

WASHINGTON -(Dow Jones)- Senior lawmakers in the U.S. House of Representatives on Thursday began discussions on the daunting task of overhauling subsidies for telephone companies that offer phone service in hard-to-reach areas, with a key member suggesting that recipients be required to offer Internet access to all of their customers.

Rep. Rick Boucher, D-Va., who chairs the Energy and Commerce Committee's Subcommittee on Communications, Technology, and the Internet, has for years sponsored legislation with Rep. Lee Terry, R-Neb., that would rewrite the complex subsidy fund. Most customers pay into the fund as part of their monthly phone bills.

With the subcommittee gavel in hand, Boucher now has a chance to make the bill move in Congress.

Any changes to the "Universal Service Fund" would significantly impact all phone carriers. Some small and mid-sized companies rely heavily on the support to provide service in rural areas.

Boucher said at a hearing that policymakers need to figure out how the phone subsidy fund should complement \$7.2 billion in economic stimulus money for high-speed Internet that will be doled out to states, carriers and nonprofits over the next two years.

Almost everyone agrees that the phone subsidy fund should reimburse companies for offering broadband Internet access. It currently doesn't.

"The better question is whether or not we actually impose an obligation on recipients of universal service funding to provide broadband, to do so throughout territories, and to do so at a certain minimum speed," Boucher said.

Company executives appearing before the subcommittee indicated they would have a problem with that requirement. Most carriers offer Internet connections to a majority of their customers, but they balk at the extreme cost of extending Internet access to people in very remote areas.

Embarq Corp. (EQ) CEO Thomas Gerke said it would cost his company \$2 billion to extend Internet service to all of its customers. "That's not a bill that would be economical without assistance," he said.

"It's a stretch for carriers," said Verizon Communications Inc. (VZ) Executive Vice President Thomas Tauke. The actual cost of wiring all rural homes might be more apparent when a nationwide broadband mapping project is complete, he suggested.

"I don't think it's unreasonable to have some kind of requirement for broadband for those that are receiving the funds," Tauke said.

Boucher also wants to cap the size of the universal service fund, which is some \$7 billion annually. Consumer advocates say it will cost far more than that to extend the Internet to all people who don't have access now.

Rep. Henry Waxman, D-Calif., who chairs the full committee, said he wants wireless companies that receive subsidies to open their networks to other carriers for roaming purposes. The committee will explore other "public interest conditions" as the legislation moves forward, Waxman said.

After the hearing, Boucher said some of those conditions would involve "strict performance standards" and rigorous auditing of subsidy recipients.

Representatives from Verizon, Embarq, and Qwest Communications International Inc. (Q) all told the subcommittee that subsidies need to be divvied out more carefully. "The simple fact is that many town centers are economical to serve, while the need for support occurs in the

outlying areas where the population density is lowest and the return on investment drops," Embarq's written statement said.

Boucher and Terry have recommended subsidizing phone service at individual wire centers rather than basing payments on a company's average statewide costs. That would go a long way toward helping a company like Qwest, which serves many hard-to-reach areas but receives little universal service support.

Even Verizon, which has stayed away from the issue in the past, said a more targeted payment mechanism is a good idea. "An appropriately designed wire-center approach is a good place to start and may make sense so long as resulting increases in the fund are offset by reductions elsewhere," Verizon's Tauke said in written testimony.

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