



CABLE SUPPORTS REFORM OF THE UNIVERSAL SERVICE PROGRAM

Cable companies are now among the nation's leading providers of telephone service.

Cable's \$146 billion investment in upgraded and expanded networks – without government subsidies – has enabled it to fulfill Congress's goal of a facilities-based competitor to the incumbent local telephone companies. Most cable companies have launched Voice over Internet Protocol (VoIP) phone service, or digital phone service, providing consumers a true alternative to standard telephone service. More than 18.7 million homes are now subscribing to cable's digital phone service – a number that continues to grow steadily. Cable's entry into the voice business has already saved consumers more than \$40 billion, and households and small businesses could save more than \$110 billion by 2012 according to a recent study by MicRA Inc.

The cable industry has a keen interest in universal service issues.

As a major provider of telephone service, cable companies have a keen interest in universal service fund (USF) issues. Cable companies that provide voice service contribute to the USF. But cable companies also agree with policymakers that it's time to take a fresh look at USF programs and bring them into the 21st Century. Many aspects of the universal service program date back to the 1970s and 1980s – when each community had only one provider of basic voice service and there were separate “local” and “long distance” phone companies. Described below are the most important USF issues in need of review and reform. NCTA looks forward to working with policymakers on these issues.

The universal service contribution mechanism is out of date.

The current USF contribution mechanism is based on a provider's interstate telecommunications revenues. In today's marketplace, where local and long distance services are often bundled for a single price or combined with other services like broadband and video, that's just not sustainable.

To address this problem, the cable industry has long advocated the adoption of a mechanism that would equitably collect universal service contributions for voice services by apportioning costs based on assigned telephone numbers. A numbers-based contribution scheme, if properly structured and implemented, holds out the prospect of providing a more stable, predictable and nondiscriminatory funding mechanism that would affect all end-users of switched telephone service equitably, irrespective of the particular service they purchase or the technology used to provide that service.

The availability of competitive voice services from cable operators should enable Congress and the FCC to better target USF support for high-cost areas.

Improvements in technology, particularly the transition to IP-based equipment and services, have made it possible for cable operators and other facilities-based competitors to serve areas that previously might not have supported competitive entry. Likewise, incumbent telephone companies that historically relied on a single revenue source – phone service – to support network costs can today provide multiple services (including DSL and video) over infrastructure previously used only for telephone service. With robust facilities-based competition for voice and non-voice services now a reality, it is unnecessary to maintain the historical levels of funding for the high-cost component of the USF. Updating those funding levels will help relieve upward pressure on consumer rates that results from rising contribution requirements on voice providers.

It also is worth taking a fresh look at the mechanism for distributing high-cost support. The existing mechanism has failed to capture the benefits of improving technology and expanding competition. Where there is evidence that the market is working to make service available to locations previously thought to be

uneconomic, the Commission should take steps to reduce the support provided to those areas. The amount of support provided to competitive areas can be reduced to more efficient levels through a variety of mechanisms, including reverse auctions. Before reverse auctions are used, however, a number of significant details must be resolved to ensure that auctions further, rather than retard, the development of competition in high-cost areas.

Eligibility to receive universal service funds should be technology-neutral.

Under the Communications Act, only common carrier providers of voice services are eligible to receive universal service funding – even though the FCC requires USF contributions from all voice providers, including VoIP. All facilities-based providers of voice services that are willing to meet universal service obligations should be eligible to receive universal service funds.

The imposition of new government fees on broadband service would raise prices for current and potential customers, and offer nothing in return.

The numbers-based assessment described above should provide adequate funding for all universal service programs, without the need to impose contributions on revenues from broadband services. The imposition of new fees on broadband service at the same time policymakers seek to encourage more widespread deployment and service penetration would be counter-productive.

There is no need to use universal service funds to subsidize broadband in communities where companies already are offering consumers broadband service.

Today, broadband offerings from cable providers – which were created from billions of dollars of private investment and without any significant government subsidy – are available to 92% of U.S. households. It would be profoundly unfair for the government to subsidize a broadband competitor in communities – including many small rural communities – where cable operators have invested risk capital to deploy broadband services. Government subsidies for one competitor in markets already served by broadband would put the existing provider under untenable financial pressure, jeopardizing its ability to continue to provide and upgrade service and quite possibly destroying rather than creating jobs. Creating a new program to reach the last 8% of households is premature at best, particularly in light of the \$7 billion that Congress recently appropriated under the American Recovery and Reinvestment Act for broadband in unserved areas.

To address low adoption rates among underserved populations, demand-side USF programs for broadband should be explored.

While NCTA has concerns about the use of the USF to fund broadband *providers*, NCTA takes a different view with respect to government efforts to support potential broadband *customers*. Even in areas with one or more broadband providers, there are often barriers to broadband adoption – such as affordability, lack of a computer or other equipment to connect to the Internet, and low levels of basic “digital literacy.”

As Congress intended, a substantial share of the broadband grant and loan programs created by the American Recovery and Reinvestment Act should be targeted at programs to increase broadband affordability and adoption. As part of this effort or through a separate appropriation, it is time to expand the Lifeline and Link Up Programs to include access to broadband. Expanding these existing low-income universal service programs that are specifically designed to subsidize connectivity for users who need such assistance would go a long way toward bringing the benefits of broadband to low-income consumers. It also would be appropriate to consider a similar program to offset the cost of a basic computer or other device needed to connect to the Internet. Given the important social objectives served by expanding these programs to include broadband, however, funding for these programs should come directly from the government rather than by imposing new contribution obligations on voice service providers or their subscribers.