

The Free State Foundation

A Free Market Think Tank For Maryland...Because Ideas Matter

Reforming Universal Service: What Should Be Done And How To Do It

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Transcript of the Proceedings

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P R O C E E D I N G S*

MR. MAY: I think we will get started. I'm Randy May, president of the Free State Foundation, and I want to welcome you here. I appreciate a lot of you trudging through the rain and I know the truckers are having a demonstration as well. But you made it, and we're glad you're here. I know we're going to have a have a good program today.

The title of our program, "Reforming Universal Service, What Should be Done and How To Do It," pretty much says it all about what we're going to be talking about today. I don't want to steal the thunder from our speakers, so I'm not going to say as much as some of you have heard me say previously when I do the introductions to these events. Only a few things.

But one thing that is true is that the seminar is very timely because the FCC is presently considering comments, and shortly will be receiving reply comments, in a couple of weeks on the Universal Service program. I mean, in one sense, I could say that the Universal Service Program is always timely in the sense that the FCC has been considering how to change the program for eight or 10

* This transcript has been edited only for purposes of correcting obvious syntax, grammar, and punctuation errors, and eliminating redundancy. None of the meaning was changed in doing so.

years. But in a more important sense, at the time when we're having this program today, the prospects for some important changes are real, which does make this very timely.

I think one way to set the stage is just to observe that to support the various USF programs consumers today pay an approximately 11 percent surcharge on their interstate calls. In 2001, when I looked back, that surcharge was about 6.5 or 7 percent, so you can see the growth over the years.

The fastest growing USF program is the fund that provides subsidies to the so-called High-Cost Fund. This fund doles out about \$4.5 billion per year, and I think that our focus today principally will be on changes to the High-Cost Fund.

I'm going to recite what I understand to be the objective stated in the 1996 Telecom Act just to provide context for the discussion, and others -- our panelists may have different glosses on it - may have different ways of putting it. But when you look at the 1996 Telecom Act with respect to the High-Cost Fund, it seems to me that the stated objective is to provide access to telecom services that are reasonably comparable to those services provided in urban areas at rates that are reasonably comparable to

rates charged for similar services in urban areas. That's what the current act says.

Now obviously as we're talking about this issue today, I suspect we'll hear suggestions and ideas for making changes within the context of the current statute, but I also suspect there will be those that will point out that there are ways in which the statute ought to be changed with respect to providing universal service. And some of those proposals may be more fundamental than some of the short-term, near-term proposals.

So in concluding, I'll just highlight -- and again, you'll hear a lot about all of these things -- the proposals presently being considered at the FCC. Among those, are should the High-Cost Fund be capped; should support be broadened to explicitly include separate broadband and mobility funds; should the so-called identical support rule whereby wireless carriers receive subsidies based on the amount of support received by the incumbent provider be eliminated or changed; should the FCC adopt some form of reverse auctions as a means of determining the distribution of support. Those are some of the things being considered.

Now as most of you know, Commissioner Tate had intended and was slated to be here to deliver some opening

remarks. That would have been especially appropriate since she is the chair of the Federal-State Joint Board on Universal Service, which has made some of the recommendations that I referred to.

I got an e-mail message from her this morning that she is sick. I'm just going to read her message, which is pretty innocuous, but I think it will in some ways set the tone and transition us right into the program.

"Randy, I've never canceled anything before and I'm especially sorry to do so today, as it seems that the cap is actually imminent, at least according to *Communications Daily*. Of course, I've been saying that since your last gathering. Please express my deepest apologies, but I've lost my voice totally, have a temp, and have strep throat. That's what I get for having an absolutely fantastic trip to the Asian Pacific Minister's meeting in Bangkok last week. Interestingly, USF was a major topic of all of these nations and, of course, I suggested they learn from our mistakes rather than incorporate our fund whole cloth. Please forgive me. I know you'll understand and express my apologies to the panelists."

So, we're sorry that Commissioner Tate can't be here, but her last injunction was: "Thank you for having these

important discussions and especially for the excellent panelists and the good discussion you always provoke." I'm pretty confident we're going to have a good discussion today.

So, without further ado, I'm going to introduce our panelists. I'm going to go ahead and introduce all of them now and then call on them in the order that they've been introduced. I've asked them to speak initially for about seven minutes. I told them I'm going to enforce that pretty strictly, because I think it will be useful and instructive and probably even entertaining if we have time to have some back and forth.

With the panelists' indulgence, I just want to give you about two sentences for each one because you've got their full bios there. Their bios in every case are extensive and I couldn't really do them justice now.

Our first speaker is going to be James Assey. James is Executive Vice President at the National Cable and Telecommunications Association. He assumed that position just this past February. That's the second most senior executive at NCTA. As most of you know, prior to coming to NCTA, James was a long-time staff member on the Senate Committee on Commerce, Science and Transportation, working on communications issues among others.

Our next speaker will be Shirley Bloomfield.

Shirley is Senior Vice President -- Federal Relations in Washington, D.C. Shirley leads the office and advances all of Qwest's federal public policy and regulatory issues, including, of course, before the FCC and Congress. Prior to joining Qwest in 2007, Shirley was Vice President of Government Affairs and Association Services at NTCA, not to be confused with NCTA. That's the National Telecommunications Cooperative Association.

Then next we'll hear from Joel Lubin. Joel is Vice President -- AT&T. Joel has 38 years of experience with AT&T -- Joel, you're almost as old as I am! -- and is responsible for development and economic support of state and federal policy and planning initiatives.

Then next we'll hear from John Rose. John is President of the Organization for the Protection and Advancement of Small Telecommunications Companies. That's the national trade association representing the interests of more than 550 rural telecom companies in the U.S. and Canada. And John began his career in telecommunications 35 years ago at C&P Telephone Company -- that's a blast from the past -- where he focused on accounting, auditing and separations and settlements.

Next, Mark Rubin. Mark is Vice President of Federal Government Affairs for Alltel, the nation's fifth largest wireless carrier. He represents the company on Capitol Hill, at the FCC, and before the Administration. Before Alltel acquired Western Wireless, Mark was Western Wireless' sole D.C. advocate, and he also served some time at the FCC from 1994 to 2001.

I have deliberately skipped over our two esteemed representatives from Congress, whom I wanted to speak last so we could get their reactions and predictions and so forth. After Mark Rubin we'll hear next from Colin Crowell. Colin is the chief telecommunications staffer for Representative Markey. He's been in that position with Mr. Markey, as you know, for a long time, serving 12 years as Representative Markey's chief legislative staffer for a wide range of issues, which included, of course, telecommunications matters back when Representative Markey was the ranking member of the subcommittee as well.

And then, finally, we'll hear from Neil Fried. Neil is senior counsel for telecommunications policy for the House Energy and Commerce Committee, Colin's counterpart on the other side of the aisle. As senior counsel, Neil handles television, radio,

telecommunications, and internet issues for Ranking Member Joe Barton.

So you can see we've got a very full lineup and we're going to delve right into it. Before we do, I just want to thank our FSF Events Coordinator, Susan Reichbart, who is standing at the backdoor, who did everything except get the speakers here. Thank you for that, Susan, and for the food.

Now, without further ado, I'm going to ask James to start it off, please.

MR. ASSEY: I'll do my best. Thank you very much, Randy, for the introduction and for the invitation to participate today. With a last name starting with A, it's always the curse, ever since the third grade, at least. But I'm happy to go first and discuss what many of the people in this room have been discussing for quite some time, which is, policy reforms that our regulators at the FCC can implement in order to improve universal service.

And I'm going to probably ignore the urge to get too mired in the specifics, more so to protect my tenuous grip on those specifics, but also because I know the people on this panel have a much firmer grasp of them than I do.

But one of the things that I think at the outset is important to discuss when we're talking about universal

service is to really avoid missing the forest for the trees and to zoom back and to really think about what it is we want this program to do, and where we are in this day and age with respect to the provision of communication services. Because we oftentimes get mired in a kind of regulatory inertia when it comes to these programs, that they have always been done this way and, therefore, we can't change or we are reluctant to change the current path that we are on.

But we've come a long way in the provision of communication services in the United States since the days when farmers would use the barbed wire on their fences to send voice signals down the line and really build their own telephone service. And that is a good thing.

You know, today with respect to the cable industry, we are providing broadband services to 92 percent of the households throughout the United States and with rare exceptions that is without a single penny of universal service support. We have through the magic of IP technology not only been able to transform competitive entry with respect to cable operators, but we've given all operators new opportunities to move from a world where one wire meant one service to a world where one wire means a multiplicity of services and offering operators the

opportunity to gain revenues not only on voice services, which have traditionally been subject to rate regulation, but on a whole host of other services which are priced according to the operator's desire and what the market will bear.

That is a positive step in the development of communication services and it really should force us to think about what it is we want universal service to do. And if we go back to first principles, which was universal service was about being able to fill in the gaps where the market will not produce the extension of services to consumers, we really should celebrate the fact that developments in technology and competitive forces are driving out infrastructure at a very aggressive clip, and that is hopefully shrinking the size of the geographic area that we need to really concern ourselves when we are talking about support.

Ideally I think what we want to aim towards in this wonderful world of competition is a smaller competitively neutral universal service fund that does not distort the multiple players that are participating in this market.

As part of doing that, one of the things that I believe we need to focus on is ways of promoting greater

efficiencies within the system. We all have experience going into Best Buy and the flat screen TV that's on sale today was twice as expensive two years ago and two years from now it will probably be half as expensive.

There we have seen technology bring reduced costs and we ought to have an expectation that our communication services should be reducing costs as well. Yet what we see when it comes to universal service support is we don't enjoy that same cost curve to the same extent. We ought to ask ourselves why.

We ought to make sure that the expenditures are targeted for the provision of service, that they are not going for purposes that are extraneous to the provision of service to the consumer, and that we are not essentially building in or locking in support to continue a business model that is itself self-perpetuating.

And we also ought to look obviously at the contribution side when we're talking about greater efficiency and administrative simplicity because I think we all recognize that the days when we assess long distance in order to provide universal service are coming to an end because we have a declining base of revenues on which to base support and we need something that's more stable and

more administratively simple to build the future universal service support system on.

The third point I would make is that as we consider the evolution of the fund and we talk about universal service as an evolving level of service, we need to recognize that this offers us a tremendous opportunity to respect market forces, and to ensure as we talk about the fund evolving to support broadband services to ask ourselves the question: Is intervention necessary.

And as I said, 92 percent of households throughout the United States can get cable broadband today, so maybe we should focus on the 8 percent that can't.

And, finally, one of the things that I think is critically important is that we need to build in some dynamic "look back" mechanism into the system. We need to recognize that the only thing that's certain in the future is change, and that markets will change. New competitors will come to the floor. New technologies will be developed that will enable consumers to reap even greater benefits from communication services, and we shouldn't just assume that whatever the market barriers to entry are today will necessarily be there tomorrow.

And as a result, we need to recognize that there may be reasons for the commission to go back and look in a

particular geographic area. If an ILEC wins rate deregulation or if it starts the provision of new services in which you're basically collecting revenues and setting the price not subject to government regulation, or if there are multiple competitors in an area, that we need to basically rethink our assumptions and ensure that we are not raising the level of burden on all consumers, as Randy adverted to the 11 percent, beyond what is necessary to the provision of services.

So I guess I will close as I'm coming to the end of my seven minutes and deal with the specifics in questions. Thank you.

MR. MAY: James, thank you very much. And as James alluded to, I did just construct this order the easy way by doing it alphabetically, and to be honest with you, it is unlike some programs where there's an A and a B side and a lot of jockeying about who gets the last word and who should go first.

There are a lot of different perspectives with universal service, so I didn't think it made much difference and it just made sense to do it this way. But I do want to say to the participants that when we get through with this first round, then we'll do what on the cable shows they call a lightning round. So you can be thinking

of questions that you want to ask your fellow participants, because you're going to have that opportunity. So Shirley, you're next.

MS. BLOOMFIELD: Terrific. This is a great opportunity for me because for a lot of you the last time I saw you I had the opportunity to represent the small independent carriers and that gave me a really great sense of how important universal service really is to provide some of these services out in rural America, and the infrastructure.

If you look at Qwest and you look at the territory that Qwest serves, we go all the way from Iowa, Minnesota, out to Oregon and Washington, and you've got a lot of states in the middle of that, Wyoming, Colorado, New Mexico, that have a lot of territory and not a lot of people living there.

So in a lot of ways, Qwest is actually a very rural carrier as well. And that is why universal service is something that's very important to us, even though people kind of want to put us into the Bell Company box.

The other thing that I would say about a company like Qwest is in reality we're probably more aligned with a lot of mid-size carriers. We've got about 13 million

subscribers nationwide. My friend to the right of me is significantly higher, probably 74, 75 million access lines.

So you kind of get a little bit of an economic perspective there. On universal service, you kind of like to think the time might be now. I probably thought that for the last eight years or so in terms of when reform is really right. But it's very appropriate and terrific to have both of you [gesturing towards Colin Crowell and Neil Fried] here participating, because that gives me hope that maybe there really is some serious look at reform.

One of the things that I wanted to raise is if you look at the current non-rural funds right now, it's currently about \$350 million a year. That's the Non-Rural Company High-Cost Fund. Of that, Qwest gets about \$30 million a year. And again, think back on that territory that we serve; that's not a lot of support.

After the act passed in '96, a lot of things have gone through. We're a dozen years out.

There have been two court reversals so far and the FCC still lacks lawful rules in terms of dealing with reasonably comparable rates for rural citizens. How do you make that comparability so that what we're really talking about with universal service is not so much the recipient of who's getting the support, but really the consumers and

how they're being served in the areas that they actually live in. I think that this void is growing in terms of the disparity between some of the rural and the non-rural, particularly given the market conditions that we've got today.

Qwest actually has a remand that's out there right now, Qwest 2, that we are very hopeful that the FCC will take a look at. You've got companies like Qwest -- and again, we're in a very tight market situation -- and when you start to look at what we do with the revenue streams that we have, you either have a choice of increasing your rates to folks as you build infrastructure out in some of these high-cost areas, or you decrease your investment expenses.

And what that means in some of these rural markets is that it's very, very difficult to find a business model that allows you to build particularly advanced services out into some of these areas at a time where we know that that's really what consumers want.

You also know we're in a time period where between 2003 and 2007, the ILEC industry has lost about 18 percent of our access lines. Now Qwest is probably a little bit unique in that when we lose an access line, we

don't lose it to our wireless carrier because we don't have a wireless service.

There's been a lot of cable competition. There's a lot of innovation in the industry, a lot of VOIP services out there. So when we lose those lines, we lose those lines and it's kind of the basic economics that then everybody else remaining on the network picks up the cost of that.

So one of the things that we're trying to take a look at is, what would it mean if instead of doing support now by a study area, which for us the study area is the state of Wyoming, you actually looked at some of the wire centers and really kind of narrowed in to some of those areas where you can get a little bit more targeted, you can be a little bit more specific with your support, kind of look at how you're doing your benchmarking and try to assess some of that.

For example, -- I always think examples are always interesting -- we serve a community in Patagonia, Arizona, and right now our monthly rate is \$20.98 a month for the monthly service. The cost for us to provide such service -- we're not talking about bells and whistles -- to those customers is \$126 a month.

Well, you start to kind of see the lines going down as we're losing other access lines. You really have to find those revenues among the rest of your services and the rest of your customer base to support the cost of doing that because we don't get universal service in that area.

We've got hundreds of other wire centers across the country that I would say we have the same situation in. I also think that for those of you who work on Capitol Hill and for all of you in the room who deal with these issues, broadband deployment is obviously incredibly important.

You start to look at broadband and wonder if that's really the new basic essential service that all customers should have a right to have. I think there is a lot of momentum for looking at this program. The one thing I would encourage is that as some of these reforms come through and as they revolve around broadband, that we look to not replicate some of the existing problems that we're in with the Universal Service Program right now. That is kind of to James' point. You look at a fresh perspective and you say, if I could create this to make this the most efficient model possible, what would we do?

Qwest about a year ago had proposed to the commission a program for taking some support that you have currently got in the CETC Fund and actually using that

designated support for broadband services in unserved areas, again, kind of going to that targeted approach.

Qwest is about 85 percent in terms of our broadband footprint in our service territories. James had mentioned cable's at about 92. So how do you hit those unserved areas? How do you get to those communities where nobody is providing the service instead of using universal service as a tool to kind of spur competition?

I think the Joint Board actually did a very commendable job. I think their cap proposal has a lot of wisdom to it. I think eliminating the identical support rule makes a lot of sense. I think that there are a lot of things that policymakers can start to take and run with in terms of broadband.

And in the spirit of keeping things moving, I will close and turn it to the next speaker.

MR. MAY: Thank you very much, Shirley. A lot of times I don't have such cooperative panelists.

MS. BLOOMFIELD: I know.

MR. MAY: So this is nice so far. Joel, you're up next.

MR. LUBIN: Thank you and I appreciate very much the invitation to participate this afternoon. Let me start from my point of view and say very clearly, I think the

current universal service system, and by the way, access system, is broken.

I think it's an old business model. It's a business model in which you had a black rotary phone and something called POTS service, plain old telephone service.

You then had an LD service and associated with the LD service was access. I think it's broken. I think it's going to die. I just can't tell you when that event happens, but the process is beginning.

The interesting phenomenon though is that the fundamental infrastructure that carried the POTS and then the LD on top of the POTS, that same infrastructure is the same infrastructure that is carrying what I call fixed broadband into the home. So when I say the same infrastructure, I'm talking about the loop. I'm talking about the transport. The switch will be replaced with a different type of switching vehicle, a router, whatever.

And so the infrastructure is the same and the industry we live in is a tremendous, fascinating industry. And we're very fortunate to live in the industry, because you now have a convergence of technology and capacity coming together so that today an individual can get voice, data, text, video, songs, you name it, and it's from an

infinite number of locations to an infinite number of locations.

The key word there is locations. It may not, and probably will not, go to all locations unless there is some process by which that is encouraged. And so when I highlight to you that the existing business model isn't going to work, there's going to be a new business model that basically takes broadband capability into fixed locations into the home and virtually puts any application on top of that to do the kinds of things I just described.

So if it's a different model, if the infrastructure is the same, how does that get deployed into all locations? By the way, this is a public policy question. This is not a question in terms of my company or other companies, whether we should do this or not. This is a public policy question.

The policymakers have to step up and say, should it be done, should it not be done, and if it's going to be done, whatever you do, figure out what we did right with universal service, figure out what we did wrong, and take it to the next generation.

So from our point of view, on April 17, AT&T filed a comprehensive plan that would attempt to take universal service reform to the 21st Century so that when

we have applications, one of which is voice -- but there will be many applications -- and it's riding that broadband pike into the home.

We've got to figure out a much more efficient, rational, cost-effective way, with cost accountability to do that. If we don't, we've lost a lot of the things that we've learned.

Is this going to be hard? In one sense it's hard. In another sense, it's not so hard. What makes it difficult here is the various factions that have been, I'll use the term, warring with one another over the last many years.

And I would hope at some point people finally say -- and the people who do it basically are those individuals and those providers who want to serve rural America -- why is AT&T here? AT&T is here because we serve over 7 million rural customers today.

You might ask me what a rural customer is, so I'm going to save that question. But we try to have some rational determination of what rural is because a large company such as AT&T and small rural telephone companies, be them price cap or rate of return regulated, are also serving rural customers.

And so we need to find a model and a business model that works. But my view is any business model that works, for the reasons that Shirley highlighted, the cost in rural America is very high.

And so one has to figure out a rational universal service reform mechanism. So on April 17, AT&T did that and we did it to try to bring universal service access reform to the 21st Century.

What I want to highlight to you are some of the principles of that. By the way, we did not say in that filing, because we've said it many times in the last few years, is that you've got to change the current collection mechanism, and I think you've heard people already say that.

The current collection mechanism, 11.3 percent on interstate retail and user revenue, basically an old model, isn't going to work. So we do suggest a move to telephone numbers. We've got to find a way to do it that works in the new world.

What are some of the other attributes and principles of the plan? Well, some of the principles that we look at go back to defining unserved areas. So number one, define unserved areas. Number two, we talk about, I'll use the term "a reverse like auction" approach in

which anyone, and I underline the word "anyone," who wants to serve the unserved areas submits an application.

Those applications are then reviewed by the state regulator. They're prioritized by the state regulator, submitted to the FCC for an FCC determination of selection. Ultimately, there will probably be a submission of applications that are greater than the amount of money that the government wishes to spend, but that's ultimately a decision for the government. It's not an issue for these parties who want to provide service to rural America.

So ultimately we also talk about one provider getting it. You submit an application, and here's the other key attribute, what speed do you want to support? It's another key attribute.

By the way, we, AT&T, did not answer all the questions. We defined a framework by which hopefully the industry will come together and debate and put what it thinks is a rational set of answers and the policymakers will ultimately decide.

The other attributes are again, if you want to serve fixed broadband, do you also want to serve mobility and do you want to serve advanced mobility? And if you want advanced mobility, what are those fees?

And again, it's focused on unserved areas. For what I call rate of return companies, you have a slightly different problem. You'll hear more about that from John Rose, but I think again, one has to look in the 21st Century as to how to address these issues and incorporate some form of access reform.

I'll be glad to stop now and look forward to your questions. Thank you.

MR. MAY: Joel, thank you very much. When Joel looked out at you guys and said that you might ask him the question later to define rural, it just reminded me that in addition to having our panelists ask each other questions, I'm going to make sure that you have a chance to ask questions.

So that might be one, or you can think of others, but we're going to make sure you have a chance to do that at the end. So, that brings us to John Rose. John?

MR. ROSE: Well, thank you. I appreciate being here. I think we need a national broadband policy; it's good for the nation. It's good for competition in the world. It's absolutely critical to rural areas. It's great for commerce.

I think when we look at broadband and measured broadband, I think we've got to look beyond coverage.

Coverage is one aspect, but another one is "take" rates and in rural areas the "take" rates are significantly below the take rates in urban areas.

We've got to look at speeds, not only down, but up. And I think we've all heard the term "exaflood" and look what's coming on to our network.

And then for rural areas, we ought to look at what transport is. As these speeds get bigger and bigger and we use it more and more, then we need a bigger transport, and that's a significant problem for rural areas.

And since we're limited in time here, I'm going to get right into recommendations. I think we need a policy that we move universal service funds from a public switched network and transition it to broadband. I think broadband should be in the definition. I think we need a separate broadband fund and a mobility fund per what the joint board wanted to do. It would have different measurements for each.

I think we need to decide the fate of the public switched network as we know it now and we have to look at a serious transition period, how do we work with that? I think we need to review our regulations, both in the

Universal Service Fund interconnection, and particularly, I think, we need to look at content.

And the reason for that, in rural areas, we pay about 30 percent more for content than you do in urban areas. If we could get an average price for content that would significantly reduce the need for universal service funds. That's a critical area for us.

I think for the Rural Fund, it's been successful. The Rural Fund is -- pretty much hasn't grown that much lately. It's been equivalently flat. I think we have equivalent rates and services. We can get broadband out to about 90 percent of our customers and that's in terms of today's speed; that we see in terms of our speed. A very difficult job.

We agree with the Joint Board's goals of rural broadband fund as a rule, mobility fund, and we think the fund has worked for rural areas for the small guys. We believe that embedded cost is the best way to go, that we would not have identical support rule. We think embedded costs are fair, measurable, and you can do oversight for it and we think the system has worked. I think the growth has not been in the Rural Fund. I think again, OPASTCO recognizes that we need a mobility fund. We believe that reverse auctions will not work. It will drive things to

the lowest common denominator and the lowest form of services and we believe we need to get the broadband.

We think the Universal Service Fund ought to be commensurate with the goal of broadband to our country. We think also the contributions need to be reformed. We cannot do it on intrastate revenues. The numbers are okay. We'd like to take it beyond numbers and go to connections.

And I think that we should have a set of requirements that works for everybody. We think we ought to be subject to oversight. We ought to go with audits as well. We believe the carrier of last resort ought to have special treatment and those who provide that need the funds to do it, particularly in rural areas. Should be able to demonstrate one's own costs.

And we should not look to the lowest common denominator, but we should look to a broadband world that benefits this country. And we've seen that done in the past with the highway system, with the rail networks and with the airlines.

Again, I want to say that we think that the Universal Service Fund ought to be moved from today's network to tomorrow's world of communications, which includes broadband in terms of coverage, speed, downloads,

uploads, so rural areas and rural customers can have a shot at the new economies as well as anybody else.

And again, let me emphasize, we need the transition of this. We need a universal service fund that does that. Access revenues for us are going down. We need to figure out a way to do that.

We believe if we have the exaflood and we need really high speeds in the future; it looks like it's going to be fiber to the home. And, again, we believe there ought to be a good transition period; broadband in the definition; and we need different measurements. We need to reform the Universal Service Fund to attain those goals and our country's goals.

MR. MAY: John, thank you. Did you say that the fund ought to be expanded to include broadband? [Laughter] No, I think you did.

MR. ROSE: I said it five times. That's my major point for the day.

MR. MAY: Thank you for those specifics. You had a lot of specifics there, although I thought when I was driving in this morning that I was experiencing the exaflood as I was coming in. Mark, you're next.

MR. RUBIN: Thank you, Randy, for inviting me and it's great to be up here on this panel with so many

friendly faces. I realize just coincidentally sitting next to John that I've been dying to say this since we're so frequently on opposite sides of this issue, John, "you ignorant slut." [Laughter.]

MR. MAY: I knew it would warm up here as we went along.

MR. RUBIN: So I take that back.

MR. ROSE: Thank you Jane Curtin.

MR. MAY: You know, you're using up your seven minutes.

MR. RUBIN: That's okay.

MR. MAY: You ought to go ahead.

MR. RUBIN: That's okay, I can be quick. Anyway, for those of you who know Alltel, and as Randy said, we're the fifth largest wireless carrier in the country and if you've seen our great ads with Chad and my circle, you may also know -- what you might not -- you might not know that notwithstanding the fact that we have about 13 million customers and AT&T, correct me if I'm wrong, Joel, somewhere around 60, 70 million customers, we have the largest network in terms of square miles covered in the continental U.S.A. So we really do go into the depths of rural America to provide service to primarily a rural

customer base. And we do that, as most of you know, with a lot of help from the High-Cost Fund.

I'd like to just tell you a quick story, a recent story, which I think illustrates how important this funding is to companies like Alltel and other similarly situated wireless companies. Early last month, Steve Largent, head of CTIA, Congressman Boucher, and Scott Ford, chairman and CEO of Alltel, and I, we went down to Rick's district in Pound, Virginia. How many people in here know where Pound, Virginia is? There we go, not many.

But it's down on the Tennessee border, very small town, population of about 1,000, very rural mining town down near Tennessee. Rick had asked us about siting towers in Wise County, which is where Pound is, because the service down there was good, but it could be better.

And, fortunately, you know, we were designated as an eligible telecommunications carrier down in that area. So that helped facilitate our decision to put down, to launch the first of what's going to be three towers between now and the end of the year.

But Scott said something when the dignitaries were giving their remarks, which has still stuck with me. You know, after dispensing with the pleasantries and happy to be there, and people realizing yeah, that really is

Steve Largent, Hall of Fame wide receiver, now head of CTIA, you know, he said, and tell your friends and your family, go out and buy Alltel service.

Good sales pitch. That's what we do. But then he added, even if all of you do that, even if we capture every customer in this area, population of 1,000, it still isn't going to be enough to cover Alltel's costs for putting up the tower, wiring it with the appropriate electronics and software, and doing the things that we do.

So that's where USF comes in. Fortunately, we were designated there in that area, so it facilitated the placement of that tower.

I really believe that the '96 Act, when it amended Sections 214 and 254, really got it right. They saw the evolution of where telecommunications was going, and yeah, even though in '96 nobody really had quite the idea of how popular wireless would be, but they had an inkling.

And so they said, the Universal Service Fund shouldn't just be for the wire line carriers who do great work. That's not at issue here. But it should be for a multitude of providers.

And so 214 and 254 opened it up and soon thereafter you saw the wireless companies slowly but

surely, and more as of late, using that funding to build out in rural pockets. And you know, I've always remembered what former Senator Burns used to say, out in rural America there's a lot of dirt out there between light bulbs, and that's certainly Alltel's case.

I remember he also remarked, who would have thought that today, we actually have competition in a lot of these areas? Wireline versus wireless. Wireless versus satellite. Everybody competing with each other for these customers. And this is exactly what those who had a hand in putting the '96 act together had in mind.

In fact, about a year ago, if I'm not mistaken, it was Congressman Markey who sent a letter to Chairman Martin and he said in that -- and Congressman Markey reminded us that it was the '96 act which anticipated "over time, the Congressional Budget Office expects the operating costs of incumbent telephone companies would tend to fall as a result of competitive pressures and the total amount of subsidies would necessarily decline."

And if I recall correctly, the Senate had similar language. But that hasn't happened and I'm sure that made Congressman Markey feel better because he has a legitimate desire to see that his Red Sox, Patriots and Celtics-loving

constituents aren't turned completely upside down to support rural telephony.

But we all -- we all know that a fully wired country is to all of our benefits. So we fast forward to today, and we have a system in which the wireless industry, I think, is being unfairly tagged, being tarred and feathered as being the bad guy in this debate.

But the reason that the wireless industry has drawn more and more heavily from the High-Cost Fund is simply due to its popularity, obviously, with customers. Everybody in this room has a cell phone and that's a good thing.

But, interestingly, we have a program which OMB a couple of years ago labeled as "not performing." I believe, if I'm correct, since 1999, wireless ETCs have drawn about \$3 billion from the fund. But the wireline industry has drawn about \$25 billion from the fund, yet the wireless industry contributes about one-third of the money into the fund and only takes about one billion out of the about four billion that's distributed in the High-Cost Fund.

So fast forward to today. And what we have is study after study which tells us, it confirms what we already know intuitively about wireless' popularity with

customers. You see more and more cord cutting, so to speak, and I just remember also back after Hurricanes Katrina and Rita, who did the FCC correctly and justifiably turn to when a lot of the wireline industry was literally flooded? You know, they turned correctly to the wireless industry to help get telecommunications back up and running in that area as soon as possible. But --

MR. MAY: Just take a minute.

MR. RUBIN: Sure, and I'll wrap up. So it is of great concern to the wireless industry when you have proposals that would cap the wireless industry and only the wireless industry and proposals that would eviscerate the so-called identical support rule in a way that really would just create a huge disparity of funding between the wireless and the wireline industry.

Apropos to the comments that we too filed about a week and a half ago. I think the Joint Board got it right when they said we need to think about transitioning this fund from one that supports just plain old telephone service to broadband and mobility.

And I believe NCTA, you folks said that in your comments, and I know AT&T said that in their comments. And last but not least, I know that Congressman Barton has just recently circulated a draft on reverse auctions and if

that's the direction that we go, not necessarily with that bill, but that concept, one of the things which struck me about the bill is that it didn't play favorites on many of the things.

I've only had a chance to quick look at it, but congratulations to Congressman Barton and Neil and Courtney for their hard work on that.

MR. MAY: Okay, thank you, Mark. One of the things Mark said during his presentation was that the '96 Act really got it right, and he invoked Congressman Markey and now Congressman Barton. All of that was probably deliberate to provide a great segue to our last two speakers.

They can provide some perspective on whether the '96 Act got it right, whether the FCC has been getting it right in implementing the programs, and, as importantly, where we go from here. So first we're going to hear from Colin and then from Neil. Colin?

MR. CROWELL: Thank you, Randy, and I appreciate the invitation to come today. As you just alluded to and as Mark referenced, the '96 Act was the act that explicitly put universal service in our communications statutes in its own specific section. And the other thing is to recall that the Universal Service Program is essentially a suite

of programs. So it's the Rural High-Cost Fund, but it is also funding for the schools and library program also known as the E-rate Program.

It is about Lifeline and Link-up programs for the poor, and it also has programs for rural healthcare and telemedicine. So it's all of those programs together and we sort of call it the Universal Service Program and the emphasis has been on, of late, on rural high costs because as opposed to the E-Rate and telemedicine, that program is not capped.

So in the '96 Act, if you look at the universal service statutory language, what you find is a fairly high level, high gloss treatment of universal service that sets out the principles and the parameters, and all of the details really are up to the expert agency to implement. We had created in the act a Federal-State Joint Board to appropriately get input from the states. That board also had a consumer panelist on that board for good reason, which is that the purpose of universal service is to benefit consumers.

And so it is most properly understood in the consumer-centric context. I think a lot of times when we look at the debates at the FCC, we sort of lose the analysis that this is really about, at its core, equity for

consumers, whether they live in a rural high-cost area, whether they're economically disadvantaged.

The core mission was to assure affordability, and instead of focusing as much on the equity to consumers, we often get into debates about the equity between different companies or industries in how the money is divvied up and who's permitted to do what, where and for how much. And that jockeying and that tug of war between industries and companies can break down and we can lose sight of what the overarching mission is.

The good thing is that the debate being provoked by the discussion over whether or not to extend the program to broadband is once again focusing discussion upon the core mission of universal service. And I think when we look at it up here, what we saw immediately after the '96 Act was an FCC implementation that was competitively neutral and technologically neutral.

Roughly from '96 to '99, that was how the program was implemented. Of course, that was the time really when the competitive companies and the marketplace shifts were really happening that would create some of the problems that we would have later. But those problems were exacerbated by the fact that in late '99, the Commission abandoned the portability rule.

So the Congressional Budget Office, in looking at the '96 Act and looking at the statements and the legislative history, anticipated that the funding would drop as competition increased and as technological efficiency was propelled into the marketplace, that efficiency would also ring out savings in the program. The portability rule meant that if an incumbent carrier lost to a challenging carrier and the challenging carrier, the new market entrant, was eligible for subsidy, the incumbent that had historically served the customer continued to get funding. So what would happen was that if you won, you won. And if you lost, you won too. You continued to get support and you continued to get funding. So it didn't take a rocket scientist to figure out where the subsidy program would go over time. As more carriers were eligible to receive funding and garnered more support, we had essentially double subsidy for the same consumers in the same geographic area.

And now we come back and we revisit some of these issues. But I think when we look at it, and we look at it particularly from an oversight context up here, the important thing for Chairman Markey will be to revisit the sort of core issues that underlay what we did in universal service in 1996, which was focus on the consumers and

consumer welfare first and foremost, to look at exactly what is the service that we're trying to subsidize and extend to people, what constitutes affordability?

Oftentimes in Eastern Massachusetts we pay more in our local POTS or local telephone rates on a monthly basis to subsidize people in rural America who pay in some cases half of what we pay, and it doesn't seem to be equitable from our standpoint in Eastern Massachusetts that that is sort of a disparity.

Now that's something that has always been a cause of concern to Chairman Markey, who philosophically supports the program. Everybody who's connected to the network benefits the more people who are connected to it.

So even in Eastern Massachusetts, we recognize the value when we're trying to line up our fly fishing trip to rural Montana, that people out there have phones so we can line everything up, that we have a very efficient visit.

But we'd like to have the same sort of efficiency in the subsidy system so that if we're paying \$24 a month in Eastern Massachusetts, that there is some rough approximation of the shared load so that people in rural areas aren't paying \$12 or \$14.

It doesn't seem like we should subsidize a much lower cost because we're already paying more for bread, eggs, milk and everything else from rural America and our density and our savings is the one thing that we ought to get a break on to the extent that we can.

And then the final thing I would say is, there also should be some rationality between the different programs. I mentioned the Lifeline and Link-up program. That's a program which is designed to benefit a distressed demographic and that is a program which assures affordability in a subsidized rate for people who are in economically trying circumstances.

In rural America, whether you're economically distressed or you're living in a bucolic area and a beautiful ranch in a multi-million dollar home, you have the ability to get multiple lines subsidized. You have the ability to have mobility and wireless services be part of that subsidized mix.

But with the Lifeline and Link-up program, it's one line. Okay, it's one service. And so it doesn't seem appropriate that the program that is designed to assure affordability, that the program most targeted to the poor, is limited to one line, and rural area has multiple lines and multiple services.

I know it's a difficult demographic often to reach and subscribe to these services and to sign up for it, but there has to be some comprehensive way that we look at all of these programs, even if they are broken down into different buckets.

So with that, I'll stop. I'll let Neil bat cleanup here.

MR. MAY: Colin, thank you very much. I'm glad you mentioned the Lifeline and Link-up programs because that is an important component to have in mind. I didn't want at the outset do all of that. I appreciate your bringing that up.

Now Neil, again Mark graciously referred to the fact that you have a discussion draft circulating, so maybe actually coming up and brining up the rear here, you'll provide all the answers to all these questions and lay out the perfect plan and everyone will say, that sounds terrific, and then we'll just adjourn. But if not, we'll continue on. Go ahead.

MR. FRIED: Thank you, Randy. We, of course, hope that's true. But I'll point out, it is a discussion draft. It's meant to foster discussion. We like to think we get it right the first time, but we're more short of

staff than we used to be, and Courtney's been doing a lot of hard work. But we can use all the help we can get.

So this is really just meant to get the discussion going. From Mr. Barton's perspective, we've largely accomplished our Universal Service Fund goals. We have essentially universal voice service throughout most of the country. And as James pointed out, one would hope that those costs would be going down.

We have the deployment. We have more competition. We have better technology, yet as Randy points out, the actual rates, the costs of the program are going up.

In the last 10 years, we've gone essentially up to more than 10 percent, as Randy pointed out, of the consumer's bill is now going to universal service. So something is not working. We are hopeful that the FCC's sort of recent smoke signal suggests we are going to have an interim cap, but again, that's just the first step. We need to actually to move to the comprehensive reform once we have the cap to try and get those market forces bringing the cost down.

So how do we do that? Well, Courtney Reinhard, who unfortunately can't be here, has been working very hard

on the staff draft that we have. If people don't have it, I have some copies up here.

But let me just sort of walk through relatively quickly what it does. The first thing it does is it will set a cap for the entire fund, not just the High-Cost Fund, but all the individual funds at the total amount spent in the last year prior to adoption. Of course, we hope this will eventually be adopted, so that's the goal.

In terms of the High-Cost Fund then, it creates a reverse auctions mechanism and the FCC will be directed to set reserve prices for the reserve option. They would first look at the high-cost areas. Those could be the same high-cost areas we have today. They could be different. We haven't gotten to that level of detail yet. That would be something to further discuss, which is, what kind of guidance to give the FCC in creating those high-cost areas.

Then the FCC would set reserve prices for the high-cost areas. It's established those -- and the first round of auctions, the sum of the reserve prices could be no higher than the amount spent on the High-Cost Fund in the year prior to enactment.

The reserve prices would be calculated in each service area to support the provision of voice communication services. It would take into account that we

would now only be providing support to one winner of one reserve auction in each high-cost area. It would also take into account that we're focusing only on the provision of voice communication service.

Now one thing that's not completely addressed yet, and we're open to discussion on it, is if we're going to have an auction, with the reserve price with entities competing, can we be a little more agnostic on how that money is spent?

Again, we have a cap, so it's not going to be more than the support provided previously. It's going to be targeted at providing voice service. But if a VOIP provider is going to compete in that auction and win that auction again at a capped amount or lower, if we have multiple bidders in an auction, we may not need to be as focused as to whether some of that is being used for broadband services for the provision of VOIP or whether it's not.

But again, that's something we need to discuss further. The hope is that once you have market forces, the idea here is you don't have to be quite as focused on a bottom-up analysis. We don't have to scrutinize every single cost input.

We're starting with an amount of support that we believe is sufficient today, right? Clearly people providing service with the support they have now, by providing competitive forces, we hope that they will be driven lower, right? If a more efficient carrier wins the auction, they're going to be providing the same amount of service at a lower level. We may not be as concerned about how they're spending the money as long as they are providing quality voice service.

And I want to make that point clear. The FCC would still be setting up rules for the auction that whoever wins the reverse auction in a certain high-cost area would have the carrier of last resort obligations. So there would still be an emphasis on the provision of quality support, of quality service, to the high-cost area.

After that first set of auctions, there would be periodic auctions afterwards. We leave to the FCC to determine how often those auctions should occur. In subsequent rounds of auctions, the reserve prices would be set no higher than the winning bid for each high-cost area the previous round. So again, we're hoping to bring competition into the equation.

If only one entity shows up to the auction, presumably it would be the currently supported incumbent.

They may win the auction at the reserve price, presumably very close to the amount of support they have today.

But if someone else wins that auction, again they're presumably coming in at a lower price. They found a more efficient way to provide the service. Maybe it's the incumbent who has the lower bid. Maybe it's a new entrant who has the lower bid. But over time, it would come down. And then again, at the next round of auctions, whoever comes to that auction, the reserve price would be set at that winning bid from the previous round.

Again, if it was only one carrier, we might not see any movement. Again, that might suggest that maybe the high-cost support in that area is the appropriate support. If someone can find a better way to do that, hopefully they come to that auction in the next round, show that they have a more efficient means of providing it, and would win the auction in the successive rounds.

So that's the core of the bill. The bill does other things as well. On contributions, we've heard a lot of talk about what's the most efficient contribution mechanism. We also think the numbers or connections-based contribution mechanism makes more sense. It's less distortive of demand, so the bill creates a numbers-based

contribution mechanism. It would be focusing on numbers used for phone service.

There have been concerns about other services, paging, faxes. Again, the focus here would be on numbers used for voice services. We would exempt low-income households.

So again, the idea is that you want to assess the contributions on those who can afford it. As Colin points out, the idea is not to impose costs on those who are having current difficulties paying a bill and who have a separate program designed to help them with their service.

We also established a number of new principles just for the Commission and the Joint Board to look at going forward. We look at affordability. Colin mentioned affordability. Again, it's not clear whether we should be focusing on making rates comparable across the country. There are different costs in different parts of the country.

The focus should be on, as Colin points out, the consumer. What can the consumer afford and what is reasonable in the particular high-cost area? Now in Aspen, we may not need to worry as much about affordability. If the mean income is higher in parts of the country and there are real rational reasons for service to cost more, maybe

we don't need to get a comparable rate in Aspen as we do in other parts of the country.

So one of the principles we try to focus on is affordability. Another is efficiency. Again, we want to try and make the system as efficient as possible so that we start to benefit from increased competition in newer technologies. It's really not clear why, now that we have far more competition, far better technology, we're spending more.

We should be, as Mr. Markey likes to say often, working smarter, not harder. So we'd like to see some more efficiency brought into the program. We also would like to see technology-neutral recommendations. Again, it's not clear why one type of technology should be favored over another. We want the most efficient technology that can provide the support to be winning these auctions, so we'd like these rules to be technology neutral to the extent they can.

We're also looking for transparency. We want clear, enforceable rules. And another key part of this is we need to identify the goals we're trying to accomplish here. If it's voice communication service, well, have we got ubiquitous voice communication service across the country? What is our goal?

Second, how do we evaluate whether we've accomplished that goal? We need performance measures and the bill would direct the FCC to create performance measures to figure out how close we are to achieving those goals and how efficiently we're achieving those goals.

And then, lastly, we also have, again, a consumer-focused principle. As Colin mentioned, this is a consumer program, so the focus should really be on delivering the goals to consumers, not focused on one carrier or another, one service or another. Again, we need to sort of come back to the consumer.

Also in terms of accountability, we ask the FCC to report how soon the program could be subjected to the Anti-Deficiency Act without disruption to the program. The Anti-Deficiency Act serves an important role to make sure government doesn't write checks it can't cash, that it can't meet. So we ask the FCC to tell us how soon it can fall within the Anti-Deficiency Act.

We also ask the Joint Board to add three economists to the Joint Board. We'd like to again get some economic analysis, talk about performance measures and efficiency. We also look at USAC. We'd like to see people with public administration degrees and five years of professional experience added to USAC.

And again, as I mentioned earlier, we talk about performance goals, so we'd like to see identification of goals, outcome, measures, some way of measuring whether we've accomplished those goals, and efficiency.

We ask for annual reports, so whoever wins these auctions should be indicating how they're spending the money. We also ask that the FCC improve its auditing resources. Particularly, the IG we think needs some more resources dedicated to actually auditing the program at regular intervals.

And, lastly, penalty provisions. We've seen increasing stories about E-Rate fraud and other fraud. To my knowledge, at the moment, someone is not disbarred from participation in the program even if found to have committed fraud on the program. So we ask the FCC to do that. We also talk about perhaps higher penalties for defrauding the program.

And, again, I have copies here if anybody would like them, and we look forward to the discussions.

MR. MAY: Neil, thank you very much. I should say to Colin and you that the longer I sit in this chairman's chair here, the more comfortable it feels.

[Laughter.]

MR. MAY: So you know, if I were chairman --

MR. ASSEY: We only have the room until two.

MR. MAY: If I were -- that's right, I only have the room until two -- but I was just saying, if I were chairman, I would say, in my view, there's a lot of positive things in your discussion draft. And when I get back to Colin, I'm probably going to ask him what he thinks about it in short. But what I want to --

MR. FRIED: To be fair, we've just shown it to him and so --

MR. MAY: Okay, that might be his answer. What I'm going to do, as I said, is go down the line again and just see if any one of our panelists wants to just respond, react to what's been said, take a minute or two to do that, just a couple minutes. And then we'll open it up for others.

I'll just start again with James and we'll go down the line. James?

MR. ASSEY: Well, I'll use this occasion, I guess, to respond to the last thing that Neil was referencing. And I really commend him, and Courtney as well, for working to draft up a legislative draft.

It's often a very difficult exercise to do, but it's extremely helpful because, as those of who work on these issues know, it's much easier to kind of focus on

something specific than just to kind of try and punch your way out of a paper bag, which is somehow how we all feel about these things.

I do think that there are two things that I would say, just my initial reaction, that I think are very encouraging, and definitely on the right course here. One which Neil mentioned, the focus on competitive neutrality, is essential in any reform. We live in a competitive world and that competition is limited only by the scope of today's technology. Tomorrow we can be certain that it will be different.

And it is very important that we reform our support mechanisms to reflect that fact, and also because one thing that we don't often focus on, from the cable industry perspective, is that we have invested since the 1996 Act over \$100 billion in our networks to be able to provide consumers with all of these great new services.

And one of the problems that we have with support mechanisms that are not sufficiently restructured to recognize today's competitive realities is that picking winners and losers actually discourages competitive providers from investing in new investments and new geographies or upgrading existing systems. We need to make sure that the policies we adopt are based on a level

playing field and not designed to tilt the table towards any one provider.

The second point that I think Neil raised, which bears exploring further, is the idea of reverse auctions and ways of trying to squeeze more efficiencies out of the system. I believe that's something that we should all start to explore and to figure out how that might work.

I know that from NCTA's perspective, we've been interested in the idea, with our suggestion being that one of the things we need to do is really focus on a very small geographic area, perhaps at the census block level, to make sure that we have multiple bidders.

One of the things that makes auctions work is participation, and having just come off the D block auction, it would be worth probably underscoring that point. But I think the thrust of where we're going on trying to make these programs more efficient is the right one.

MR. MAY: Thank you, James. Shirley?

MS. BLOOMFIELD: I actually just want to take this opportunity, Mark, to ask you a question. And don't feel like you're being picked on because you're the wireless guy here.

But I am curious, have you guys taken a formal position in terms of a separate mobility fund, separating out from high-cost and the whole CETC stuff and really just saying yeah, let's create mobility, let's create a broadband? I'm just curious.

MR. RUBIN: Thank you, Shirley, and I don't feel picked on and I appreciate the question. And yes, we have. And many of the wireless filers two Thursdays ago have said that we should reorient the fund away from supporting plain old telephone service to one where there's a mobility fund, and one where there is a broadband fund. And we did so with the recognition that probably initially, if such a fund or funds were created, that initially the wireline industry would probably be the main drawers from the Broadband Fund, because to the wireline industry's credit, and especially the rural wireline industry's credit, they are doing a magnificent job regarding the provision of broadband in rural areas.

So the answer to your question is yes. But I have to tell you, we have a significant problem with the Joint Board, for example, proposing that the POLR Fund, the Provider of Last Resort Fund, is going to get capped at \$3 billion, and the Mobility Fund gets capped at \$1 billion, and that the funding for the Mobility Fund can only be used

for new service to unserved areas, and nothing for O&M for existing areas. I just think that this doesn't make sense and our comments, along with several other CETCs, said that when we filed comments a couple weeks ago.

MR. MAY: Shirley, do you want to react to his answer or does that satisfy?

MS. BLOOMFIELD: No, that actually was sufficient.

MR. MAY: Okay.

MS. BLOOMFIELD: I was just curious. John wants to react though.

MR. MAY: Okay. Go ahead, react right now.

MR. ROSE: No, I'm fine.

MR. MAY: Okay, we'll just go to Joel. Joel, react to anyone you want to, anyone or everyone.

MR. LUBIN: Okay, I'm going to react to a number of things. I'll do it very quickly. First of all, we look forward to the engagement, and looking at the draft language. I look forward to engaging with anyone on this panel or anyone out there in the audience on figuring out USF reform.

I heard someone on the panel say that we pay more into the fund than we've received. I want to highlight to you, AT&T is a wireless entity and we're a wireless CETC,

so we draw money on the wireless side. We're a wired entity and we draw money on the wired side.

I guarantee you, AT&T pays more into the fund than we draw. Any form of reform, I think we're going to end up paying more into the fund than we draw. AT&T is interested in trying to once and for all figure out a rational framework to do this, even though whatever is done, we're going to ultimately pay more into the fund than we draw.

The time is now to try to figure out a rational coherent path. I want to highlight something else that was said. It's all about the customer. Unequivocally correct, this is all about the customer. It's all about what the customers pay on their line item on the bill. That's number one.

It's all about what customers are going to get service for advance mobility, for fixed location broadband. People can talk about voice and I was glad to listen to you say there's some flexibility to look at that, because ultimately voice is just an application on top of a broadband type. And you have to decide, do I want to support that infrastructure into the home, or else there will be certain locations in this country that won't have the same economic engine for growth as others.

The other point I'd like to make, again, it's all about the customer, what's on their line item. So when we say ultimately there has to be more money in the fund, that's a function for the policymaker that says, what do you want, what speed? Do you want advanced mobility anywhere, anytime, travel, home, wherever?

Those are policy decisions and you're going to have to transition from the old rules to the new rules and decide, is there more money on the table? That's a function of the policymaker, of how fast and what speeds they want to get into customers' hands.

But I still come back to Colin's point, because I think it's right on, and that point is, in this country, we have some people paying \$4 for local basic service. We have some areas paying seven and 10. Well, he just told us that his constituents are paying 20. There's an equity issue here that has to be addressed.

So AT&T, in its framework put on the table on April 17, put some form of a federal benchmarking that says, it just isn't fair. If you're going to give more dollars to states, whether it's for broadband or advanced mobility, and they've got local rates at seven or four or eight or nine, 10 dollars, we didn't answer the question, what should that federal benchmark -- numerical number be?

That's a question, again, for policymakers to come up with. It could be \$20, 25, 30, 15, 20, but there has to be some way to address the equity balance issue. These are the kinds of things that I'm highlighting that we've had 10 years -- the good news is the Telecommunications Act of '96 set up USF. We've learned a lot. There's been a lot of good stuff done.

In fact, I'll argue that by increasing the size of the fund over the last few years, it's going to make it easier for the decision makers to figure out a rational coherent framework going forward.

The last pitch I'll make is that AT&T, in its framework for the 21st Century, talked about a reverse-like auction approach in which applications are submitted, which in effect is a form of a competitively neutral mechanism. And you define unserved areas.

And by the way, if a cable guy wants support to go into rural areas that are undefined, so be it, as long as they meet the same criteria that the regulator lays out. And, ultimately, generally one winner takes one-time dollars, not recurring every year but one-time dollars. Thank you.

MR. MAY: Joel, thank you. It sounds like Joel keeps saying, I guess quite appropriately so, that the

policymakers ultimately have to step up to the plate on this at some point.

John, you go for just a couple minutes now, two minutes.

MR. ROSE: Okay, I think the 1996 Act did talk about affordability to the customer, as both Colin and Neil said. In addition to that, it did focus on the definition of universal service and it did have in there that the FCC could upgrade the definition of universal service, what's included, as it saw fit, as long as that service was subscribed to by the majority of the people in the country. And today, broadband is subscribed to by more than 50 percent of the people in the country. So I think it contains both.

I had the good fortune of reading the Barton discussion draft this morning before I came here. The good thing about the bill, it offers a clear choice between the new broadband rural and the older voice public switched rural.

And I think the bill pretty much concentrates on the voice public switched rural. If you're in favor of broadband getting to persons in this country, that bill does not do it.

The second thing is about a VOIP provider bidding an auction. A VOIP provider has to have a broadband network to function, and so if you're going to have VOIP, you got to have broadband.

And if we talk about voice, as Joel Rubin said, voice was a service provided by those who had the network. But now voice is an application. It can be provided by anybody no matter who has the network. So voice is moving from a service to an application.

And we talked about customers and I think we need to talk about networks. Mark Rubin talked about building towers. Well towers are a part of a network and to get a broadband network out there, it is a major job to get the transport, the backbone and all that stuff. And we need to really concentrate on networks, whether they're mobile networks or whether they're broadband networks. I think rural areas need both, and I think our country needs both.

MR. MAY: Thank you, John. I want to get the audience involved in just a minute, so think of questions. But I want to give Colin a chance to say anything that he would like to say and then we'll do that. Colin?

MR. CROWELL: Thank you. Well, the draft that Neil shared on Friday I think is beneficial and positive to the debate. I think it's one of those things that people

are looking for -- reform of the system. And you're looking for efficiencies and you're looking for a clear articulation of goals and principles. I think that helps to contribute to the discussions that we'll be having up here.

Obviously, what the Commission is working on right now is styled an interim solution. We're not sure how long the interim will last before the comprehensive solution, which is why a lot of people are obviously focusing a lot of attention on the interim, because it may be awhile.

But up here on the Hill, we will also be looking at what might happen to any changes to the underlying statute. And one of the things that we would do if we were doing that would be to start with the basics and to start with the principles and the goals and look at what the program ought to look like going forward. And that will obviously be informed by a draft bill such as that offered by ranking member Barton. Lee Terry and Rick Boucher also have a bill that's been introduced.

And so all of these suggestions will inform us as we go along our way. But I think what you'll see from us is oversight of what the Commission is doing currently. And then, you know, a hearing this summer that would look

at the essential components and the goals and principles of universal service going forward.

And I think the '96 Act did anticipate that what constituted the subsidized service would change, and it would evolve over time. That is something that is anticipated and was apparent even as we were working on the Act, that in headlong pursuit of a digital broadband infrastructure and the anticipation of competition for digital services and broadband, that was something that Congress had been contemplating for several years.

Even the bill that my boss worked on with Congressman Jack Fields of Texas in the previous Congress, the Markey-Fields bill, which passed the House in '94, stated as its policy goal a national ubiquitous affordable digital broadband infrastructure.

So this was something the Congress was well aware of at the time and the Universal Service Program obviously anticipated that the need for what might be subsidized could over time change.

Now what that time frame would be, when is it appropriate to pull the trigger on subsidizing new services, obviously many people have mentioned that voice is now an application. There are some who anticipate that

as part of a bundle, it will be a throw-away service, essentially *gratis*, for what the added costs would be.

So the question then goes, what should be the subsidy for a service that is an application that the provider is giving away for free. But we do have to recognize that there is the infrastructure that delivers that and so we get "plain old telephone service" for \$24 a month and it would be nice to compare that to a VOIP service from a provider that's an application that might be offered for \$12.99 a month.

It looks like you're saying half the price, except that's going to ride on a \$40 a month broadband service. And so we have to be cognizant of the added costs in the whole stream to the consumers because that level of subsidy will be fairly large.

MR. MAY: Thank you, Colin. Listening to you I can appreciate your historical perspective acquired from your long service and the knowledge you bring to it from that perspective. When you mentioned interim and the FCC doing something interim, it reminded me -- speaking of history just for a second -- when I was at the Commission back in the late seventies and early eighties, after the Commission had struggled for about 15 years to develop a new cost allocation manual, there was a docket that went on

about 15 years and then eventually was junked because it was very difficult to allocate the costs as things were beginning to change. So the Commission came up with an interim cost allocation manual; you might even remember that.

MR. CROWELL: All I know is this is my interim job before I go to law school.

MR. MAY: I remember that too, but that interim cost allocation manual lasted for many, many, many years at the time.

Okay, I want to open it up to questions from the audience or the press. I know we've got some knowledgeable people here. We'll take you first, and then John.

We're going to transcribe this and I'd like for you to identify yourself, please. Anyone that has a question can go to the mike.

MS. GILROY: Is it on? Angele Gilroy, Congressional Research Service. I've been on the Hill for over 30 years and I remember the old Van Deerlin bill from 1974. But pertinent to today, reverse auctions, there's a lot of concern about stranded investments and continuity of service. We have different carriers coming and going into an area.

Has anybody thought about that or any suggestions on what we might do about that?

MR. MAY: Anyone want to speak to that? Someone must have thought about it, maybe?

MS. BLOOMFIELD: Joel thinks about everything.

MR. MAY: Anyone want to speak?

MR. FRIED: The idea is that the reserve prices -- one benefit here is we're starting from the top down. It would be very difficult. We've all had our fun with cost modeling. But to start from the bottom up and try and reconstruct what we think the right network would be and how much it would cost I think would exacerbate that concern.

But we're starting from the top down, at least in this bill. So it's very conceivable that we're starting at the exact same level of support. And if there is only one provider there, they could conceivably get the same amount of support. It's only once competition comes that we start getting a drop in the amount of support.

So our hope is that that will solve some of the stranded investment concerns. And clearly, if there are multiple people bidding, we have reached an area where there are multiple providers, preferably multiple facility

space providers, perhaps wireless or another cable provider.

So once you have multiple providers in an area, you have multiple networks conceivably, so that you don't have to worry as much about one carrier departing, because you still have others present. That's one way we try to look at it.

MR. MAY: Joel?

MR. LUBIN: From AT&T's point of view, we believe that reverse auctions potentially are an extremely important goal and an extremely important concept to flush out. That's why we put on the table this, I call it reverse-like, where you submit applications, but a very important distinction, as you submit applications on unserved areas.

With regard to the existing areas that are being served, there are a series of tough questions that have to be looked at. An example of a tough question is stranded plant, or I'll say it differently, what happens to the incumbent if they're the loser and someone else comes in, has the winning bid or application for that particular area, assuming they meet all the stated criteria?

I think one has to begin to ask the following questions. What happened? Do you deregulate their price?

Because they're not getting a subsidy anymore; it's the new entrant who's the winner. So can they now set the price any which way they want? Can they exit the market is another question?

Also, what do you do about all the customers who are with an incumbent and move to the new winner? There are costs that are incurred. Now maybe that's part of what they can submit for their reverse auction value. So that's one possible answer.

There are a lot of these types of questions. The other is, how do I operationalize it in existing areas as compared to unserved areas? And I think they are tough questions, and I think that's what this record is going to ultimately address, at least that is before the Commission.

MR. MAY: John, pretty quickly.

MR. ROSE: I think you have to say, what are you auctioning? How long is the term? And when you make an auction, is it a contract with a federal regulator or state regulator, and who administers this contract, and what happens if the contract is not met?

I agree with you. I think there's a whole host of problems, issues that we haven't even thought about. And I think the biggest problem, it drives everything to the

lowest grade of service, whether it's voice or public switched, and I don't think that as a country we should do.

MR. MAY: John, you want to ask a question?

MR. WINDHAUSEN: Just a quick question. John Windhausen, Telepoly Consulting. Quick question for Mark Rubin, if I may. And I ask you this question as a fellow New England sports supporter, so don't take it personally.

But I'm curious, as I understand, Alltel has agreed to a cap for its receipt of universal service funds as a result of merger proceedings at the FCC and that's something you've agreed to. So why does Alltel continue to oppose the adoption of a cap for the wireless industry as a whole? Wouldn't it support a cap for the other providers who aren't subject to the cap that you are?

MR. RUBIN: The Joint Board, I think, was on the right track when it said that everybody should be capped, and I've heard that on this panel. But to set the record straight, Alltel never agreed to be capped when it was being purchased by the two private equity firms.

MR. WINDHAUSEN: Are you operating under a cap?

MR. RUBIN: Yes, we are operating under the cap that was imposed late last year when the FCC approved the purchase of Alltel by the two private equity firms. Because I think it sets a very bad precedent for picking winners

and losers. I don't think just because we were kicked in the butt so to speak, doesn't mean that we think that everybody -- that our fellow universal service warriors -- ought to receive the same treatment. So that's why we've continued to lament the fact that apparently a wireless-only cap seems to be on the very near horizon. And if Ann and Howard's reporting, which is usually correct, is correct, it could be happening within a week or two.

MR. MAY: Okay, yes.

MR. WALKER: Hi, I'm Tom Walker with the National Telecommunications Cooperative Association. One of the things that occurs to me as a result of this last question is that universal service is all about customers. And we pride our members' service on the fact that they are all about serving the customers.

And one thing right off the top that Mark mentioned is that they were just purchased by a private equity firm and that sort of underscores the whole situation here where you've got a number of entities that are providing service that are very profit-oriented and maybe necessarily don't have the customer in mind first.

That's something that needs to come into this discussion as well as the policymakers look at these issues. The other thing that plays off of that is that the

way the system is set up right now, with the identical support rule and the parent trap rule, are the facts that service or entities are going into market scenarios where the support is, where the universal service support is.

They're not looking at the areas where there is no support. And I was talking to Neil about this earlier, and this is one of the problems I see not having read the bill, but that I see that needs to be addressed probably is that the legislation doesn't really get at the issue of the territories where there is a carrier that's serving. But they may not necessarily have too much competition in those areas for the universal service designations because there's no support to be had.

And we need to think about how you're going to incent people to support those areas, because the areas that the small carriers are in, they've got great service and we would argue that there never really should have been competition in the first place because they were already getting what they needed while the other areas -- you know, I'm not saying that -- our members are all competing. They're all facing competition and they're doing a great job of it.

But the fact of the matter is, is that there is a lot of areas that aren't facing competition because of the

way these rules are structured today. So it wasn't so much a question as a comment.

MR. RUBIN: Randy, may I?

MR. MAY: Yeah. Go ahead.

MR. RUBIN: Tom, you ignorant slut. No, just kidding. [Laughter.]

MR. RUBIN: I like Tom, too.

MR. MAY: You only get one of those each session.

MR. RUBIN: I like Tom so I feel I can do that.

But -- regardless who owns Alltel -- our owners are just as committed to doing what we've been doing when we were a publicly-held company. Regardless of who our ownership is, we are still held to the same rules that everybody else is held to.

We're still accountable. We have to play by all the USF rules. We still have to show that the money is being spent for its intended purpose. So it doesn't really make any difference who our owners are. We're doing what we were doing, and we're happy to play by those rules.

So I just wanted to address that point. You know, when you mention the areas that are unserved, companies that are in the business of making money are always looking for areas to make money, frankly. And the universal service proposition allows companies like Alltel

to look at areas where we might turn our back on at least initially because it helps defray the high cost of deploying the service.

And the last point about there shouldn't be competition, you know, I've heard that so many times, but I mean, can anybody in this room name an area where a rural phone company has gone out of business because a wireless company has come onto the scene?

I mean, we heard that several years ago when then Western Wireless wanted to be designated to provide service on the Pine Ridge Indian Reservation in South Dakota and we heard how much the sky was going to fall, and it hasn't fallen, so the net result there --

MR. MAY: Okay, let's stop at that point. Can anyone name a company that's gone out of business? No? Well, there's your answer. That was a good question.

I was actually musing while you were doing that question. I was thinking of your exchange with John. It was interesting to me because John, normally when you ask that type of question, it's sort of a "level playing field question" that all we know. Usually the answer is all we want is a level playing field among our competitors. But if I understood Mark correctly, it sounded like he articulated a new rule that we don't want our competitors' butt kicked,

which was almost the opposite of the level playing field rule, which was interesting.

John has a comment and then we're going to take one more question from the audience, and then we're going to wrap it up. John?

MR. ROSE: Quick comment. The small rural locals do have a cap on their universal service funds and the High-Cost Loop Fund, but there is a cap there.

MR. RUBIN: That's true. But that same cap, by virtue of the identical support rule, applies to the wireless industry or wireless ETCs as well.

MR. ROSE: Its per line basis does, but it's not a gross hard cap. It's a gross hard cap on rural.

MR. MAY: Do we have a last question from the audience? Anyone else? Anne? Anne gets the last question.

MS. VEIGLE: I'm Ann Veigle with *Communications Daily*. I'm not responsible for the story this morning, but I have a question. Mr. Rose, you said that the Barton discussion draft is not the way to go if you want broadband, I believe. Could you elaborate on that, because I think, particularly if we look at the presidential campaigns and to the extent that telecom is discussed, there's this momentum building for broadband?

I know it's been out there for a long time, but it does seem to be a goal that a lot of policymakers have. Can Congress do anything if this bill isn't it?

MR. ROSE: On page 12, right at the bottom, prohibited expenditures, it says subsidies shall not be expended for costs not directly related to the provision of voice communication services. I think you can probably look at that different ways and maybe the wording can be changed. But I read that as it's not for broadband.

MR. MAY: Neil, I'll give you a chance to respond.

MR. FRIED: Alluding to what I said before, the goal of universal service is really to provide voice service. The fund was created in a different era with different technologies and a different level of competition. Mr. Barton's not quite sure he wants to import that whole fund wholesale right now as the way of deploying broadband.

There are lots of other ideas for deploying broadband. Connect Kentucky has been quite successful. Mr. Markey and Mr. Barton worked together on other ways of promoting broadband.

I think Mr. Barton would prefer to get the universal service ship on course before we start using it

to subsidize broadband. But that being said, again, the FCC under this bill would set a minimum quality level. Again, the analogy, it's intentional. Think of an auction of a license, right, in the wireless context.

You would be bidding on a license and have certain obligations and the FCC will be saying what the minimum quality of voice service is. We are not precluding the idea of some of that funding going for the broadband that is necessary to provide VOIP.

If you can do it more efficiently than a current provider, by all means, come in, bid, win the auction. The nice thing about a reverse auction is it's top down, not bottom up. We may not really have to focus on where they're spending the money, as long as their spending it for, ultimately, the provision of voice service.

If they want to do that with broadband and VOIP, terrific. Just we're asking that you do it more efficiently than the person there today. If no one can do it more efficiently, the incumbents continue to provide the service they do as the carrier of last resort. And they may get the very same level of support.

Again, we're going to set a reserve price. If they're the best game in town, they'll still win.

MR. MAY: Neil, thank you very much. I guess before this chairman's chair gets anymore comfortable, we probably should adjourn.

Please join me in thanking all of these panelists for a terrific discussion.

[Applause.]

MR. MAY: Thank you all for coming and we'll see you next time. Thank you.

(Whereupon, at 2:00 p.m., the meeting was adjourned.)