

**Testimony of
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Federal Communications Commission**

**Before the
United States Senate Subcommittee on Communications**

The Honorable Conrad Burns, Chairman

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Mr. Chairman and Members of the Committee:

I appreciate the opportunity to talk with you this afternoon about the Commission's recent decisions regarding the important subjects of universal service and access reform.

The Commission's actions were initiated by Telecommunications Act of 1996, for which members of this subcommittee demonstrated important leadership. For instance, I know that many of you have expressed interests on behalf of rural communities. Senators Rockefeller and Snowe also have shown great vision and action in pursuit of new universal service support to schools and libraries. The leadership, ideas, questions, and concerns from this Subcommittee have been an important part of the Commission's process in implementing the 1996 Act.

In light of your recent legislative experience in establishing the groundwork for telecommunications policy into the next century, you no doubt will realize that these matters are complex, interrelated, and highly controversial. As in any legislative enactment of this magnitude, many critical issues resulting from the Telecommunications Act of 1996 necessarily were left for the Commission to resolve during its implementing decisions. In my 23 years of service at the FCC, this is clearly the most sweeping overhaul of regulatory expectations and Commission authority.

I am aware of the discussion, debate, and considerable disagreement both preceding and following our universal service and access reform decisions. Again, I believe this may be attributed in part to crucial details of great controversy that were left unresolved by the legislation. In addition, I also have been all too aware that many of the parties with strong interests and massive investment at stake have looked to the Commission over recent months in an attempt to gain that which may have been decided and lost in the legislative battle.

During the course of the Commission's process, I was not a member of the Federal-State Joint Board on universal service. As a result, I was not party to the intricate discussions and negotiations but I have made special effort to respect not only the language of the 1996 Act, but also to honor to the greatest extent possible the actions of my federal colleagues on the Joint Board, as well as the state members who brought particular expertise with respect to local competition within their jurisdiction.

Given this background, I offer the following observations.

First, I believe that we were charged with the responsibility of following the clear message from many members of this Subcommittee, and the American public, that as much as possible we should seek to ensure that consumers experience the benefits of our actions. To this end, we needed to try to avoid the possibility that total bills for groups of consumers could increase as a result of implementing new universal service programs and moving into a new access charge regime.

The issue of what consumers are prepared to pay has been a very difficult one. The need for our attention to the issue, however, has been clearly expressed in many ways. While few individuals would question the importance of support to services that are a crucial part of this country's future, it was very apparent that the public was not prepared to pay for them through higher total telecommunications bills. As a result, I believe that the universal service decision reflects support for services that is targeted according to the needs of communities as identified by the 1996 Act.

To the extent that some groups might question the Commission's actions regarding access reform, especially with respect to steps involving access charge reductions, I believe that our steps were balanced and responsible in the effort to limit the potential for increases in total consumer bills. We have talked about this step for quite some time. Many parties expressed their views in a very public fashion as to whether or not this step is warranted, or to what degree access charges should be reduced. I believe this Commission would be remiss in our duties to the American public and responsibilities to our licensees if we were to restructure universal service without concurrently engaging in real access charge reform.

I have stated previously that this is not a time to declare victory. There is much left to be done by the Commission, the states, temporary and permanent fund administrators, school districts, libraries, health care facilities, parties developing cost models, and telecommunications companies seeking to provide services and enter new markets. Although we have made important decisions, the real effort is just beginning. That effort will require investment, planning, training in using services, and community, professional, and corporate involvement. And, it will only be successful after the continuing involvement, in community after community, by the many parties who have so diligently participated in this proceeding.

Universal Service

The Commission has taken steps to establish processes for the administration of universal service funds in a way that allows the commitments represented in this section of the 1996 Telecommunications Act to be fulfilled. We have labored to develop a reasonable plan that will provide necessary and sufficient funds for schools and libraries as well as other universal service programs. We also have sought to avoid collection of funds beyond those legitimately needed to help make the new and important services mandated by Congress available to students and teachers in inner city, suburban and rural schools from Takoma Park, D.C., to Tacoma, Washington, from McAllen, Texas to Mackinac Island on the Upper Peninsula of Michigan.

We have achieved this balance by establishing funding necessary to begin the program at a reasonable level, with a provision that allows schools and libraries to begin the program January 1, 1998. By this time, we would hope that participating groups will have had the opportunity to develop their plans. Our decision to start the program with lower funding in the first six months, increasing in the following years, gives the program early constraint, with flexibility at later periods when greater demand is likely to develop. As a result, I believe this decision provides for new universal service funding within the limits of what consumers around the country are willing to pay.

With respect to funding for health care subsidies, we have endeavored to make sure that rural, non-profit health care facilities have sufficient funding to meet the needs for providing services in communities that otherwise might not have the same resources that are available in urban communities.

In other issues affecting rural communities, we are maintaining for the time being the existing structure for support to larger companies in high cost areas in order to keep rates affordable while establishing a timeline for working with states and parties developing high cost proxy models. We continue to work with states in an effort to refine the models, and have provided a flexible framework to allow states to choose their own approach, with an expectation that the Commission will select a platform by the end of this year. Smaller rural companies will be afforded a three-year transition, allowing for inflation in the third year, so that the general approach to high cost support is refined to the greatest extent possible before it would apply to those smaller companies. We continue to support the decision of the joint board that all companies should move toward the use of forward looking costs as part of the transition.

There also are many other policy and market issues that will need to be resolved in a new universal service environment. For instance, I believe it remains to be seen how cable and wireless industries will continue to develop to play a greater role in the telecommunications services that will meet future universal service needs. Congress identified such telecommunications providers as participants in meeting universal service obligations. As these developments occur, the Commission may continue to monitor the equity of contribution and recovery of universal service funds by paging services as well as the extent to which wireless services in general should contribute for intrastate services.

Access Reform

The Commission's actions today on access reform involve two components: (1) several structural changes that will cause access components to move to more reasonable categories and to become subject to competition where possible; and, (2) reductions in the current level of access charges, largely accomplished through revision of the productivity and sharing mechanism in LEC price caps.

Where this decision changes the structure of end user charges, as in our treatment of business and residential customers, and consumers with second or multiple lines, I believe our decisions should be -- and are -- characterized by balance. As a result of this necessary reform of the access payment structure, charges should remain within reasonable bounds and should help to promote the development of competition and consumer benefits.

Consumers and users of telecommunications services are the intended beneficiaries of the FCC's actions regarding access reform. With these decisions, I believe it will become clear that we have done our best to ensure that consumers do not bear the burden of implementing the new universal service program and access charge reform. Our actions also represent a fundamental part of the Commission's effort to facilitate competition in the local exchange marketplace, in this case by reducing access charges paid to LECs by interexchange carriers.

The primary vehicle for this reduction is the decision to change the existing combinations of productivity factors, or "x-factors", and sharing options to a single productivity factor of 6.5% accompanied by no sharing obligation. As a result, this decision continues the Commission's efforts to move away from the lingering remnants of rate of return regulation for local exchange carriers. The FCC's unified decision on universal service and access reform will complete the movement of price cap LECs away from the sharing obligations that were part of the past system.

Looking to the Future

I want to emphasize that today's actions represent a first step in many respects.

Concerning universal service, many critical steps remain with respect to establishing the basis for high cost support in an effort to ensure that rates are affordable for all communities. Furthermore, the support for schools and libraries will be successful only after continuing involvement, in community after community, by the many parties who have so diligently participated in this proceeding.

The Commission's action to increase the productivity factor not only results in reduced access charges in the first year, but also in further reductions in access charges in subsequent years. In another respect, it may very well become necessary very soon for the Commission to consider how to supplement today's decision to allow for pricing flexibility by LECs as competition develops to a greater level in the local marketplace. One possible way to provide that flexibility might be through relaxing the 6.5% productivity factor where LECs can meet criteria to demonstrate sufficient competition.

At the same time, later steps might also include the potential for checks and balances in the event that competition in the local exchange marketplace does not develop as soon as some seem to expect. Once again, down the road the Commission may need to consider more specific measures to ensure that the platforms necessary for competition truly are available. It is my hope that those steps won't be necessary.

Finally, some parties have warned recently that any actions by this Commission to lower access charges may cause LECs to seek to raise local phone rates. That matter will become an issue for state commissions, and it is my hope that they will respond to any efforts to raise local rates by ensuring that consumers ultimately benefit from federal and state actions to implement the Telecommunications Act of 1996 and any related decisions.

I thank you again for the opportunity to participate in today's panel.