# Federal-State Joint Board on Universal Service En Banc Meeting
# Washington, DC
# February 20, 2007

## Opening Remarks

Good afternoon. I want to welcome everyone and thank Chairs Tate and Baum as well as my fellow Members for convening this meeting to discuss issues of universal service distribution. I also want to thank NARUC for hosting this En Banc meeting of the Universal Service Joint Board during its winter meeting.

Before we begin with the panel presentations today, I want to provide some context for this discussion based on my own experience participating in the Joint Board process on universal service since 1997, first as a legal advisor to FCC Commissioner Furchtgott-Roth, then as an FCC Commissioner, and now as FCC Chairman.

The United States and the Commission have a long history and tradition of making sure that rural areas of the country are connected and have the same opportunities for communications as other areas. In the 1996 Act, Congress explicitly required that the Commission ensure that consumers in all regions of the nation have access to services, including advanced services, that "are reasonably comparable to those services provided in urban areas." Specifically Congress required the Commission to establish Universal Service Fund mechanisms that are "specific,

predictable and sufficient...to preserve and advance universal service."

Congress however did not envision that services supported by universal service would remain static. Instead, the Act views universal service as an evolving level of telecommunications services. With each passing day, more Americans participate in the technological advances of our digital economy using broadband. Today broadband technology is a key driver of economic growth. The ability to share increasing amounts of information, at greater and greater speeds, increases productivity, facilitates interstate commerce, and helps drive innovation. But perhaps most important, broadband has the potential to affect almost every aspect of our lives.

Deployment of broadband technologies support services essential to education, public health and safety.

A modern and high quality telecommunications infrastructure is essential to ensure that all Americans, including those living in rural communities, have access to the economic, educational, and healthcare opportunities available on a broadband network. Our universal service program must continue to promote investment in rural America's infrastructure and ensure access to telecommunications services that are comparable to those available in urban areas today, as well as provide a platform for delivery of advanced services tomorrow.

Billy Jack Gregg recently renewed the debate among Joint Board Commissioners about the use of universal service funding for broadband in underserved areas of the country. I appreciated his efforts and welcome that discussion. Indeed, in the Joint Board's 2002 recommended decision, I urged the Commission to explore how, and to what extent, the federal universal service support mechanism could assist the deployment of advanced services, or at least the removal of barriers to such deployment, particularly in rural, remote and high cost areas throughout the country.

But today we have a problem. Currently we are subsidizing multiple competitors to provide voice services in rural areas. When I first arrived at the Commission in 2001, I dissented from the Commission's policy of using universal support as a means of creating government-managed "competition" for phone service in high cost areas. I was hesitant to subsidize multiple competitors to serve areas in which costs are prohibitively expensive for even one carrier. In fact at that time I warned that this policy would make it difficult for any one carrier to achieve the economies of scale necessary to serve all of the customers in a rural area, leading to inefficient and/or stranded investment and a ballooning universal service fund.

Today, I am sad to report that is exactly where we are. Changes in technology and increases in the number of carriers who are receiving universal service support have

ballooned, placing significant pressure on the stability of the fund.

Today, the universal service fund provides approximately $4 billion through its high cost support mechanism.

As you can see from [Chart 1], since 2003 incumbent LEC payments have been relatively flat and even gone down in recent years. In 2001, growth in the fund can be attributed to removing implicit subsidies from access charges through the explicit universal service mechanisms adopted in the *CALLS* and *MAG Plan Orders*. On the other hand, this chart [Chart 1] shows that almost all of the recent growth in high-cost universal service is largely as a result of CETC access to high cost support.

As Chart 2 shows, CETC USF payments have been growing at a trend rate of 101 percent per year since 2002. Specifically, in 2000 CETC's received $1 million in support. In 2001, CETCs received $16.9 million in USF support. In 2002, CETC support grew to $46.1 million. In 2003, it grew to $129.6 million. Based on recent USAC estimates, we anticipate CETCs received almost $1 billion in 2006.

As Chart 3 shows, year over year CETC universal service payments continue to rise rapidly each year. This is in part because CETCs receive universal service support based on the incumbent LEC's embedded costs or the per line support amount that the incumbent LEC receives

Based on USAC and FCC staff estimates, as seen in Chart 4, CETC support for 2007 will be at least $1.28 billion, and if the Commission were to approve all pending CETC applications could be as high $1.56 billion in 2007. Even assuming no additional CETC designations are made in 2008 and 2009, universal service payments to CETCs would continue to grow to almost $2 billion in 2008 and $2.5 billion in 2009.

It is critical that all Americans stay connected to state-of-the art communications services. And the Universal Service Fund is the lifeblood of that goal. But as these charts demonstrate, our current high cost mechanism is in need of repair and revision. The current trajectory is unsustainable.

I am very excited that the USF Joint Board is exploring whether a "reverse auction" mechanism could be used as the basis for distributing universal service high-cost support. Today's meeting on reverse auctions is an important step in the discussion about universal service reform.

I continue to believe that reverse auctions could provide a technologically and competitively neutral means of controlling fund growth and ensuring a move to most efficient technology over time.

Last week, several parties made helpful filings.

Verizon filed a reverse auction proposal that encouraged the Commission to distinguish between incumbents with carrier of last resort obligations and CETCs. That was a constructive proposal.

Alltel filed a proposal to use a reverse auction pilot program to speed broadband deployment to areas of the country where there is no broadband available today. I think it's an intriguing idea to use a reverse auction as part of a pilot program to focus universal service funding on broadband investment in underserved areas of the country could make sense.

I do not agree with Alltel, however, that even those ETCs that do not win the reverse auction should get universal service support. Universal service is not about competition. It is about providing service to those in areas where competition and market forces alone will not result in the services available in more urban areas of the country.

Another alternative to consider may be simply to reimburse CETC's for their actual costs not those of the wireline incumbent. Of course, CETCs would have to meet the same criteria that wireline incumbents must meet to qualify for USF support. For example, other USF recipients must show that their actual costs are above a nationwide or statewide average benchmark. Generally speaking, support is provided to rural companies where the cost to provide service exceeds 115% of the national average cost per line or approximately $385 dollars per

year. Non-rural high-cost support is provided where the statewide average cost per line exceeds 131% of the national average cost per line or $337 dollars per year.

Although both reverse auctions and an actual cost methodology could serve to limit the growth in the universal service fund, I remain open to other ideas that restrain growth and prioritize broadband investment in underserved areas of the country.

A system focused on subsidizing voice service competition is not sustainable in a broadband world.

I look forward to hearing from the panelists and my Joint Board colleagues. I also look forwarding to the USF Joint Board developing recommendations on these difficult issues.

Thank you.