

**TESTIMONY OF STACI L. PIES, PRESIDENT, VON COALITION  
BEFORE THE SUBCOMMITTEE ON  
TELECOMMUNICATIONS & THE INTERNET,  
HOUSE COMMITTEE ON ENERGY AND COMMERCE,**

**HEARING ON UNIVERSAL SERVICE: WHAT ARE WE SUBSIDIZING AND  
WHY? PART 1: THE HIGH COST FUND  
(June 21, 2006)**

Thank you, Chairman Upton, Ranking Member Markey, and members of the Subcommittee. My name is Staci Pies. I am Vice President, Governmental and Regulatory Affairs, of Point One, a VoIP provider, and President of the Voice on The Net or VON Coalition - the leading U.S. organization representing the VoIP industry on critical legal and regulatory issues. On behalf of the VON Coalition, I thank the Subcommittee for the opportunity to testify about the important issue of the Federal Universal Service Fund and subsidizing high cost areas.

This Subcommittee has led in facilitating the deployment of VoIP in recent years. Your actions to tread lightly when it comes to Internet regulation have helped enable the timely delivery of innovative, competitively priced, voice services to Americans all over the country.

We are pleased to be here today to encourage this Subcommittee to ensure that every American can benefit from broadband communications choices. With the right policy framework, VoIP has the potential to transform the way all Americans communicate. Consumers throughout the country will be able to use VoIP to do things never thought possible, businesses may increase efficiency and productivity and

transform the way they operate. Importantly, VoIP can ensure that rural and low income Americans have access to a vast array of exciting communications choices at prices that are more economical than plain old telephone services.

Congress has an unparalleled opportunity to help launch a new era of broadband-enabled benefits. You can facilitate transformative improvements in the way we communicate that harness the power of the Internet. VoIP is not just another flavor of telephone service. In contrast to traditional plain old telephone service (“POTS”), VoIP voice is an application, just like e-mail, streaming audio, streaming video, and web browsing and can occur over any packet data network, including the Internet. Accelerating VoIP adoption can mean cost savings for consumers and businesses, reduced operational costs for providers, advanced features unavailable with traditional phones, increased competition among network and service providers, increased infrastructure investment, accelerated broadband deployment, improvements in emergency services, lower cost communications for rural and government users, increased access for persons with disabilities, and increased worker productivity.

To, to ensure that every American can benefit from broadband communications choices, I wish to make four points today about reform of our Universal Service system.

- First, the VON Coalition supports modernizing our Universal Service system and encourages the Subcommittee to establish a contribution approach that will be equitable, technologically neutral, understandable, easy to administer and will ensure the sustainability of the fund.

- Second, to help accelerate the transition to a nationwide broadband network, Congress should adopt policies that create incentives rather than disincentives for efficient network deployment and exchanging traffic between Internet networks and the legacy phone network -- thus geometrically increasing the value of both of America's communications networks.
- Third, rather than automatically applying yesterday's rules to tomorrow's technologies, the Subcommittee should adopt forward looking approaches to Universal Service and intercarrier compensation that empower consumers, extend VoIP driven benefits to rural Americans, and boost productivity in the economy. This means strengthening and reforming both the Federal Universal Service system and policies that determine the cost and availability of interconnection, regardless of the underlying technology.
- And fourth, to the extent that the Subcommittee acts, it should take a light regulatory approach to VoIP and address only those services that are substitutes for existing telephone service.

America's Universal Service system has been a cornerstone of our telecommunications policy for over 70 years – enhancing the value of the network and increasing our quality of life in immeasurable ways. Yet for all its past success, Universal Service support today is at a crossroads. The VON Coalition shares the concerns of this Subcommittee, industry stakeholders, and rural consumers that the current contribution mechanism is inadequate, the funding mechanisms may not provide network operators with proper economic incentives, and the system does not ensure a sustainable USF.

First, the VON Coalition believes that every American should have the opportunity to benefit from broadband enabled voice services. We have long supported modernization of the Universal Service fund contribution methodology to move away from yesterday's revenue based system, to a broader connections or working telephone number based contribution mechanism that is competitively and technologically neutral. As articulated in The Universal Service Reform Act of 2006, H.R. 5072, new technologies and all-distance pricing have rendered regulatory distinctions based on geography irrelevant and unsustainable. There is a growing consensus that a revenue-based contribution methodology will not be sufficiently durable to withstand the broad transition to VoIP and other technological change. Moreover, a revenue-based contribution methodology is inconsistent with the goals of ensuring that universal service support be sufficient and predictable.

This Subcommittee should focus on legislation that ensures the contribution mechanism is simple enough for the average consumer to understand, and to minimize transaction costs for consumers. Therefore, we recommend that Congress require the FCC to adopt immediately a Universal Service contribution methodology that is based on a measurement of end user connections such as working phone numbers rather than the arbitrary approach of attempting to assess revenues or identifier protocols other than working phone numbers. Assessment of VoIP provider revenues leaves open the possibility that USF could be assessed on all applications including every Instant Message, E-mail, or other IP address. It could lead to double payments for the same service, enable broadband blocking, and would be difficult if not impossible to ascertain the appropriate contribution amount with any certainty. We believe a numbers and/or

connections-based approach would best meet the objectives of effectively sustaining the Universal Service Fund while ensuring that assessments are equitable and non-discriminatory.

Second, in addition to lowering the cost of communications services through direct USF subsidies, Congress should focus on accelerating VoIP driven benefits to consumers, businesses, and the economy by establishing incentives for carriers to make cost-effective investment decisions while improving service to consumers in their areas by increasing the availability of broadband services. The VON Coalition agrees that all Americans benefit from the fact that residents of rural areas have access to high quality telephone service. However, the incentives for providers to improve economic efficiency by deploying IP-based networks and services are adversely impacted by the manner in which the fund is currently administered given that high cost carriers generally receive subsidies based on their costs.

High-cost support provides subsidies to make carriers whole, regardless of their investment decisions or business models by guaranteeing 'reasonable' rates of return. Utilizing traditional, circuit switched technology, it is generally agreed that in those areas, basing end-user retail prices strictly on the cost of service would likely create a barrier to subscription and frustrate the achievement of Universal Service goals. However, with the advent of more efficient, lower cost technologies such as VoIP, the cost of providing service in rural and high cost areas can decrease significantly. Not only does VoIP enable robust, innovative communications experiences for all Americans, it significantly lowers the cost of network deployment and the provision of services to

enterprises and residential consumers. Consumers and businesses are flocking to VoIP because it can do what plain old telephone service can – and much, much more – at a competitive price. Indeed, VoIP is cutting phone bills by as much as 40 percent and enabling the kind of voice competition that this Committee envisioned when it passed the 1996 Telecom Act. In some cases VoIP can replace a home or business phone system, in many other cases it is integrated into existing software applications, and voice recognition systems. In the workplace, businesses, small and large, are tapping into VoIP for cost savings of 40 to 60 percent, and at the same time boosting productivity by as much as 15 percent through smarter communications systems. VoIP provides breakthrough new features that enable businesses to function more efficiently and respond more effectively to the needs of consumers.

Third, reforming the federal Universal Service system is only part of the solution for ensuring that consumers have access to innovative and affordable communications services. Despite minor steps towards access charge reform, a significant portion of non-traffic sensitive costs of the local network are still assigned to interstate calls. This cross subsidy exists today despite the fact that the 1996 Act called for elimination of implicit subsidies in part because these costs do not vary with minutes of calling in any jurisdiction. Legislation enacted by Congress must help accelerate the transition to IP-enabled networks by reforming intercarrier compensation to eliminate implicit subsidies, removing interconnection barriers and modernizing old policies for the new world. We commend this Subcommittee for ensuring that VoIP providers can interconnect with the public switched telephone network (“PSTN”) to provide consumers with new voice alternatives.

As this Subcommittee has recognized, Universal Service reform must go hand-in-hand with *comprehensive* intercarrier compensation reform. To ensure that consumers and businesses can take advantage of this global medium that spans geographic boundaries, intercarrier compensation reform must speed the transition to broadband-enabled communications. IP networks and the gateways that enable the transition between broadband communications and the PSTN are critical links for empowering consumers and driving economic benefits. By focusing on overall, complete reform, in a timely fashion, you will ensure continued investment in IP-enabled networks, and avoid piecemeal decisions that can stifle innovation, technology investment, and slow the transition to broadband communications.

Piecemeal fixes and stand-alone decisions that only address a small subset of intercarrier compensation issues actually undermine the potential for comprehensive reform. For example, the “phantom traffic” solutions in H.R. 5072 perpetuate implicit subsidies rather than directly resolving USF funding issues. The VON Coalition would support the need to ensure that, where technically feasible, all providers that interconnect with the PSTN pass the call identifying information they receive without alteration, if Congress finds it necessary to impose such a requirement; however, we do not support onerous phantom traffic legislation at this time, especially where such legislation would apply retroactive intercarrier compensation on providers as well as have the unintended consequence of giving network operators explicit authority to “block” an Internet users’ ability to use the Internet communication applications of their choice.

A broad range of parties have recognized that there is a difference between identifying traffic and reforming Universal Service and intercarrier compensation. Addressing traffic identification by itself is only a half-measure. The only real solution is comprehensive Universal Service and intercarrier compensation reform that eliminates today's artificial distinctions between different types of traffic, and puts Universal Service on a more stable footing than does implicit subsidies through access charges. Accordingly, we recommend that rather than attempt to resolve USF through the continuation of implicit subsidies inherent in the phantom traffic solutions of H.R. 5072, you provide the FCC a 180-day deadline by which to complete their long-pending Universal Service and intercarrier compensation proceedings, consistent with Section 254 of the Communications Act.

And fourth, the VON Coalition urges the Subcommittee to recognize the distinction between innovative IP-based services that do not connect to the public network and those services that are substitutes for existing telephone service. For example, VoIP services that offer consumers the ability to make and receive calls from the traditional phone network could be subject to traditional social regulation such as Universal Service contributions. These are the types of voice services that may rely on the public phone network and which consumers may consider substitutes for traditional phone service. One example of a web-based service that does not constitute telephone replacement services is the innovative help line available on the Gerber baby food web site (<https://www.gerber.com/contactus>). If a new mother has an urgent question at 3am, she can today click on the web site using a click-to-dial, one-way VoIP service that immediately connects the parent to an infant care specialist 24/7. However, if legislation

imposing Universal Service obligations would apply to innovative, one-way VoIP services, this potentially life-saving service for new moms would presumably have to be shut down because it would not be able to sustain the economic cost of contributing.

In summary, reform of Universal Service should focus on bringing consumers affordable communications services. The VON Coalition respectfully recommends that Congress reform the Universal Service contribution mechanism towards an equitable, technologically neutral, understandable, easy to administer system that will ensure the sustainability of the fund. The distribution processes must also be reformed to make support explicit, funding fair and provide the proper incentives for efficient network deployment. To do this, Universal Service support should be distributed in ways that reward providers for economic efficiencies. Moreover, Universal Service and interconnection costs and policies must be reformed to ensure that implicit subsidies are eliminated and support is distributed in a competitively and technologically neutral manner so that consumers are able to make purchasing decisions based on economically rational pricing signals and their communications needs rather than having government pick technological winners and losers. Finally, Congress should be cautious about harming innovation and continue to maintain a hands-off approach to the delivery of IP-enabled services, especially those that are not substitutes for traditional voice services.

The VON Coalition would again like to thank this Subcommittee for its leadership on VoIP. With continued leadership, we believe VoIP is positioned to help make innovative communicating more affordable for all Americans, businesses more

productive, jobs more plentiful, the Internet more valuable, and Americans more safe and secure.

Thank you very much. I am happy to answer questions.