

**WASHINGTON, DC** - Today, House Energy and Commerce Committee Members Reps. Lee Terry (R-NE) and Rick Boucher (D-VA) appeared before the Congressional Rural Caucus to discuss their draft of the Universal Service Reform Act. Terry and Boucher have been collecting feedback since November 2005 in an effort to have a strong, comprehensive bill. The sponsors indicated that the bill has new likelihood to be considered in the Committee this year.

Since enactment of the Telecommunications Act of 1996, a variety of new providers of voice services which are exempt from Universal Service Fund (USF) payments have entered the market, resulting in greater USF funding burdens being placed on traditional service providers. Internet based telephony and flat rate all distance calling plans have rendered obsolete the current USF methodology of imposing payment obligations only on interstate and international calls.

This draft of the Universal Service Reform Act responds to these developments and will ensure the continued availability of the USF to support the provision of communications services in rural and underserved areas. The measure broadens the base of contributions into the fund, controls distributions from the fund and allows use of universal service support for broadband deployment. It also makes a number of other much needed changes to improve fund administration.

The Universal Service Reform Act increases contributions to the USF by assessing them on the intrastate, interstate and international revenues of:

\* Any entity that pays into the USF under the current system (e.g., long distance providers);

\* Any provider of a service that uses telephone numbers, IP addresses or their functional equivalents to provide or enable real time voice communications and in which the voice component is the primary function (e.g., cable telephony and VoIP providers); and

\* Any provider that offers a network connection for a fee to the public (e.g., DSL, cable modem, WiMax and broadband over powerline providers).

Broadband has changed how people in our nation live, work, transact business and obtain information. The ways people work and recreate today are fundamentally different from a decade ago due to the growth and

development of the Internet and faster and more efficient ways to access it.

In recognition of the 16

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place standing of the in the world in broadband deployment, The Universal Service Reform Act encourages the deployment of broadband, especially in rural areas, by allowing recipients to use universal service support to deploy broadband within their service areas. The bill requires recipients of USF payments to deploy broadband with a download speed of at least 1 megabit per second within 5 years of enactment. This requirement may be temporarily waived by the Federal Communications Commission for providers for whom offering such service would be technically infeasible or from an economic standpoint would materially impair their ability to provide local exchange service.



The Universal Service Reform Act controls the spiraling growth of the USF by capping all high-cost support mechanisms of the USF at their current level, increased annually by a rural growth factor tied to the rate of inflation. The rural high-cost support fund is presently capped and increases annually based a growth factor. The Terry-Boucher measure merely extends both the cap and a growth factor to all high-cost support mechanisms.



□□□□□□□□□□ One reason for recent growth in the USF is an increase in the number of telecommunications carriers eligible for support designated by state commissions. The Universal Service Reform Act limits the number of eligible telecommunications carriers by specifying more precisely the criteria which must be met by those wishing to receive universal service support, including that they must provide the services designated as universal services throughout their service areas, demonstrate the ability to remain functional in emergency situations and satisfy consumer

protection and service quality  
standards.

Another way the Universal Service Reform Act lessens demand on the fund is by compensating eligible telecommunications carriers based on their actual costs of providing service. Today, support for eligible telecommunications carriers like wireless providers and competitive local exchange carriers is based on the support received by the incumbent local exchange carrier in a service area, which in some cases

results in overcompensating the non-incumbent providers. Making payments based on actual costs will decrease outlays from the fund.

The Universal Service Reform Act also lessens carriers' reliance on the USF by helping resolve the problem of phantom, or unidentified, traffic, thereby increasing the amount of intercarrier compensation carriers receive. When carriers terminate traffic that does not identify the originating carrier, they are unable to collect intercarrier compensation for

completing a call. The Terry-Boucher measure requires originating carriers to identify all traffic which originates on their networks and requires all intermediate carriers to pass through that identification so that carriers which terminate that traffic can seek appropriate intercarrier compensation.

In September 2004, the Federal Communications Commission determined that the USF is subject to the Anti-Deficiency Act, which limits

obligations of federal funds to the amount of financial resources available to an agency in a given fiscal year. For the last couple of years, Congress has had to exempt the USF from the Anti-Deficiency Act so that payments could continue to be made from the fund. The Universal Service Reform Act permanently exempts the USF from the Anti-Deficiency Act to avoid the need to renew the exemption annually.

Finally, the Universal Service Reform Act makes needed changes to the USF's rural health care support mechanism, which assists eligible

rural medical facilities by ensuring that they do not pay more than urban health care providers for access to advanced telecommunications services like broadband. The measure clarifies which entities qualify as "health care providers" eligible for rural health care support. It also revises the definition of a "rural area" to conform with the definition the Department of Agriculture's Rural Utilities Service uses in connection with its administration of the broadband grants and loans program and to grandfather areas which qualified under a previous FCC definition. Finally, it bases support for advanced telecommunications

services for health care facilities on the difference between the cost of service in an urban area and a rural area, instead of on a flat percentage rate discount as in current FCC regulations.

Reps. Terry and Boucher are pleased to be circulating this draft, which they believe will improve the USF and ensure that it will continue to help telecommunications carriers provide local exchange and broadband service, particularly in rural and underserved areas.



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