



**House Energy and Utilities Committee
Chairman Carl Holmes**

**Federal Communications Commission ICC/USF Order
January 18, 2012**

STATEMENT OF VERIZON

Mr. Chairman and members of the Committee:

My name is Dina Fisk and I appear today on behalf of Verizon. Verizon appreciates the opportunity to provide this brief statement regarding the Federal Communications Commission's November 18, 2011 Report and Order ("FCC Order")¹ regarding intercarrier compensation and universal service fund reform and the impact of that FCC Order on telecommunications in Kansas.

The FCC Order reflects the realities of a changing telecommunications marketplace and the need to overhaul the regulatory systems to match that changing competitive landscape. As the FCC Order recognizes, the "existing universal service and intercarrier compensation systems are based on decades-old assumptions that fail to reflect today's networks, the evolving nature of communications services, or the current competitive landscape."² In particular, the existing federal and state universal service and intercarrier compensation regime reflects "a complex system of explicit and implicit subsidies" that support traditional narrowband, wireline voice service in the most rural, insular and expensive to serve areas.³ But that system is "outdated"⁴ and "ill-equipped"⁵ to address the modern telecommunications world, in which consumers have access to and increasingly prefer to obtain voice services (as well as broadband services) from a variety of other providers, including wireless, cable, satellite and Voice over Internet Protocol ("VoIP") providers that do not receive government subsidization in the same way. Quite simply, the existing regulatory regime was not built for what is happening today.

¹ *Connect America Fund*, WC Docket No. 01-90, *et al.*, Report and Order and Further Notice of Proposed Rulemaking, (rel. November 18, 2011), ¶¶ 933-975; 47 C.F.R. § 51.913(a).

² FCC Order at ¶ 6.

³ *Id.* at ¶ 2.

⁴ *Id.* at ¶¶ 1, 9.

⁵ *Id.* at ¶ 6.

As a result, the intercarrier compensation regime has become riddled with inefficiencies and opportunities for wasteful arbitrage, including access stimulation or “traffic pumping” schemes. The universal service system likewise has become inefficient and wasteful, funneling money to certain carriers to provide certain services in certain areas where it is not needed. Accordingly, the FCC Order represents a long overdue and necessary step that “comprehensively reforms and modernizes the universal service and intercarrier compensation systems” across the country.

While the FCC Order represents a comprehensive solution for intercarrier compensation and universal service reform, the states – including Kansas – will play an important role in implementing that reform. For example, many carriers – including Verizon – are filing revised state access tariffs to implement certain intercarrier compensation aspects of the FCC Order. Similarly, Kansas and other states will continue to monitor whether universal service support is being used for its intended purpose.⁶ However, Kansas can and should continue to take additional steps, consistent with the FCC Order, to review and reform its own regulatory regime – including specifically targeting the reduction and elimination of the Kansas state universal service fund.

As the Kansas Corporation Commission noted in initiating an investigation of the Kansas state universal service fund (“KUSF”), it has been some time since a review of that program has been undertaken⁷ and the current KUSF remains based on the same outdated federal cost model that the FCC has reformed.⁸ The need for reform of the KUSF is particularly acute, given the heavy burden that the current KUSF is placing on consumers. As the Kansas Corporation Commission has recognized, “Kansans have contributed in excess of \$1 billion to support [the KUSF] over [the last] fourteen years,”⁹ and Kansans face one of the highest USF assessment rates in the country.¹⁰ Indeed, owing in significant part to the KUSF, a

⁶ See, e.g., *id.* at ¶ 15.

⁷ See *In the Matter of a Review of the Kansas Universal Service Fund, including the Forward-Looking High-Cost Model Used to Determine Cost-Based Kansas Universal Service Fund Support for Price Cap Carriers and Competitive Eligible Telecommunications Carriers Offering Service in Price Cap Carrier Study Areas, the Level of Participation of Interconnected VoIP and Wireless Service Providers, the Effect of Federal Universal Service Fund Reform, the Definition of Universal Service, and Other Matters*, Order Initiating Investigation, Establishing Comment Schedule, and Appointing Prehearing Officer (Jan. 26, 2011) at ¶ 10.

⁸ *Id.* at ¶ 4.

⁹ See *In the Matter of Connect America Fund*, WC Docket No. 1-90, Comments of the Corporation Commission of the State of Kansas on All Sections of the February 9, 2011 NPRM Except Section XV (Apr. 18, 2011) at ¶ 28.

¹⁰ See Bluhm, P., Bernt, P., and Liu, J., National Regulatory Research Institute, *State High Cost Funds: Purposes, Design, and Evaluation* (Jan. 19, 2010) at 64-65 (listing surcharges reported by state survey respondents operating high cost funds with ranges from fractions of a percent to a high of 7.12% in Oregon).

recent study concluded that the combined state and federal taxes and fees on wireless service in Kansas are higher than all but eight other states.¹¹

Unfortunately, this burden comes without a corresponding benefit, as there simply no longer is a need to subsidize legacy wireline local exchange carriers to achieve universal service goals. To the contrary, Kansans today already have access to voice and even broadband services in virtually all areas of the state from a variety of providers, many of which do not receive government subsidies.¹² As of June 2010:

- more than 90% of Kansas households had a wireless telephone;¹³
- nearly 30% of Kansans were living in homes with *only* wireless telephones, in lieu of a traditional landline,¹⁴ and another 12.8% of Kansas homes received all or almost all calls on wireless telephones despite having a landline;¹⁵
- 99% of Kansans had access to at least one wireless broadband provider, while nearly 95% had access to two or more wireless broadband providers and more than 60% had access to five or more such broadband providers;
- 93% of Kansans had access to at least one wireline broadband provider and more than 75% have access to at least two wireline broadband providers; and
- as a result of the prevalence of both wireline and wireless broadband providers, 99.3% of the population in Kansas already has the ability to download at speeds greater than 3 Mbps.¹⁶

Those percentages likely have only increased over the past year and a half, as Kansans continue to choose to forego traditional wireline telephone communication and utilize wireless devices and other broadband services. Moreover, while Verizon currently offers 3G wireless broadband coverage throughout virtually all of Kansas, it has announced plans to bring 4G LTE service to all those areas currently with 3G coverage by the end of 2013.¹⁷ Verizon's 4G LTE service will provide high speed broadband access to customers in all but the most isolated areas, which likely would be more efficient to serve with what is soon-to-be very robust satellite broadband service. And other carriers have similarly expansive plans.

¹¹ See Scott Mackey, *A Growing Burden: Taxes and Fees On Wireless Service*, Tax Analysts - State Tax Notes, 475 (Feb. 14, 2011).

¹² In addition to the 39 incumbent local exchange carriers ("ILECs") and 58 competitive local exchange carriers ("CLECs") operating in Kansas, there are 44 carriers offering VoIP services and 29 carriers offering wireless services in Kansas. *KCC Section XV Comments* at 3. Moreover, satellite broadband service can be extremely effective in reaching remote locations too expensive to serve with either fixed wireline or traditional wireless.

¹³ Blumberg S., Luke J., Ganesh, N., Davern, M., Boudreaux, M., Soderberg, K., "Wireless Substitution: State-level Estimates from the National Health Interview Survey, January 2007 - June 2010" (U.S. Dept. of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, April 20, 2011).

¹⁴ *Id.* at Table 1.

¹⁵ *Id.* at Table 3.

¹⁶ See National Broadband Map, <http://www.broadbandmap.gov/summarize/state/kansas>.

¹⁷ See <http://network4g.verizonwireless.com/#/coverage>.

Given this explosion in the availability of voice (as well as broadband) service through newer technologies, the goals of universal service already have been achieved in Kansas. Because of the presence of these competitive alternatives, there is no need to continue to provide a KUSF subsidy at current levels on top of the federal universal service subsidies called for in the FCC Order. The Kansas Corporation Commission instead should focus its efforts on implementing the comprehensive reform embodied in the FCC Order.