

**Remarks of
Commissioner Robert M. McDowell
Before the
National Telecommunications Cooperative Association (NTCA)
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Thank you for inviting me to speak here today. But, more importantly, thank you for providing vital telecommunications services to the most underserved parts of America, namely rural America.

I'm sure that a McDowell or two has been a customer of an NTCA company at some point or another. I come from a family of ranchers. My father was raised on a ranch along the Tex-Mex border during the Great Depression. Those were hot and dry times to be in the ranching business as the "Dust Bowl" literally blew away the livelihoods of millions of Americans in the 1930s. But my father's father, my grandfather, somehow made something out of nothing in the ranching business. While he fared much better than most, he wasn't able to provide his family with electricity or phone service on the ranch. Of course, few American farmers back then even had physical access to a telephone network let alone the ability to pay for the service. In the McDowells' case, their ranch probably wasn't within 30 miles of a telephone wire.

My dad still tells stories about how my grandfather would take the battery out of their Ford Model A at night and hook it up to the radio in the house. They were always careful not to spill the battery acid onto the ranch house floor. Listening to their battery-powered radio at night, when those old AM signals floated freely across the country, was their only way to stay connected to the outside world. Thank goodness for brave and brilliant entrepreneurs who risked their investment capital by rolling out that audacious and constructively disrupting new technology called: "radio." Having that crackling and popping window into the world broadened

my father's horizons, and his mind. That boy from the ranch went on to fight for his country in the Second World War as a naval officer, attend journalism school at the fabled University of Missouri, and became a senior editor of *National Geographic Magazine*. Perhaps if he hadn't had the exposure to a world of opportunity through that radio, he may never have accomplished the things he did. New technology and competition made the difference.

Fast forward to the 1960s. My parents wanted to raise their kids in a rural setting. So, they bought part of an old dairy farm in Fairfax County, Virginia. At the time, Fairfax County was one of the largest dairy producing counties in America. Our home was on Rural Route 4. We could ride a horse north, west or south for miles before finding a town. However, in contrast to my father's childhood, technological advancement brought us affordable phone service and a choice of several radio and TV stations. By the way, my wife and I are raising our children in the same house. Today, we are only two miles, as the crow flies, from the largest downtown in the Southeastern United States: a place called "Tysons Corner." Some of you may have heard of it. It is home to many of the world's leading technology companies. But, ironically, we still can't get DSL service because we live too far from the central office – a vestige of our rural beginnings. I'm sure our plight sounds all-too-familiar to you. Our inability to get DSL is especially ironic not only because I'm an FCC commissioner, but because we live less than two miles from Mae East, the Internet supernode that carries a plurality of the world's Internet traffic each day. If I could just connect directly to that supernode, life would be great! But that central office is just too far away for available DSL technology – just like thousands of central offices are for millions of rural Americans. So, I'm telling you all of this to say: I am familiar with many of the challenges you and your customers face each day, and I am committed to finding

new ways to make broadband technologies available to more Americans. Technology brought forth by competition will pave that path for us.

It is NTCA's members - and companies like them - that have kept rural America connected to the world for over a century. As an FCC Commissioner, and as a consumer, I want to thank you for your efforts. Not only has providing affordable connectivity to the far corners of our nation helped grow America's economy and maintain our competitiveness abroad, it has helped improve the lives of all Americans. Such a noble and necessary endeavor would not have been possible without a comprehensive universal service system of subsidies. Make no mistake, however. I believe in free markets. Government should only intervene if there is market failure. But when it came to providing high-cost phone service to rural America, the market did fail. The government had to step in and help; and it did. And for decades, the system worked well. But today we find ourselves at a critical crossroads.

Today, the system is broken. The type of service that has yielded the revenue we have mined for universal service contributions is quickly disappearing – disappearing as a reliable source of revenue at least. The pool is evaporating. Our system is based on taking a lot from the few, and, as technology advances and new markets develop, the few are becoming fewer. The figures are quite disturbing. Consider that the total assessable revenue base has declined from about \$79.0 billion in 2000 to \$74.7 billion in 2005 (a 5.4 percent decrease). Similarly, the number of wireline switched access lines has declined from around 192 million in December 2000 to 175 million in December 2005 (an 8.6 percent decrease), with the increase in wireless subscribers during the same period from 101 million to 213 million (a 112 percent increase) and an increase in VoIP subscribers from 150,000 in 2003 to 4.2 million in 2005 (a whopping 2,700 percent increase). While the revenue source shrinks, we are spending more and more. In fact,

disbursements have grown significantly from approximately \$4.4 billion in 2000 to approximately \$6.5 billion in 2005. While this is almost a 50 percent increase — alarming in and of itself — it must be compared to an overall inflation rate of only 13 percent for the same five year period. Even more astonishing is the growth of subsidies to competitive ETCs: from about \$1 million in 2000, to nearly \$1 billion today. That's one thousand fold! In short, in layman's terms, spending is quickly outstripping income. We are on a collision course with disaster.

Seeing this storm coming over the horizon, under Chairman Martin's leadership, the FCC acted last summer to avert a crisis — for now. At my first meeting as a commissioner last June, I voted to expand the pool of contributors, but only on an interim basis. Specifically, we adopted interim changes to the Universal Service contribution methodology that were designed to help bridge the gap between the deteriorating *status quo*, and a more sustainable, but very different, Universal Service system of the future. The changes raised the interim wireless safe harbor for interstate traffic from 28.5 percent to 37 percent, and required VoIP providers to contribute to the Fund for the first time. Their interstate safe harbor was pegged at 65 percent. The hope was that by expanding the contribution base, we could lower the contribution factor, at least temporarily.

But initial appearances can be deceiving. What's very troubling to me is the grim, and to some, unexpected development that the contribution factor that was supposed to have declined as a result of the FCC's action, is back on the rise again. Like a fever that initially responds to treatment only to rage again the next day, the factor initially declined from about 11 percent to 9 percent once we broadened the base. But for the First Quarter of 2007 it has risen again to 9.7 percent -- and early indications are that the Second Quarter figure could spike to over 11 percent. If bold action is not taken soon, this fever will threaten the patient's life.

The bitter truth is that we can't keep asking more and more folks to prop up a failing system. Fundamental reform is necessary. Chairman Martin has appropriately, and bravely, kicked off a robust discussion, and has sought ideas from every quarter. Accordingly, the Commission is working to achieve comprehensive reform to ensure long term sustainability of Universal Service. As we do so, I will be guided by the following principles. We *must*:

- (1) slow the growth of the Fund;
- (2) permanently broaden the base of contributors;
- (3) reduce the contribution burden for all, if possible;
- (4) ensure competitive neutrality; and
- (5) eliminate waste, fraud and abuse.

I will seriously consider every credible idea presented to me, without exception. So, I encourage all ideas to come forward as early as possible.

As it now exists, we cannot move forward to expand the program's scope. We all agree that broadband deployment enables innovation across all sectors of the American economy. The ability to share increasing amounts of information, at ever-faster speeds, improves productivity and strengthens our competitiveness. But despite these obvious benefits, the Fund simply cannot afford to subsidize broadband connectivity under its current structure.

But we should not despair. There is hope on the horizon for bringing more broadband to rural America. In fact, it's happening right now as I speak. Despite notions to the contrary, significantly more Americans are adopting broadband services each day. The FCC recently released a status report on high-speed services for Internet access. As of June 30, 2006, high-speed lines connecting homes and businesses to the Internet increased by 26 percent during the first half of 2006; from 51.2 million to 64.6 million lines in service. And, for the full twelve

month period ending June 30, 2006, high-speed lines increased by 52 percent (or 22.2 million lines). Some say that we should throw away this study as worthless because it includes services that run at only 200 kbps. They may have a point, but it doesn't entirely hold up if we dig a little deeper.

The report reveals that about 14 million lines of the 64.6 million exceed 200 kbps in one direction. But of those 14 million, 4.2 million users receive ADSL service which can have download speeds of 1.5 Mbps up to 3 Megs. An even greater number of lines exceed 200 kbps in both directions. Specifically, more than 50 million of the 64.6 million broadband lines in service across America exceed 200 kbps in both directions.

The report also notes that wireless growth was significant during the first six months of 2006. Mobile wireless broadband connections showed the largest percentage increase: from a mere 83,503 at the end of 2005, to 1.91 million by mid-2006 – an eye-popping 2,187 percent in just six months! My conclusion? This study is by no means meaningless or depressing, as some may suggest. In fact, in several sections, it is hopeful, positive and even exciting. But its critics are right about the fact that we still have far to go. We should never stop striving for ubiquitous pipes that are fatter and faster.

So, how does this relate to you? These numbers, coupled with recent FCC actions – with more on the way, suggest that wireless broadband is the wave of the future. I strongly encourage you to embrace this future and adapt your business plans accordingly. And I know many of you are. Clearly the Internet is going wireless. It's no secret that wireless technologies offer an additional means to bring advanced, innovative services – and the associated benefits -- to rural America. For instance, in the 700 MHz band, and in the white spaces, broadband signals can

travel long distances and penetrate buildings. So, in practical terms, that “little” problem with proximity to the Central Office I spoke of earlier? Not an issue with these wireless technologies!

With this in mind, I read with interest the results of NTCA’s 2006 Wireless Survey, returned last fall by 106 of your member companies. Your survey reveals that more than half of the providers that aren’t currently offering wireless services are considering doing so. Your survey also found that 70 percent of those that currently offer wireless service, provide broadband data service as well. Among the offerings the respondents plan to add in the next year are: VoIP, mobile and fixed wireless broadband, WiFi, WiMAX, video, and push-to-talk. This is a promising start, but I am here today to strongly encourage *all* of you to take the plunge now. At the FCC, we have been working hard to open new windows of opportunity for you, and you should take advantage of them.

In the eight short months I’ve been at the Commission, we have:

- Adopted a new equipment testing regime for unlicensed devices that operate in the 5 GHz band. These devices provide a wide array of high data rate mobile and fixed communications for individuals, businesses and institutions, including WiFi.
- Started a new proceeding regarding unlicensed operation in the white spaces of the TV broadcast bands; and
- Adopted a Notice of Proposed Rulemaking regarding possible changes to the rules that will govern licensees that win spectrum in the portion of the 700 MHz band allocated for commercial use.

Much of the impetus with respect to the Commission's work in the areas of white spaces and the 700 MHz band is driven by the DTV Act, which established a hard deadline of February 17, 2009, for the cessation of analog broadcasting in the 700 MHz spectrum.

As part of that directive, we have indicated that that our Office of Engineering & Technology would complete its testing and analysis of consumer equipment to operate in the white spaces bands in October of this year. Our goal is to complete our work as soon as possible so that wireless devices designed to operate in the white spaces will be on the market by February 2009. I am hopeful that the work to ease equipment roll-out in the 5 GHz band will be replicated as the private sector moves forward to design equipment that does not cause harmful interference to the current operators in the white spaces.

Regarding the commercial spectrum in the 700 MHz band, we are currently engaged in analyzing the record, and – given Congress' mandate that we deposit the proceeds from this auction no later than June 30, 2008, practically speaking we must wrap up our work on the rules this spring, and we must start the auction no later than this fall. Everything is on the table – geographic market sizes, power limits, and Designated Entity rules for small and very small businesses, like yours. The Commission's action to establish a broad array of market sizes for last summer's auction of Advanced Wireless Services licenses attracted the participation of many small companies. Of the 104 winning bidders, about half identified themselves as small businesses or rural telephone companies. Thank you! Thank you for shopping at the FCC's spectrum store. We hope you'll come again and bring some friends. It seems to me, therefore, that last summer's auction provides good guidance as we design the band plan for the 700 MHz auction, and seek to maximize opportunities for meaningful participation by a broad range of entities, including yours. Thus, I am delighted that the Chairman has already indicated that these

rules will reflect even smaller market sizes. I hope that you'll be active participants in the 700 MHz auction. America needs you to walk away as successful bidders.

The Commission is doing its part to help you move away from reliance on the Universal Service Fund by opening new windows of opportunity for the construction of new delivery platforms with new technologies and robust competition. So, the whole point of this speech is: Don't fear the coming changes. Adapt to them. Don't just try to survive. Be determined to prevail. Invest in new technologies and welcome the competition. Who can better serve rural America than companies like NTCA's members? You live in your communities; you know your customers; and you know their needs. You are only limited by your own self-confidence.

We've come a long way since my grandfather needed to hook up the car battery to the radio in the ranch house. At the same time, we have a long way to go. Technology brought forth by competition will pave that path for us and pull us to our destination.

I look forward to working with NTCA, and all of its members, to ensure that all of us arrive on time. And I wish you the best of luck. Thank you.