

THE EVOLVING UNIVERSAL SERVICE CHALLENGE

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OVERVIEW



- There have been major changes in the telecom marketplace
 - ▣ Good news – these changes have been great for consumers
 - ▣ Bad news – these changes make life more complicated for regulators
- Goal is to adopt universal service policies that work with, not against, marketplace developments

20th CENTURY USF WAS RELATIVELY SIMPLE



- Treated local exchange service as a necessity and other services as luxuries
- Revolved around operations of a single, highly-regulated incumbent provider
- Used implicit subsidies to ensure that ILEC had resources to fund all activities desired by regulators

21ST CENTURY USF IS MORE COMPLICATED



- Multiple providers (ILEC, CLEC, cable, wireless, VoIP) each offering multiple services subject to varying degrees of regulation
- No longer obvious what is a necessity and what is a luxury
- In this environment, implicit subsidies distort competition and are ineffective

FEDERAL HIGH-COST MECHANISMS HAVE NOT KEPT PACE WITH THESE CHANGES

- Still subsidizing “local” phone service
 - Few customers buy stand-alone local service
 - Local service has been substantially deregulated
- Still struggling to deal with competitive entry – first wireless and now cable
- Still depending on implicit subsidies, e.g., from urban to rural in large study areas

THREE KEYS TO A TARGETED, BROADBAND-FOCUSED MECHANISM



1. Better data

- ▣ Where is money needed? Numerous efforts in progress to identify where broadband is, and is not, available
- ▣ Where is money going? Need to match availability data with data on various funding mechanisms (FCC, NTIA, RUS, States)
- ▣ Goal is to redirect money to areas where it is most needed

THREE KEYS TO A TARGETED, BROADBAND-FOCUSED MECHANISM

2. Better targeting

- ❑ Less support to areas experiencing facilities-based voice competition, as proposed by NCTA
- ❑ More support to highest cost areas with no competition
- ❑ Apply these principles to all high-cost support mechanisms, not just new broadband funds

THREE KEYS TO A TARGETED, BROADBAND-FOCUSED MECHANISM



3. Better accountability
 - ▣ Funding should be tied to specific outcomes
 - ▣ Funding mechanisms must include micro review (did recipient spend money properly?) and macro review (is this program still needed?)

STATES SHOULD BE GUIDED BY THE SAME THREE PRIORITIES



1. Data – States have an important role in broadband mapping
2. Targeting – States can use that data to provide targeted broadband subsidies
3. Accountability – States should hold recipients accountable for delivering results and periodically assess the continued need for subsidies