

As Prepared for Delivery
FCC Chairman Julius Genachowski
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“Connecting America: A Plan To Reform and Modernize the Universal Service Fund and Intercarrier Compensation System”

Last night, the world lost Steve Jobs -- an American hero. I would have delivered these remarks on an iPad anyway, but doing so today is particularly meaningful for me. Having had the opportunity to watch and learn from Steve Jobs from afar and up close, it's an honor to be using one of his inventions to speak about bringing broadband Internet to every corner of America, so that everyone can enjoy the kinds of world-changing innovations he pioneered and inspired..

Steve Jobs is being lauded today as a visionary, and of course that's right. Here's one quote “The most compelling reason for most people to buy a computer for the home will be to link it to a nationwide communications network. We're just in the beginning stages of what will be a truly remarkable breakthrough for most people—as remarkable as the telephone.” That's Steve Jobs, twenty five year ago, in 1985.

Harnessing the power of broadband Internet to benefit every American is at the core of this agency's mission. Today, I want to speak about our plan – developed by the tireless and expert FCC staff – to reform and modernize the Universal Service Fund and Intercarrier Compensation system, and why it's so important to our economy, our competitiveness, and all American consumers.

This past May, I visited Liberty Nebraska, a small town in the heart of rural America.

When I was in Liberty, I met with a group of residents at the local American Legion.

The people I met had a lot in common with all of us and all of America. They work hard. They care about their country. They care about their kids. They believe in the American dream, and want their community and children to have as much a chance for success in the 21st century as they had in the 20th.

But in one important respect, their lives are different from most Americans. Most of the people living around Liberty don't have access to broadband. The infrastructure for high-speed Internet simply isn't there.

I don't know whether, a few years ago, they were concerned about the absence of broadband Internet where they live. But during our discussion, the group I met – which ranged from seniors to students -- was very clear that the absence of broadband in their community was having real costs and consequences.

One older man said he wanted to open a hunting lodge. He said he was sure it would be successful, but that without broadband it would be impossible.

A farmer at the meeting said he needs to participate in online auctions for equipment and cattle. He said he can't without a fast Internet connection that allows him to bid competitively in real-time.

Two parents told me about their son, a young serviceman who has done three tours of duty. His friends overseas were having video chats with their families, but he couldn't.

Other parents at the table spoke about how their daughters couldn't access the Internet at home to research papers or email their teachers. They said many of their classmates who lived in other towns were online, and they just wanted the same opportunity for their kids.

It's not just a theory. It's a fact. Broadband has gone from being a luxury to a necessity for full participation in our economy and society.

Unfortunately, the people I met in Liberty are not alone.

Approximately 18 million Americans live in areas with no access to broadband.

And harm from not having broadband—the costs of digital exclusion—already high, are growing every day.

The costs of this broadband gap are measured in jobs not created, existing job openings not filled, and our nation's competitiveness not advanced. The broadband divide means economic opportunities denied for ordinary consumers who lack broadband access; educational opportunities diminished; health care access reduced; and public safety compromised.

If we want to address these costs and seize the opportunities of high-speed Internet, if we want all Americans to be full participants in our economy, if we want the United States to be the world's leading market for the innovative new products and services that drive economic growth, job creation and opportunity, we need to embrace the essential goal of universal broadband, and reform outdated programs so that we are investing in 21st century communications infrastructure all over our country.

This is why my fellow Commissioners and I have been working hard to modernize the Universal Service and intercarrier compensation systems. These programs are interrelated. They are complex. And they are broken.

There is unanimous agreement on this at the FCC. And many members of Congress from both parties have expressed the same sentiment: the system isn't working.

Commissioners Copps and McDowell have been fighting to fix these programs for years, and Commissioner Clyburn's experience on the state Public Service Commission in South Carolina has been invaluable in our current reform efforts.

The National Broadband Plan presented USF and ICC reform and modernization as one of its central recommendations. When the Plan was released in March 2010, all of the FCC's commissioners adopted a joint statement stating, "The Universal Service Fund and the intercarrier compensation system should be comprehensively reformed to increase accountability and efficiency and encourage targeted investment in broadband infrastructure."

In February 2011, we voted unanimously to move forward with USF modernization, and in March and August of this year we issued joint blog posts emphasizing our continuing shared commitment to reform.

Today, based on an open and fact-based process and a great deal of productive input, I am circulating to my fellow Commissioners a comprehensive set of reforms to modernize USF and the intercarrier compensation system, and placing it on the agenda for a vote at the end of October.

This plan was developed by FCC staff and puts the interests of consumers first.

If adopted by the Commission, it will spur broadband buildout to hundreds of thousands of homes and businesses beginning in 2012.

It will help cut the number of Americans bypassed by broadband by up to one half over the following five years, and it will put us on the path to universal broadband by the end of the decade. The plan will also, for the first time, provide dedicated support for mobile broadband to bring the extraordinary benefits of advanced mobile services to large new geographies.

By connecting millions of unserved Americans who are being left out of the broadband revolution, this plan will bring enormous benefits to individual consumers, our national economy, and our global competitiveness.

It will spur billions of dollars in private investment and very significant job creation, starting with construction workers who would build out this new infrastructure, and it would do so soon.

It will provide a platform for entrepreneurs in rural America to start and grow small businesses, allowing them to reach customers across the globe and boost efficiency and productivity through cloud computing. It will save businesses that otherwise couldn't exist in small-town America, and it will create new jobs in those communities.

If adopted, our plan will not only drive economic growth in rural America, it will also significantly increase the size of America's overall online marketplace, benefiting businesses and consumers nationwide.

For students who are now unserved by broadband, it will bring connection to a world of knowledge and enable the use of digital textbooks and other interactive learning tools at home. For seniors and others now unserved by broadband, it will bring access to basic health information online, and enable people with chronic health conditions to access remote monitoring technologies where they live. In times of emergency, rural citizens will have a new lifeline to communicate with family, friends, and first responders.

In these and other ways, our Plan would deliver tremendous benefits for consumers. Accelerated broadband buildout and upgrades to networks mean that millions more consumers of all ages will be able to enjoy the economic and social benefits of broadband. And consumers overall will be treated more fairly, thanks to the elimination of deep inequalities ingrained in the current system, cuts in wasteful spending, and constraints on the growth of a fund that is paid for by consumers. We estimate that wireless consumers will see more than \$1 billion in annual benefits from ICC reform alone.

America has always been committed to universal service for vital communications infrastructure. This plan marks a historic opportunity to update that universal service commitment for the Internet age.

This opportunity comes at a critical time.

Our country faces tremendous economic challenges. Millions of Americans are struggling. And new technologies and a hyper-connected, flat world mean unprecedented competition for American businesses and workers.

Historically, infrastructure has been a key pillar of our economic success. Railroads and highways connected people and businesses to each other, facilitating commerce, unleashing ingenuity, and fueling economic growth. Rural electrification did the same, as, of course, did telephones. They formed the connective tissue of a modernizing economy.

Today, those connections are high-speed Internet links, and universalizing broadband will unleash economic and social benefits at least as massive as the connective infrastructures that preceded it.

Ensuring universal access to vital communications infrastructure has been at the core of the FCC's mission since its creation.

For decades, the Commission and the states have implemented a complex system of explicit and implicit subsidies to bring basic telephone service to areas where the

population is too scattered, the geography too vast, or the terrain too difficult for private companies to profitably invest in building out network infrastructure. This public-private partnership centered on the Universal Service Fund has enabled private companies to provide telephone service in areas where they otherwise wouldn't.

Providing universal access to our telephone infrastructure strengthened our economy and the social fabric of our nation, and even helped give birth to the Internet. It's hard to imagine America being as successful as it was in the 20th century without our universal telephone system.

USF worked in the 20th century. But the program isn't working for the 21st.

USF is outdated. It still focuses on the telephone, while high-speed Internet is rapidly becoming our essential communications platform not only for voice, but for text and video, and is an indispensable platform for innovation and job creation.

USF is wasteful and inefficient. The fund pays some companies almost \$2,000 a month – that's more than \$20,000 a year – for a single home phone line.

In many areas it subsidizes companies even though there is a competing provider—typically a cable company—providing voice and broadband service without a dollar of government support.

In some places the program funds three or four overlapping networks.

USF is unfair. The program's budget has grown significantly over the past decade, with consumers paying more and more. We're spending \$4.5 billion per year but we're not spending it in a targeted or efficient way. That's not fair for the consumers who underwrite the fund through their phone bills every month.

USF has also created a rural-rural divide. Some parts of rural America are connected to state-of-the-art broadband, while other parts of rural America are entirely left behind, because the program doesn't direct money where it's most needed.

USF is not sufficiently accountable. The program's rules don't require real accountability and reporting from recipients to ensure public dollars are spent wisely.

USF is broken, and the related intercarrier compensation system – a complex system of payments phone companies make to each other when they connect calls – doesn't work anymore either.

Intercarrier Compensation – or ICC – was designed as a subsidy for local phone companies that depended on consumers across the country paying artificially high per-minute long-distance rates, in an era when long-distance calling was something of a luxury and clearly distinct from local calls.

Like USF, the current ICC system is unfair to American consumers: It forces hundreds of millions of consumers across the country to pay higher bills to subsidize monthly local telephone bills as low as \$8 for other consumers.

The current ICC system is also creating substantial uncertainty and widespread disputes—which are being fought in courthouses and state commissions throughout the country—about the proper treatment of Voice over IP traffic for ICC purposes.

And ICC hasn't adapted to technology and marketplace changes, creating competitive distortions and loopholes that companies have exploited in devious ways to game the system.

It gets worse. The system actually discourages investment in 21st century Internet protocol networks, because companies fear losing the subsidies they receive for connecting calls using traditional telephone technology.

Our record also shows that an increasing number of calls to rural areas – which typically require paying high ICC charges to the local phone company -- are not always being completed, possibly because carriers are seeking to avoid those charges. Among other things, this is a real public safety concern, which is why we recently launched a Rural Call Completion Task Force.

It's time to eliminate perverse incentives that discourage the buildout of our innovation infrastructure and that have major economic as well potentially life-threatening costs – and ICC reform is the only long-term solution.

In sum, America faces what business commentators call an Innovator's Dilemma.

A disruptive new technology has changed the competitive landscape, and the policies and practices of the past are making it difficult for our country to make the strategic changes required for today and for our future.

As many others have concluded, the status quo is no longer an option. The costs are too high. We have to act.

We've already taken steps to address some key aspects of USF, including reforming our programs to connect schools and libraries, and taking important steps to enable broadband access for health clinics in rural America.

In the months ahead we will conclude reform and modernization of USF's Lifeline program, which helps low-income families get and stay connected to basic communication service. Through this and other measures we will help close the broadband adoption gap.

Today, we are focused on the largest part of the USF program – the part that supports the deployment of communications service in rural America, and the related system of Intercarrier Compensation.

This past February, building on years of effort by the FCC, by state regulators, Congressional leaders, and private sector stakeholders, we initiated a proceeding to modernize and reform USF and ICC.

Since then, we have run an open, participatory and fact-based process:

We've conducted public workshops and meetings inside and outside the Beltway. We have gone to rural America to see firsthand the realities of the need, to Alaska, Minnesota, Missouri, Nebraska, West Virginia and other areas. We've received thousands of submissions and had many hundreds of meetings with stakeholders, including individual consumers across the country; consumer groups; technology companies; business customers of communications services; leaders at schools, hospitals and other anchor institutions; communications providers of all kinds, including many small, rural carriers, and companies using varying technologies to deliver wired and wireless broadband. We've also had significant engagement with our state partners throughout the past months and weeks.

This process and the enormously hard work of FCC staff has led to a proposal that weds the best of past efforts at reform with new ideas generated by a broad array of stakeholders and staff. This proposal builds on ideas developed by numerous FCC Commissioners over the years, including my colleagues on the Commission today.

It builds on the bi-partisan legislative and coalition-building work of Congressman Terry, Congressman Boucher, and other congressional leaders on Universal Service reform.

It builds on the FCC's previous reforms to ICC, continuing the reduction in ICC rates that began a decade ago.

And it includes lessons learned from the on-the-ground experience of state commissions across the country, including especially those states that have already led the way in reforming intercarrier compensation rates.

Throughout the process, the overriding imperative has been to maximize benefits for consumers. That includes consumers in unserved rural areas who under this plan would finally get the benefits of broadband and advanced mobile coverage. It includes consumers in areas currently served by USF who would continue to get broadband and voice service. And it includes consumers throughout the country, who would have hundreds of millions more dollars in their pockets over the coming years because this reform will constrain the contribution burden for USF and phase down the ICC subsidies buried in their wireless and long distance phone bills.

Here are key elements of the reform plan we are proposing to help American consumers, create jobs, and grow our economy.

If adopted, the plan will transition USF to a Connect America Fund, which will have two core goals: First, ensuring universal availability of robust, scalable, and affordable broadband to homes, businesses, and anchor institutions in unserved areas. The Connect America Fund will help get broadband to the 18 million Americans who can't get it today, with near-term buildout to hundreds of thousands of consumers starting in 2012, and millions more unserved Americans connected within the following five years.

The Connect America Fund's other goal will be ensuring universal availability of mobile broadband through a new Mobility Fund. We will extend deployment of state-of-the-art mobile broadband to more than one hundred thousand road-miles, where millions of Americans live, work, and travel. This will begin with a one-time shot-in-the arm to accelerate deployment of 4G networks. Thereafter, the Mobility Fund will provide significant ongoing support for rural mobile broadband. This will include dedicated support for Tribal areas, where broadband and mobile service remains far behind the national average.

For all elements of the Connect America Fund, we will ensure that support isn't used to supplant private investment. Funding will be targeted exclusively at areas without an unsubsidized competitor, and where support is needed to extend or sustain broadband networks, eliminating wasteful spending and promoting healthy competition. And funding will be conditioned upon complying with rigorous obligations to serve the public and meet the goals of universal service.

We will also constrain the growth of the Fund. Consumers and businesses, including all small businesses, are the ones who pay for USF with contributions on their monthly phone bills. That's why we've made fiscal responsibility one of the key pillars of reform, and why we're proposing to put the fund on a firm budget.

In pursuing these goals, we will introduce competitive processes among providers for obtaining support and transition over time toward a fully competitive system for distributing Connect America Fund dollars. We will do this in a way that recognizes the strong benefits of competitive processes, and also that we are not writing on a blank slate, and that a flash-cut to competitive bidding in some parts of the decades-old program risks consumer disruption, build-out delays, and other unintended consequences.

The plan builds competitive bidding into the first phase of the new Mobility Fund in 2012. This will be the first time the FCC has ever used competitive bidding in USF.

In the Connect America Fund, some price cap areas will be subject to competitive bidding quickly, and others will shift to competitive bidding in later years.

Price cap carriers are companies subject to USF and ICC rules that, as currently structured, reward them for operating efficiently, but not for investing in broadband. For areas currently served by these carriers, ongoing legacy obligations, including state carrier of last resort requirements, complicate the transition to competitive bidding. Our

goal of getting robust, scalable broadband—with capacity and latency comparable to urban broadband—over broad geographies in rural price cap areas as quickly as possible may be best achieved through a phased approach that ensures accountability.

So in the transition areas, until the shift to competitive bidding, the Commission will base support on a rigorous model estimating the costs of deploying broadband, ensuring carriers receive no more than necessary to enable broadband buildout. And that cost model will be adopted only after an open and transparent public review process. This is what the Commission proposed in our February NPRM.

For rate of return carriers, current USF and ICC rules encourage network buildout by reimbursing actual costs incurred, but also enable inefficiencies, like expensive over-building of unsubsidized competitors.

For these carriers, we will begin by reforming the rate-of-return framework, ensuring providers have appropriate incentives to invest efficiently and receive predictable support. That includes improving accountability, using benchmarks to ensure reimbursable expenditures are reasonable, and extending commonsense limits on reimbursements for corporate operations expenses.

The result: Companies that invest in and manage their businesses prudently will have the support they need to continue extending broadband, and will be on the path to a more incentive-based framework in the future.

For Americans living in the most remote areas, scattered across the country, the Connect America Fund will use market-based mechanisms to enable affordable broadband through innovative technologies, including next-generation satellite and unlicensed wireless.

Reform will also include a clear and meaningful waiver process, to account for special cases and enable companies to obtain relief from any reforms they can demonstrate put consumers at risk of losing service.

The other major component of our proposal will reform and modernize the intercarrier compensation system. This will reduce the hidden subsidies paid by consumers across the country, shut down harmful arbitrage schemes and eliminate competitive distortions, remove a significant obstacle to the deployment of modern IP networks, and substantially increase certainty for all stakeholders.

Our plan will begin by immediately closing loopholes like phantom traffic and traffic pumping, and other arbitrage schemes like CMRS-in-the-middle, where some carriers divert wireline traffic to wireless networks to avoid paying intercarrier compensation charges. It will provide certainty going forward about the compensation for VoIP calls that either begin or end on the public switched telephone network, ensuring symmetry in the treatment of such traffic.

We will then phase down access rates over a measured but certain multi-year transition path, starting by bringing intrastate access rates in line with interstate rates. We will first tackle terminating charges, where most ICC arbitrage occurs today, and will assess the appropriate transition path for other rate elements.

To help companies with the transition, we will employ a tightly controlled recovery mechanism. We will permit some companies to receive transitional support from the Connect America Fund, but such support will be accompanied by obligations to serve the public consistent with universal broadband goals, as well as oversight and accountability. We will also provide companies with limited flexibility to modestly rebalance rates in areas where some consumers are paying lower rates than many other consumers, as a result of subsidies from wireless and long-distance consumers.

We will also acknowledge the importance of promoting efficient interconnection as carriers transition to an IP world, and will put forth specific proposals in that area.

Our ICC reforms will result in significant consumer benefits. By eliminating billions of dollars in hidden subsidies that are currently built in to wireless and long-distance bills, consumers can expect reduced costs, better value for their money, or both. And by reducing inefficient regulations and removing marketplace distortions and obstacles to deploying IP networks, ICC reform will promote competition and innovative new services, driving further consumer benefits.

Past experience confirms our estimate that wireless consumers will see more than \$1 billion in annual benefits from ICC reform. The last time the FCC reduced ICC rates, it unleashed substantial consumer gains, including 18 to 27 percent reductions in long-distance prices within the first year after reform. That reform also led to consumer benefits like unlimited all-distance calling plans and flat-rate buckets of minutes for wireless subscribers.

I've described what our plan will do. Let me tell you what it won't do.

It will not rubber stamp or adopt wholesale the proposals of any stakeholder or group of stakeholders. The core elements of our plan were presented in the National Broadband Plan, and included in our Notice of Proposed Rulemaking back in February or in a Public Notice this summer.

We benefited from a number of fully-developed public proposals, including joint proposals from the State Members of the Federal-State Joint Board on Universal Service, the rate of return carrier associations, and the ABC Plan.

Our plan includes elements of each of these, while also rejecting some suggested policies. For example:

Our proposal will not eliminate states' carrier of last resort obligations.

It will not eliminate states' responsibility for designating eligible telecommunications carriers—those entities that can receive universal service support. To the contrary, states will have a vital and meaningful role in ensuring accountability for broadband buildout obligations, continuing their crucial responsibilities for protecting consumers.

It will not provide Connect America Fund support as part of ICC recovery without accompanying broadband obligations.

It will not abandon Americans in the most remote, highest-cost areas who lack access to affordable broadband.

The plan we are circulating represents a historic opportunity to truly achieve universal broadband in this country.

The Plan will extend broadband to millions of Americans in unserved areas. It will bring massive consumer benefits, and unleash broad opportunity. It will spur private investment, create jobs, and drive our nation's competitiveness by investing wisely in our innovation infrastructure.

We can do this, but we're not there yet.

We are at the 25-mile marker of a marathon. You don't get this far without a tremendous amount of hard work. And I want to thank the extraordinary FCC staff who have been working literally around the clock to develop this plan. I also want to thank my fellow Commissioners and their staffs for their strong engagement and input on these issues over the past several months.

We have to seize this opportunity, and we can't afford to delay. Every day without reform is a day millions of Americans suffer increased harms from lack of access to broadband, and millions of dollars are being spent wastefully.

Now is the time for everyone to put aside narrow self-interests and accomplish something important for our country and all Americans. Now is the time to build a better future for the people I met in Liberty, Nebraska, the farmer, the entrepreneur, the parents, the students, the seniors, and the millions like them across our country.

On behalf of all Americans, let's seize this opportunity.