix. As some of you might remember, I pointed out that Shirley Bloomfield and I got our dogs from the same breeder, and they're relatives. So Shirley and I are related – by dog.

And looking back over my first year on the FCC -- it seems like a dog year – in many ways.

Whether we are related or not, you have wonderful advocates at NTCA in people like Shirley, Mike, Marie, and Dan at NTCA representing your views here in Washington. And it's also great to hear directly from those of you who traveled here.

I've got to admit, the challenges facing rural telecommunications seem to be growing. And the opportunities are also getting bigger, and we need to seize on them, as well. And there's still a lot of fight left in this dog to take these issues on.

II. One Year's Perspective

We've made some real progress over the last year since I joined the Commission. But new issues have cropped up and old ones have grown more pressing. You're faced with new technology, new developments in the industry, and new proposals from the Joint Board. I want to discuss how to tackle these issues, and a vision for the broadband future.

The pressures facing Rural America really hit home for me last week when I read an investment analyst report about rural telecommunications. It said that rural telcos' prospects are “turning negative.” It hit on six big concerns. First, it said that any changes to universal service are likely to come at the expense of rural telcos. Second, it said new entrants winning universal service support will introduce new competition. Third, it said that Local Number Portability will allow national cellular carriers to challenge rural telcos. Fourth, it talked about the challenges of

intercarrier compensation. And, finally, it noted two technological trends that challenge the historical way of doing business: broadband and Voice over Internet Protocol.

These are real issues you face. So I'd like to explore today how we can develop solutions to each one that work for Rural America.

III. Universal Service Funding

Let me begin with the big one -- universal service. I was proud that my senior legal advisor, Lisa Zaina -- who many of you know so well -- was recently tapped to head the Universal Service Administrative Corporation as CEO. While I lost a trusted advisor from my staff, we continue to pursue the mission together to which we're both so deeply committed.

Lisa and I both see it as our job under the law to help secure access to communications for everyone, including those the market may leave behind. And a lot of rural consumers would be left behind if it weren't for your commitment -- and for universal service.

Universal service has served this country well for the past seventy years. But we need to continually update our framework so that our support systems and Rural America are not relegated to a day gone by. We've got to shore up universal service -- and soon. No matter how people communicate in the future -- circuit-switched, VOIP, or something we've yet to discover-- everyone in America, urban and rural, should have access to the latest telecommunications systems, no matter where they live. If we don't, the "edges" of the network will fray, and the whole country will suffer.

We've talked a lot this past year about how to manage the growth of the fund. The Act tells us to make it "sustainable," so we need to make sure it doesn't grow out of control. It must remain available to support those most in need. I'm really encouraged by all of the attention this is getting from Congress. The leaders of the Farm Team are making this a top priority. You'll hear from some of them tomorrow.

We especially need Congressional guidance because our regulatory efforts this year have been a mixed bag. As the newest member of the Joint Board, I was pleased at how seriously each member took their task. But it was disappointing that I could only support part of the final proposal.

In some areas, I thought the Joint Board failed to tackle key problems that are necessary to control the growth of the fund. In other areas, I flatly disagreed with the approach my colleagues took.

Frankly, I was surprised that the final recommendation achieved so little consensus. It kind of fell apart in the end. But you need to understand what it does say, because the full FCC is required to act on it within one year. Because we're going to need a lot of your input to forge consensus at the FCC and get through this.

A. Primary Lines

The Joint Board's most controversial recommendation is to fund only primary lines. Proponents say this will help control costs. For myself -- I hope the primary line proposal is "dead on arrival" at the FCC.

Restricting funding this way would deny consumers the full support Congress intended. Universal service is not only about providing one connection per household -- it does that, but it also does much more. The Low-Income fund ensures at least one connection per household. But the High-Cost Fund is designed to support *networks*, so that everyone has access to comparable services at comparable rates.

Limiting support to primary lines would put rural consumers and businesses at a disadvantage. Consumers in non-rural areas have access to a variety of the many telecom services you offer today -- voice, data, fixed, and mobile. If we provides rural customers with access to just one of these services, it could drastically alter the way you think about investment and the way your customers choose their services.

For example, it would deny them affordable access to things like second lines for fax machines or dial-up access to the Internet. Such a proposal will reduce network investment, hurt small businesses and undercut economic development in Rural America.

I totally disagree with those who say that a primary line approach is the only way, or even a good way, to manage the growth of the fund.

I'd like to suggest a better way. Three key reforms, if carried out together, would vastly reduce fund growth without shortchanging Rural America. First, we need to tighten the process for designating eligible telecommunications carriers, or ETCs, that receive universal service funding. Second, we need to fund new entrants based on their *own* costs, not the costs of the incumbent. And third, we need to specify those very high-cost areas where it doesn't make sense to fund more than one carrier in the first place. I'd like to touch on each of these three.

B. ETC Designation Template

First, and easiest, there's widespread agreement we need to reform the ETC designation process. Reading the Act, it's clear Congress intended that multiple carriers would have access to universal service. Otherwise, it wouldn't have given us the authority to make additional carriers eligible.

But it's not clear that Congress fully contemplated the impact of this growing competition on the ability of the universal service fund to keep up with demand, and eventually to support advanced services. The amount of funding new entrants receive is growing quickly.

It may come down to a choice Congress never envisioned - between financing competition, or financing network development that will give people in Rural America access to advanced services like broadband.

But Congress gave some very clear direction that we can't ignore. The law says that states "shall" designate ETCs in non-rural areas, but that states "may" designate ETCs in areas served by rural carriers. That critical distinction – between "shall" and "may" – suggests that states have a higher standard for designating ETCs in rural areas. Congress clearly recognized that making ETC designations won't always serve the public interest, particularly in areas served by rural carriers.

Until recently, the standards for designating these ETCs have varied significantly among states. But we recently made some real progress at the FCC on tightening the process. In the *Virginia Cellular Order*, the FCC, for the first time, acknowledged that the benefits of competition alone can't satisfy the public interest analysis. We weighed a variety of factors to assess the overall benefits and costs. And we improved the accountability of the process, as well. We considered whether the applicant has made a commitment to service quality, or will provide essential services in its community. And, we ensured that ETCs keep their promises by requiring the applicant to submit documentation on an annual basis detailing its progress towards meeting its build-out commitments.

The good news is that state commissions and other parties are using this new template in many state ETC proceedings.

If the FCC had simply said "no, you don't get an ETC designation," states would have largely ignored that, and it would have provided no useful guidance to them in tightening up the process.

Shortly after the FCC's decision in *Virginia Cellular*, the Joint Board adopted federal guidelines along similar lines for states to use when designating ETCs. The guidelines reflect my view that when we do commit these valuable public resources, we must make sure they are properly used.

These new guidelines urge states to employ a more rigorous standard and fact-intensive analysis, as you heard discussed in the overview.

Again, we could have suggested draconian standards that almost no applicants would meet. But states represented on the Joint Board would not have gone along with that, and other states would never have taken that recommendation seriously. The approach we suggested gives states the tools that they need and want to tighten up their ETC deliberations. This is real progress.

C. Basis of Support

The second reform to control the growth of the fund is to limit the level of support to the right amount.

Today, competitive ETCs get the same amount of funding per line as the incumbent local exchange carrier, or ILEC. The new entrants' funding levels are not even based on their own costs. On this point, the Joint Board seemed to recognize the problem, but fell short of identifying a solution.

A large number of new entrants are wireless carriers. They provide different types of services and have different cost structures than wireline incumbents. To allow a wireless CETC to

receive the same amount of funding as the wireline carrier, without any reference to its own costs, is clearly inconsistent with the law. Section 254(e) requires all funds go to supported services. It can't be legal, then, to give some carriers funding that bears no relation to what they're spending for supported services.

I'm glad the Joint Board at least recognized the need to consider modifying the basis of support. But it was an abdication of our responsibility to punt on this issue. We had plenty of evidence, and the law on our side, to recommend that the amount of universal service support paid to competitive providers should not be based on the incumbent's costs, but on their own. We should be holding workshops on how to solve this problem, rather than ducking the issue.

This raises the issue of equal access. I'm still considering the best approach to that issue. I know a lot of you were concerned that last year, I voted to delay our determination of whether we should include equal access as a supported service. I did this pending the Joint Board's review of the basis of support, so I'm especially disappointed we never reached a decision on that issue.

But I'm not convinced that requiring equal access is the panacea some think it is. Wireless carriers have told me point blank that if we required it, they would simply offer it at prices few if any consumers would take up. It would never compare to the value of their bundled offering.

That's probably why consumers never ask for it, and that's why it will do little to stem the rising tide of wireless ETCs winning funding.

Still, at the very least, those carriers that are competing in your areas as ETCs shouldn't receive funding for equal access costs they aren't even incurring. This is the case with Interstate Common Line Support (ICLS). And pending resolution of the basis of support, we should, at the very least, ensure that the funding received by competitive carriers does not include the costs of equal access that are included in the portable ICLS.

D. The Benchmark Proposal

The third reform I suggest is to recognize some areas where funding competitive carriers simply makes no sense. You know well how many rural areas are served by small community-based providers because that was the only way to bring telecom services to the community. Congress understood this. I've got it. I wish the Joint Board had embraced this notion, too.

I'm concerned that many States and the FCC began using universal service to "create" competition in areas that could barely support even one provider, let alone multiple providers. I doubt this is what Congress intended.

It's been proposed that in areas where the high cost carrier receives more than \$30 per line, or a certain percent above the average costs, we should limit funding to only one ETC.

In areas where the funding per line is between \$20-\$30, we would permit no more than two ETCs. And in areas with less than \$20 in funding per line there would be no limit on the number of ETCs.

Clearly, Congress contemplated there were some places where it made no sense to provide universal service to more than one carrier, or it wouldn't have put in the more stringent test for rural carriers. Our current policies seem to ignore this. We should find a way to wall-off those highest-cost areas and not waste funding on competition there. We're better served by funding the build-out of advanced networks in those highest cost areas rather than funding competitive ventures there.

IV. Local Number Portability

Getting universal service on solid footing is our top goal. But let's discuss some of the other challenges you face.

I've heard a lot of you express concern about local number portability, or LNP. I certainly recognize there may be certain limitations on the current technical ability of your companies to provide LNP, and some other lingering issues.

I strongly supported the decision to waive until May 24, 2004 the requirement of LECs operating in areas outside of the largest 100 MSAs to port numbers to wireless carriers outside of rate centers. I also supported an extension of that waiver to smaller LECs whose service territories extend into the top 100 MSAs.

I remain concerned that our LNP rules will exacerbate the so-called "rating and routing" problem for wireless calls that are rated local, but are in fact carried outside of wireline rate centers. We should resolve this key issue as quickly and comprehensively as possible.

V. VoIP

Another area that holds both promise and peril for Rural America is Voice over Internet Protocol, or VoIP. The services made possible by the Internet Protocol are some of the most exciting developments in telephony in decades. They promise a new era of consumer choice, efficiencies, lower prices, and innovative services. The potential benefits for Rural America are huge.

Because IP-based services finally include voice, they are forcing a technological revolution away from traditional circuit-switched phone lines to data-centric networks. In the NPRM we recently adopted, we're asking lots of questions about how VoIP affects the way you provide service to your customers.

IP is fast becoming the building block for the future of telecommunications. VoIP challenges the entire regulatory structure that has been built around telephony over the last century. It presents a real opportunity – in fact a necessity – for us to make it happen in a way that everyone benefits – including consumers in every area of the country.

It's absolutely crucial to understand how VoIP affects universal service. If VoIP providers are not required to contribute, it creates an opportunity for regulatory arbitrage and further undermines the already troubled funding mechanism.

If VoIP is the future, then the steps we take now must ensure universal access to the best services available. I disagree with those who say that the advent of VoIP obviates the need for universal service funding. VoIP rides over the same connections rural communities have worked so hard to establish.

We need to determine how underlying carriers are compensated for carrying third party traffic. Some VoIP providers pay no access fees even though in many instances they are using local phone lines to route their traffic. We cannot afford to let the rise of VoIP undercut the very networks that facilitate it. IP services can't reach their potential unless there is infrastructure in place to support them. For that reason, I'm pushing to complete pending petitions quickly to clarify our rules on this.

I fought to ensure that our new rulemaking includes a separate section that asks direct questions about the implications of VoIP for Rural America. We will need your input on this.

VI. Intercarrier Compensation

One undercurrent of the VoIP debate is the looming dialogue over intercarrier compensation. The convergence that VoIP seems to permit is putting increasing pressure on our federal and state compensation regimes.

I'm hopeful that the widely-reported industry dialogue can facilitate this process. But I share your concerns that we not adopt a "one-size fits all" approach. I've seen NTCA's recent paper on intercarrier compensation and I understand how much you now depend on access charges to deliver services to your customers.

With the CALLs Order expiring soon, there will be increasing pressure to revamp our current rules. We need to turn our full attention to this issue. I'm deeply concerned, though, by reports the rural telcos are not fully represented at the industry bargaining table, and that they are dropping out over concerns about the direction it's taking. I know you will try to stay as engaged as you can in those industry discussions.

Of this you can be certain: even if your rural telcos are left out at the industry negotiating table, the FCC should always have a seat for you at our table.

VII. Broadband

Despite all of this uncertainty, I can see real hope for the future. The obstacles you face make your accomplishments on the broadband front all the more impressive. Looking at NECA's Broadband Survey, I was amazed that 557 of the smallest local exchange carriers added DSL over the past two years. That's a 45% increase. You've invested at great financial cost because of your commitment to your communities.

So, I know you share my dream of getting broadband networks to Rural America. The most effective tool we have at the moment is having a sustainable and predictable means of supporting

your networks. You've proven time and again that when we give you a stable base of support, you invest. So, we've got to get these open universal service questions answered correctly.

The future is broadband. Increasingly, all communications will travel over fatter and fatter broadband pipes. That includes video, data, voice and even mobile calling. This will require every part of America to develop equally fat pipes with no part falling behind. We must have the infrastructure to carry these communications directly into homes and businesses throughout the country – by wireline, cable, wireless, satellite, and other new technologies.

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 underscores the importance of having in place the appropriate support and carrier compensation mechanisms to fund this infrastructure. Universal service will eventually have to cover broadband. It's not a question of if, but when. And better sooner rather than later.

We also just kicked off one of our regular Section 706 Inquiries asking specific questions about how to promote broadband deployment in rural areas. So I encourage you all to participate and to share your experiences.

VIII. Conclusion

Before I take your comments or questions, I just wanted to say how pleased I am to be here today with you. We share common values and common goals. We all want a strong Rural America, with a telecommunications system second to none.

Even with all the obstacles facing rural areas, many of the smallest communities you serve have great networks, including broadband service. That accomplishment is a tribute to many of you in this room.

I'm committed to making sure that you can maintain this level of service. It's my job to help you get the support you need – and are entitled to by law – to accomplish your mission.

So thank you for what you do – and thank you for all the support that you have provided me to help you get the job done.