

**Remarks Delivered to**  
**Organization for the Promotion and Advancement**  
**of Small Telecommunications Companies**  
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Introduction

Good Morning or rather I should say Bon Jour - seeing as we are in Quebec! First, I want to extend my thanks to John Rose, for inviting me to join you all this year. After only being able to share my thoughts and thanks through video last year, I am thrilled to be with you all in person, especially at this truly revolutionary time for communications – an industry sector that brings innovation to your communities and enables almost every sector of the economy to work more efficiently and effectively, from healthcare to financial institutions to e-agriculture. And, I understand my colleague Commissioner Adelstein will be here tomorrow. I think these issues – or as I like to say, wires and fiber – don't have any political preference and neither should our policies. So whether you are from rural South Dakota or rural Tennessee, we both are doing all we can to provide leadership at the federal level to insure expanded broadband deployment, economic development and global competitiveness.

## Broadband

I want to begin by thanking OPASCTO and all of its members for the continued commitment to increasing broadband deployment, specifically in rural areas. As a native Tennessean, I can appreciate the challenges facing rural areas. I want to thank your organization for all of the hard work and efforts to extend broadband to rural areas. Recalling my first trip to Alaska, where this forum was held last year, I remember thinking that the rural residents really depend upon you all, and the FCC, to provide opportunities that they would normally never have, such as rural health care and distance learning.

Providing every person in this country the advantages of this digital world delivered through broadband access is a top priority for the Commission, and the ability of rural LECs to offer broadband to more than 90 percent of their customers on average is clear evidence that you all are helping to realize this goal of complete broadband penetration, often to those whose access is least and yet could benefit the most.

## Ranking

Yet while many of you have made great strides regarding broadband deployment, the US, according to some statistics, lags behind other countries. For example, the OECD ranks the US 15th in broadband penetration. In fact, I recommend to you a recent study by the Phoenix Center, which points out that this ranking does not fully account for the

unique characteristics of the broadband market, by failing to account for 1) WiMax and Wi-Fi hotspots like Starbucks (the U.S. is number one, with 66,000), 2) differences in household size, 3) differences in population density, and 4) the extraordinary success of the E-rate program to connect our schools and libraries. This is not to say that there is no room for improvement, but the question is what are the right policies to attain complete broadband penetration at reasonable rates for all Americans. The U.S. is the largest broadband market in the world, with over 100 million lines in 2007, and which increased by 22 percent in just the first half of 2007.

### Video

I share OPASCTO's dedication to developing creative policies to spur deployment. Specifically, I commend your efforts to ensure that rural LECS have access to video service - a service that is vital to increasing broadband subscribership. I advocated this issue myself last September, when I voted to extend the five-year ban on exclusive deals between cable operators and affiliated programmers. In this day and age, access to video service is essential to all cable carriers - rural or urban, large or small – and we must strive to increase the availability of such service. You must have access to the programming and content that your subscribers want, just like their urban counterparts.

## Rural Healthcare

Another way in which the Commission is actively increasing broadband penetration - which I mentioned last year and is now a reality: the Rural Healthcare pilot program. Prior to last year's reform, only 10% of available funds were even being utilized. The program allows participating organizations to receive up to 85 percent of costs associated with deploying broadband for a three-year period. I am delighted to report that through this program, the Commission has dedicated \$417 million dollars toward the construction of 69 statewide or regional networks, in 42 states. This program fosters the growth of individualized networks that cater to citizens' needs at the local, state, and regional level. I commend Chairman Martin and my colleagues at the FCC for the successful implementation of this program, and we anticipate much success in increasing broadband in the coming years through this program. My hope is that one day every single healthcare facility – rural and urban, general and research – will be truly connected seamlessly.

## Improved Data

Beyond any specific policy, however, the successful penetration of broadband ultimately rests on the ability to identify the places where we have already achieved success as well as those areas that still lack this fundamental service. Gathering broadband access information can be a particular challenge in rural, unserved and

underserved areas – the areas where this additional information is most needed and likely to have the greatest impact.

### Broadband Data Collection

I am confident that the FCC's recent enactment of a revised broadband data collection plan, which is based at the census tract level, represents a balanced approach to collecting this vital information. In choosing the census tract approach, the Commission recognized that alternate approaches, such as relying on 9-digit zip codes to collect data, would be burdensome to rural carriers and customers. And while there may be a few cases where a rural customer may not clearly be classified under this census data approach, I am confident the best efforts for rural carriers to report this information accurately will help the Commission increase and improve efforts to expand broadband penetration. We cannot continue to count one subscriber in an entire zip code – it is important for you, for USF, and for our country to know where broadband is and where it is not.

Which leads me to the crux of why I am here: the Universal Service Fund

### USF

A critical component of any successful broadband plan depends upon the certainty and sustainability of the Universal Service Fund. As a former State Commissioner of

Tennessee – which was the first state to connect all of its schools to the Internet and relied upon universal service e-rate funds as a supplement in providing technology to the neediest schools – I understand the critical importance of the USF. We are at a time, however, when it is clear that this fund will not be able to offer the continued necessary support to those who need it most – many of whom are your customers – and to the truly unserved areas of this nation, unless we initiate overall reform in the mechanism – and on the contribution side of the equation as well – but that is a topic for another day.

Today, what I would like to highlight is the increased momentum and efforts in Washington to initiate reforms. A June 24th, House Telecommunications and the Internet Subcommittee hearing focused on USF reform, and revealed wide bipartisan agreement that the inclusion of advanced telecommunications services is essential if the U.S. wants to keep pace with other nations when it comes to high-speed Internet availability. As Congressman Barbara Cubin noted at the hearing, the USF fund has helped rural areas substantially, and Americans, wherever they live, should have access to technologies that can improve their lives. However, it is critical that any reformation of this fund strikes a balance between the costs of advancing our national telecommunications infrastructure and the costs consumers are willing to bear – the current USF surcharge is 11.4% per interstate call. (I am confident that through the consideration of various proposals we will maximize the benefits and sustainability of the universal service fund.)

With your support, we are seeing the first positive steps toward reform in universal service funding. The enactment of the interim cap by the FCC following the Joint Board's recommendation is beginning to curb the explosive growth on the CETC side so that we can start to work toward a more sustainable system. I want to thank you for your support of this interim cap and for taking this message to Capitol Hill. You indeed made a difference. This order caps CETC support at their March, 2008 state-by-state levels (although this Joint Board recommended December 2007, as it was a real number). The cap, however, allows some continued growth in ILEC support through the maintenance of (safety net and safety valve additive support systems.)

### Long-Term Reform

However, as you well know, it is critically important that we continue to develop a long-term reform policy for universal service funding. FCC and USAC data show that competitive ETC funding grew from 1.5\$ million in 2000 to over 1\$ billion in 2007, and continues to rise. Additionally, I am sure you are well aware of Professor Dale Lehman's report, which was released by OPASCTO last May. The report studied more than 900 small rural ILECS and revealed that traditional revenue sources to these carriers could fall by 5 percent in 2008, 9 percent in 2009 and as much as 13 percent by 2010 if servicing funding remains status quo. These are just two of several sources highlighting

the threat that increased disbursements to competitive ETCS poses to the viability of the high-cost fund. We simply cannot sustain this uncontrolled growth.

In my role as Commissioner, as well as Chair of the Joint Board on Universal Service, I am deeply committed to preserving and advancing the high-cost fund in a way that will best serve the public interest. I share the Joint Board and OPASCTO's view that using an identical support system to allocate funds to areas in which competition is clearly apparent would not lead to the most efficient use of such limited and valuable resources – some areas fund up to 14 competitive carriers! Many members of Congress realize this thwarts the very intent of USF. I am optimistic that my colleagues will follow through and embrace elimination of the identical support rule, but perhaps you can talk with Commissioner Adelstein about this tomorrow!

Beyond an identical support system, the Commission is considering several possible solutions to ensure security and sustainability of the fund. One option - and I appreciate that many of you have expressed concerns - is a reverse auction process to sustain the high-cost fund. The Chairman believes this process may provide a competitively neutral means of controlling the growth of the fund while also ensuring that universal service benefits the maximum amount of people in this nation. Recognizing that there could be potential concerns regarding the predictability of specific rules in this reverse auction process, I believe that the introduction of a pilot program could be a viable option to “test” whether reverse auctions are an efficient and effective



means of providing support. Whatever method or mechanism is adopted, the goal is to ensure stability for the industry in a technology neutral manner, so you can continue to invest and innovate in the areas that are hardest to serve. And whatever reforms are undertaken, they need to be transparent, explicit and subject to stringent waste, fraud and abuse oversight. We welcome your continued input as we move forward.

### Intercarrier Compensation

Of course, I cannot speak to you today about the Universal Service reform without recognizing the vital relationship between universal service and intercarrier compensation. Specifically, I want to address the growing problem of phantom traffic, which leads to instability and inaccuracies in the market. This is a high priority issue that must be addressed, and the Chairman has stated he intends to seek reform by this November. I appreciate and continue to welcome any innovative solutions, from the Missoula Plan to NECA's Interim Call Signaling Order. I also remain interested in combining policy objectives with technological strategies such as a potential "pirate trap" filter to ensure that rural carriers are being appropriately compensated for the use of their network. In this digital IP age, it just seems obvious all traffic can and should be correctly and fully identified. I am confident that through the continued cooperative efforts of OPASTCO and the Commission, the elimination of egregious practices, such as phantom trafficking can, and will, be achieved. As you know, the DC Court of

Appeals on Tuesday ruled the Commission must explain the rules or the court will throw them out on Nov. 6<sup>th</sup>.

### Help with DTV

Speaking of cooperative efforts, the importance of cooperation between OPASTCO and the Commission is nowhere more evident than in the upcoming DTV transition process. The transition from analog to digital television in February 17, 2009 represents a major stride toward realizing the goal of all-digital networks as a nationwide norm. Because of the success related to your efforts in the broadband penetration, I am here today to also ask for your help to ensure a successful switch to digital broadcast. It is necessary that the Commission, Congress, and other industries and organizations work together to ensure that this transition yields all of its potential benefits.

We have already seen the investment of over \$1 billion dollars in Public Service Announcements by the broadcast and cable industry, which I expect many of you may have seen. The magnitude of this campaign to increase awareness is revealed by the fact that these television ads are currently broadcast in 18 different languages! In addition, the FCC's own educational materials – available online or from the Commission – are available in 13 languages and Braille. Yet while the ads may bring a light hearted chuckle, the message they are sending is quite serious: This transition is happening in

219 days and we need the entire public to be prepared. Thank you for your efforts – whether you offer a triple play or not, we need your continued help!

My colleagues, indeed government officials at every level and our many non-traditional partners, from the Boy Scouts, to big box retailers, to senior centers and county festivals – we need your help to effectively realize the promise of this transition through individualized efforts by you all and your members. These efforts may include sponsoring forums to increase public knowledge of the DTV transition, asking your Congressmen to hold public awareness meetings, informing your own employees, and members of the churches you attend. Preparing rural communities for this transition is of particular concern to the Commission, and your efforts will help fulfill the mission of informing these residents. In addition, we are expending efforts to reach other constituencies in need, such as our seniors, nursing home residents, shut-ins, the permanently disabled, and of course the non-English speakers.

### Conclusion: Participation in Policy Making

Today I have called on your support for a variety of specific policies and I want to thank you all for staying involved in the policy making process, no matter what specific issue is at stake. Rural America is home to 60 million people – a fifth of America’s population – and contains 75% percent of the nation’s landmass. Certainly, your input is of utmost value. The path to agreement is a two way street, and I hope OPASCTO and

all of its members understand that my office is always open to your advice, real-world experience, and good common sense. With the expansion of the wireless industry, and the growth of technology, not only in the heartland but also in the heart of America - it is critical that you all voice your thoughts and concerns to ensure the continued viability of rural investment in rural infrastructure.

### Green

I also want to encourage you all to continue investing in green communications. Going green can positively impact telecom operations by enhancing brand equity and customer loyalty, by capturing a new market share, and increasing average revenue per user. As an Insight Research indicated, global spending on green communications is expected to grow 34 percent annual, reaching \$257 billion by 2013, when it will account for about a fifth of total worldwide telecom service revenue. These green strategies are win - win solutions for our society, customers, and carriers, and we must seize such opportunities.

As our next speaker, Mr. John Moore, will surely illuminate through his own personal experiences, it is your continued passion and commitment to developing efficient investment strategies that will bring increased success to small telecommunications companies. Through conventions such as this, I believe that OPASCTO demonstrates its dedication to its mission and you all will reap the rewards of

the hard work. I wish you the best of luck, and enjoy rest of your time to this beautiful city! Merci !