

**Testimony Before the House Energy and Commerce Committee
Hearing of the Subcommittee on Telecommunications and the Internet
As prepared for delivery**

***How Internet Protocol-Enabled Services are Changing the Face of Communications:
A Look at the Voice Marketplace***

**Wednesday, March 16, 2005
10:00 AM**

Thank you, Mr. Chairman and members of the Committee for inviting me to speak before you this morning. My name is Paul Erickson, and I am the Chairman and co-founder of SunRocket, an Internet phone service provider based in Vienna, Virginia. Prior to creating SunRocket, I spent 16 years with MCI in marketing and business strategy roles, and I have a great appreciation for the role that policies and regulation play in fostering competitive markets and consumer value and protection. My career in this industry began prior to the Bell System break-up, and I've lived through equal access implementation and the creation of long distance competition, the emergence of wireless and the Internet, and the reshaping of the global telecom industry. Along the way, I designed services that capitalized on changing economics and regulation, that brought competition to toll-free and collect calling, international long distance and local phone service. I recognize how the pieces fit together in this industry, and the enormous potential of the Internet to improve, disrupt and transform how we live, work and play. I admire and applaud the efforts of this committee to shape the policies that will ensure vibrant competition, foster innovation and protect consumers.

Internet phone service has been the subject of much debate, discussion, attention, and sometimes, downright hype, over the past year. We've read countless articles on how the

technology is revolutionizing communications, changing the way we work and live, and bringing a generation of Internet users into an IP enabled world.

And by the way, all of this is true.

Not long ago it would have been impossible to create a nationwide residential phone company, due to the cost and complexity of securing rights of way and building local networks reaching into American neighborhoods. Now with surging broadband adoption and the wonders of Internet telephony, we can create a high-quality, far-reaching phone service that is better than anything that's out there from a feature, price and value perspective. In less than a year with just a handful of employees, we built SunRocket from a blueprint into coast-to-coast service provider, with thousands of satisfied customers across 38 states. Our customers pay a flat rate of \$199 for an entire year of a phone service. And that doesn't just include unlimited local and long distance calling. For SunRocket customers, it also means a bucket of free international minutes, a free extra phone number, emergency 911 calling, over a dozen free enhanced calling features, all the necessary equipment you need at no extra charge, and just in case, a 31 day risk-free guarantee. That's the kind of value and innovation that Internet telephony has made possible.

We look at Voice-over-IP as simply an enabling technology, albeit a groundbreaking one. But for us, SunRocket isn't about technology. It's about creating a far better phone company, one that delivers phone service to customers the way they deserve to get it.

Innovative features that give consumers more control over how they can stay in contact with others, and filter out unwanted contacts. Straightforward pricing that eliminates phone bill confusion and saves them money. The technology, economics, and policy climate for Voice-over-IP finally reached the stage where it is ready for prime time, and we were ready for it.

I realize we are not here today to discuss the tremendous benefits of Voice-over-IP technology, as most of us already agree on that. Our challenge is to figure out how public policy fits into this brave new world, how it can enable and unleash the potential of the technology, while making certain that consumers are protected, that competition is fair and vigorous, and that public safety is ensured. We can agree on the goals, but the best policy approach to reach those goals depends on your vantage point.

I think we can all agree that no matter where you stand – on the incumbent or new entrant side of the aisle – telecom policy is not so black and white anymore. I don't think any of us want to retrofit Internet phone service into the existing regulatory scheme we've fought over for years. Even if we tried, the technology simply does not allow it.

Contrary to what some people think, not all Internet phone companies are looking for a free ride or to avoid social and civic responsibilities. At SunRocket, we believe that prudent regulation is a good thing. We believe that states should have an active role in fostering competition and protecting their citizens. We believe that phone companies, whether old or new, regardless of their underlying technology, have certain

responsibilities to ensure public safety and universal connectivity. We believe that these things can be achieved without burdensome or oppressive regulation or taxation.

My hope is that we can agree that our first priority is to ensure that consumers get what they expect and deserve. Having managed consumer research in this category for over a decade, this comes down to just a few simple imperatives.

First, they want a choice in providers. They recognize the fair competition is the best way to foster innovation, low prices, reliable quality, and responsive service. The option to switch from company A to company B, without hassles, penalties, or risk, is by far the best way to force companies to behave in the best interests of their customers.

Furthermore, Americans do not believe that a choice between their existing phone and cable companies for phone service qualifies as sufficient competition. We recently completed a poll of over 2,000 Americans, asking them what they wanted in phone and broadband service, and what they believed about the competition in the category. Only 10% of them stated that a choice between the phone company and the cable company for home phone service was sufficient competition. Three-quarters of those voicing an opinion said that we need many competitors for home phone service, since that will result in the best service at the best prices.

The second thing that consumers expect is that phone companies will provide the basics that they've come to expect from home phone service. They expect it to work, reliably, 24 by 7. They expect to be able to call any phone in the world by dialing a regular phone

number. They expect 911 to reach an emergency operator, 411 to reach directory assistance, and toll-free numbers to be toll-free. They expect to be able to block telemarketers from hassling them. They expect their bills to be clear and accurate. They don't need to know how all this works. They just want it to work.

Finally, like all taxpayers, they want some relief from the burden of taxes, fees, and surcharges that turn an advertised \$49 phone plan into a \$65 monthly bill. Of course, they also recognize that taxes are a fact of life – but they would like some way to make sense of it all, to be able to compare prices between competitors and to feel comfortable that they're getting what they paid for or paying for what they requested.

If we focus on those few things from a policy standpoint, I believe we can make a huge leap forward to create a fiercely-competitive yet profitable, innovative yet reliable, telecommunications industry. Of course, the key is enabling fair competition, so that consumers can easily switch from an underperforming provider to an alternative that offers a better combination of features, quality, value and behavior.

From a consumer standpoint, fair phone competition requires only a few basic things. They don't care about things like intercarrier compensation, subsidies, carrier profits, cost recoveries or details of how calls are routed from Boston to Botswana. But they do care about their phone number. If they want to switch phone companies, they want their phone number to transfer, flawlessly, immediately, with no effort on their part. Today, the process of moving a phone number from an incumbent phone company to an Internet

phone company can take weeks, if it can be done at all. We believe that phone numbers should be controlled by the customer, and that no phone company has the right to hold those numbers hostage for any reason.

From a consumer standpoint, fair competition also means that they can switch phone companies without facing outages or inconveniences associated with other household services. That is often not the case today. In most areas, incumbent phone companies don't let their DSL customers keep their broadband, cancel their phone service and transfer their phone number to an Internet phone company. In order to switch to an Internet phone company, DSL customers have to go through the hassle of canceling DSL and installing cable modem service. It's easy to imagine broadband providers creating anti-competitive pricing structures to restrict adoption of Internet-enabled services, and many broadband providers are already engaged in the practice, charging huge price premiums for standalone broadband service. These practices impede the kind of competition that consumers are asking for.

For the promises of Internet-enabled services to be fully realized, we believe proactive policy action to ensure Net Neutrality is essential. To date, consumers have rarely been subjected to deliberate interference, disruption, or blocking of Internet-enabled content and applications, and they are extremely passionate about keeping it that way. In the recent consumer poll I described earlier, only 3% of Americans think that broadband providers should be allowed to block access to services and websites that compete against that company's services. 97% of those voicing an opinion said that broadband providers

should not be allowed to control what they access over the Internet, other than to protect them from potentially harmful computer viruses or block illegal activities. Rarely do consumers so universally agree on any subject, which should give this committee sufficient reason to act on this point. Failure to do so could enable broadband providers to block Internet-enabled video, voice and information services, which would impede the vigorous competition desired by consumers and policymakers alike. There is no justification for broadband providers to engage in tactics that deliberately impede independent providers of voice, video and content services.

I mentioned earlier that consumers expect certain things from their phone company. Perhaps the most critical expectation is emergency 911 calling. While Internet phone companies are making some progress on this front, policymakers can play an important role in ensuring consumer safety. SunRocket has worked hard, at significant expense, to provide our customers with the best 911 service that we can profitably provide. Unlike with some other Internet phone companies, the majority of SunRocket customers are enabled with enhanced 911 calling, which automatically delivers the name and location information to the emergency operators, and we are working to extend that capability to all of our customers as fast as we can. All of our customers have access to some form of 911 calling, though in some areas we can't automatically deliver location information with the call. While the inherent mobility of Internet phone service creates challenges to properly maintain correct address information, this can be accomplished in a number of ways. We would welcome assistance from policymakers in enabling Internet phone companies to get fair, efficient, and economic access to the existing emergency 911

infrastructure, and believe it would be prudent to support investments to upgrade that infrastructure to allow emergency call centers to benefit from enhanced IP-enabled services.

Given the criticality of 911 calling and to ensure that Internet phone service reaches its full potential, SunRocket would support a requirement that all phone companies who issue standard phone numbers and offer the capability to place outgoing phone calls using standard telephones must also provide 911 service, as long as all phone companies have efficient and effective access to the existing 911 infrastructure. Short of that, for the benefit and safety of consumers, at a minimum there should be a mandate that all Voice-over-IP providers who do not provide E911 fully disclose that to their customers in an obvious and transparent manner.

Finally, I would like to offer our views on a few other topics that often are included in policy debates related to Internet phone service. As I mentioned earlier, SunRocket does not expect a free ride. All Internet phone companies would agree that fair compensation is required for the exchange of traffic between networks. The ongoing debate over access charges mostly centers on whether the remaining subsidies baked into access charges should be extended to Internet phone traffic. A better question is how these subsidies can be removed from all intercarrier compensation mechanisms. As you know, this debate has raged for years at the FCC, and we can't solve this here, though a rational and efficient peering system should be the policy goal.

A related topic is reform of the Universal Service Fund program. Again the jurisdictional and economic issues are complex, but SunRocket supports the policy goal of universal access to phone service, and believe that the policy goal should be extended to residential high-speed Internet access as well. In fact, we believe that the universal service goal should increasingly be directed toward securing universal adoption of residential high-speed Internet access and less on maintaining subsidies for legacy telephone services.

The big questions are how to fund the program, what level of support is necessary, and what companies are able to access the funds. In 2003, over \$3 billion was distributed in high-cost and low-income support. That same year, FCC reports show nearly \$300 billion in industry-wide revenue from wireless and wireline telecommunications. While perhaps I have a simplistic view of the situation given jurisdictional revenue separations and statute service definitions, but it seems like a 1% Universal Service Surcharge applied to all telephone and ISP revenue would fully fund that program. Under that kind of mechanism, the revenue base is broadened and certain types of customers no longer bear a disproportionate amount of the costs. The system would define the minimum level of service, and any carrier who qualifies would be eligible.

In conclusion, clearly we have a lot of work to do, but I am confident we are all up to the task. SunRocket remains committed to bringing Internet phone service to the mainstream consumer and we feel that part of the role of a consumer champion is to advocate sound public policies that ensure the health and future of VoIP and regulatory environment that protects and advances the social goals of our country.

We look forward to working with you, and again thank you for the opportunity to talk with you today.