

MTA Commentary
FCC Caps Explosive Growth in Universal Service Distributions
May 14, 2008

On May 1, the Federal Communications Commission (FCC) took action to rein in the explosive growth in disbursements made under the federal high-cost universal service program. The universal service program is intended to provide support to telecommunications providers operating in high cost areas of the country so that they may offer consumers access to services that are reasonably comparable to services provided in urban areas and that are available at rates that are reasonably comparable to urban rates. The program has been a huge success, enabling Montana's rural telecom providers to offer affordable, advanced telecom services in rural Montana. Without universal service support, rates for wireline telecommunications services could increase by 50% to 250% and investment could be curtailed in underlying network infrastructure, which is relied on by not only wireline telephone consumers but also all other telecom service providers who send calls over local telecommunications networks.

One year ago, the Federal-State Joint Board on Universal service, a group of federal and state regulators and consumer advocates, determined that rapid growth in the high-cost universal service program places the federal universal service fund in dire jeopardy. The problem is ballooning growth in disbursements, which is almost entirely attributable to the unbridled designation of new telecom service providers eligible to receive universal service support. While support for local service providers has remained flat since 2003, support for newly-designated telecom providers has grown from \$17 million in 2001 to \$1.2 billion through 2007, an average annual growth rate of over 100%. And of course, consumers pay for this growth. We're now paying an assessment of over 11% on the long distance portion of our telephone bills.

Much of this funding growth is avoidable—or at least containable. And the FCC has initiated several steps to address the situation. For example, the interim cap on disbursements will enable providers to continue to receive the same level of universal service support they received as of March of this year.

Any new universal service recipients designated after March 2008, will also receive universal service support, but the cap will reduce the amount they receive. This is the same sort of cap that already applies to current local telecom providers—which explains why support to current local providers has remained flat, while skyrocketing for newly-designated providers.

The interim cap has two exceptions. First, capped providers can file their own cost data that demonstrate that their costs meet the support threshold in the same manner as the current, incumbent, local service provider. The second exemption allows telecom providers serving tribal lands to continue to receive uncapped high-cost support for each residential account served in these areas.

These exemptions actually illustrate two reasons that the high cost support fund has ballooned out of control. Newly designated telecom providers do not need to demonstrate any cost justification for the universal service support they receive. Instead they receive the identical support that the incumbent telecom provider receives. Thus, there's no way of telling whether these newly designated providers are receiving too much, too little, or just the right amount of universal service support. And since most of these newly designated providers already offer services that are comparable to services provided in urban areas, one can question whether these providers need any support at all. Thus, cost justification meets minimal accountability standards we'd expect from universal service support recipients. Further, newly designated providers receive support for each subscriber in a household. So while an incumbent telecom provider may receive support for a single line to a household, a wireless provider may receive support for multiple subscribers in the same household. The FCC's cap addresses both the identical support and the multiple line subsidy problems.

As FCC Commissioner Michael Copps said of the recent cap order, “eliminating of the identical support rule should be part of any comprehensive solution” to universal service reform. And Commissioner Jonathan Adelstein pointed out that he has “long been concerned about fund growth and the need to manage scarce resources responsibly. One apparent obstacle to that goal is the current designation process, which gives state commissions strong incentives to

designate additional universal service recipients but places no corresponding financial responsibility for those designations.”

These concerns are currently being addressed by the FCC in on-going rulemaking proceedings. As the FCC pointed out the day after approving the interim cap on new support distributions, the interim cap takes a “crucial first step toward comprehensive reform...while the Commission considers options for more fundamental reform.”

The Montana Telecommunications Association has been actively involved in recommending both interim and long term solutions aimed at preserving the vital benefits of the federal high-cost universal service program. We applaud the FCC’s action, and we look forward to continuing to work on reforms that will benefit the telecom consumers of Montana.

This is Geoff Feiss of the Montana Telecommunications Association.

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Contact: Geoff Feiss, General Manager
Montana Telecommunications Association
gfeiss@telecomassn.org
406-442-4316 (office)
406-594-0424 (mobile)