



Statement of

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On behalf of the

National Telecommunications Cooperative Association

Before the

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Energy and Commerce Committee

Hearing Titled:

"Universal Service: What Are We Subsidizing and Why?"

Part 1: The High Cost Fund"

Good afternoon. I am David Crothers, Executive Vice President of the North Dakota Association of Telephone Cooperatives. I am here today to testify on behalf of the National Telecommunications Cooperative Association. We thank you for the opportunity to testify before you today. My comments today will focus primarily on the high-cost program within the universal service fund.

Universal Service has remained the cornerstone of our nation's telecommunications policy for more than six decades, ensuring that we enjoy the benefits of a nationwide integrated communications network. It is arguably one of the most successful programs in American history playing a key role in our nation attaining a near ubiquitous telephone subscribership level of 94%.

Mr. Chairman, the subject of this hearing is "USF, what are we subsidizing and why?". Let me begin my testimony by telling you what USF is not. It is NOT a subsidy and it is NOT a tax. USF is an industry funded cost recovery mechanism that offsets the higher cost to build and maintain vital communications networks in rural, sparsely populated and insular portions of our Nation. No federal monies are appropriated to this fund what so ever. Carriers that made the commitment to invest and deploy networks in high-cost areas receive support which in turn allows them to offer service to rural consumers at a rate comparable to that offered to consumers in lower cost urban areas.

As to the question "why", Mr. Chairman my answer is simple: it is in the national and public interest for all Americans to have affordable access to communications services. Some question the continued need for universal service. To these doubters I invite you to visit my state of North Dakota and see the incredible accomplishments of this program for yourself. I can assure this committee that the universal service fund is still needed and I believe that it is even more essential now as the nation transitions to a digital and broadband world. While it is true that advances in technology may in some cases bring down the cost of providing communications services this is an over generalization. Likewise, this does not alter the fact that the cost to serve rural areas is, and always will

be, more expensive than in urban and suburban areas. That, Mr. Chairman, is a fact that no one will dispute.

For ILECs, the high-cost universal service program is a highly accountable cost-based program. Support out of the fund is based on a national average cost per line calculated by the FCC. Rural carriers with costs exceeding 115% of this national average may receive support from the fund to offset these elevated costs. Incumbents file immense amounts of data outlining their costs and network investments to receive cost recovery support from the fund. This data is reviewed and vetted at many levels, including by the fund administrator, the Universal Service Administrative Company (USAC), and the FCC.

However, new competitive carriers are treated differently. Under the guise of competitive neutrality the FCC unwittingly undermined the accountability of the fund by allowing new competitive carriers to receive support from the universal service fund without the same stringent reporting and accounting requirements mandated of the incumbents. Instead of filing their own cost and investment data, these new competitive entrants receive support based on incumbents costs. The vast majority of growth in universal service is due to competitive eligible telecommunications carriers (ETCs). Universal service support to competitive ETCs grew by over 115% in 2004¹. During this same period ILEC support grew by only 0.6%. Requiring all universal service fund recipients to receive support based on their own costs will increase program accountability, reduce demand for funds and ensure that funds are being used for their intended purpose.

NTCA's Communications Act Re-write Policy Course is attached to my testimony. In the interest of time I will not go over it but I would like to briefly go over its key universal service policy positions. NTCA strongly believes:

¹ Wireless Communications and Universal Service by Bob Rowe, Senior Partner, Balhoff & Rowe, LLC @ Columbia Institute for Tele-Information. Slide 12.

- The universal service fund must continue to be an industry-funded mechanism, and neither supported through general tax revenues nor subjected to the federal Anti-Deficiency Act.
- The base of contributors must be expanded to include all providers utilizing the underlying infrastructure, including but not limited to all providers of 2-way communications regardless of technology used.
- Support shall be made available for the cost recovery needs of carriers deploying broadband capable infrastructure.
- The contribution methodology must be assessed on all revenues or a revenues hybrid that ensures equitable and nondiscriminatory participation.
- Support must be based upon a provider's actual cost of service and must not be used to artificially incite competition.

If enacted, these policies will ensure the long term sustainability of the universal service fund, bring it in line with technological and market realities of today and position the fund to meet the communications needs of the future. The Universal Service Reform Act of 2006 (H.R. 5072) introduced by Representatives Terry and Boucher, contains provisions that meet the policy goals of NTCA. H.R. 5072 has two goals: spur deployment of broadband services and control growth in the universal service fund.

In regard to expanding the universal service program to cover deployment of broadband networks, I don't think anyone would dispute the growing importance of broadband. Broadband is an integral part of the commercial, economic and social viability of any community. A community that lacks access to broadband and advanced services will not thrive and may not even survive. It is simply that important.

While there are concerns that adding broadband to the universal service program will cause the size of the fund to increase, this bill takes several steps to limit potential growth. We believe several of the cost saving provisions in the bill will be extremely effective and may offset much of the additional cost of covering broadband. In particular, NTCA supports expansion of the pool of providers and services that pay into the fund. The bill would require all providers that use telephone numbers, IP addresses or offer a network connection for a fee to the public to contribute to the fund. This is long overdue. Changes in technology have created loopholes that have allowed many new providers to evade contributing into the fund even though they benefit from the resulting network upgrades and investment.

NTCA however, does not support provisions contained in the bill that would institute a statutory cap on the universal service fund. A cap by its very nature means a carrier will not receive the support it is due and thus is antithetical to the very goal of universal service. A cap is a disincentive to network investment. The FCC has maintained a regulatory cap on the fund for a number of years, and while we are not supportive of it, it is evidence to this committee that the Commission takes its role as steward of universal service monies seriously. In addition, a regulatory cap allows for flexibility to adjust in the future should circumstances change. We believe the many other positive provisions in H.R. 5072 discussed here go a long way towards achieving the goal of limiting growth in the universal service fund and thus make the proposed statutory cap unnecessary.

NTCA is very pleased that Congressmen Lee Terry and Rick Boucher have taken such a leadership role through their legislation in working to ensure the vital policy of universal service remains solvent and forward looking. H.R. 5072 contains many provisions recommended by NTCA that would continue and expand upon the highly successful universal service program.

The universal service fund was integral to reaching the near ubiquitous telephone subscriber ship rate that currently exists in the United States. This bill will put the

universal service fund on course to bring the same level of broadband subscriber ship to all Americans.

America stands at a crossroads between a narrowband and broadband world. The choice is clear. We must move forward aggressively with a national plan to bring broadband to all Americans, as envisioned by President Bush in his goal of ubiquitous broadband by 2007. To NOT move forward would imperil the global economic competitiveness of the United States. We urge the committee to adopt H.R. 5072 and push for its passage by the full House of Representatives this year.

NTCA stands ready and committed to working with the Energy and Commerce Committee, and the entire congress, to see that America takes this crucial leap forward towards a broadband America. Thank you.