1 sought to secure the promise of the 1934 Act by making
2 universal service the central focus of the
3 Telecommunications Act of 1996.
4 In evaluating the 75/25 percent proposal, it
5 should be applied to those principles of universal service
6 contained in the Act. The Rural Utility Service believes
7 that the 25 percent limitation on federal support conflicts
8 with the Act's universal service principles.
9 Will it provide just, reasonable, and affordable
10 rates? Leaving individual states responsible for 75 percent
11 of universal service costs will have a profound and dramatic
12 effect on rates. Participants in this proceeding have
13 reported that rates will need to increase in 39 states to
14 maintain current levels of service.
15 In South Dakota rates would increase 50 percent.
16 In Wyoming recovery would need to increase by $51.75 per
17 customer.
18 Does the proposal provide for comparable rates and
19 services? Given the great disparities between each state's
20 ability to absorb 75-percent responsibility for universal
21 service, rates in rural areas will certainly increase, and
22 quality of service will certainly decrease. States with the
23 greatest universal service burden are states with the
24 highest costs, largest geography, and smallest populations.
25 In urban areas and profit centers, competition

1 will drive down rates. The result will be vast differences
2 between rural and urban rates.
3 Infrastructure is simply more expensive in 80
4 percent of America that is rural. The Rural Utility Service
5 works closely with over 900 small, rural telephone companies
6 and cooperatives to provide reliable, quality, and
7 affordable telecommunications services. On average, plant
8 costs for those service providers are three times the costs
9 of their urban counterparts.
10 Does the proposal provide for an evolving level of
11 service? The Act defines universal service as an evolving
12 level of telecommunications services established by the
13 Commission, and once established, supported by federal
14 universal service support mechanisms.
15 Under the current universal service formula, rural
16 states with the greatest need will be unable to provide
17 sufficient support for existing levels of service, let alone
18 provide for new, evolving levels of service.
19 Is the plan equitable and non-discriminatory? The
20 25/75 plan is not equitable, because it places the highest
21 burden on consumers in the most rural states. It is
22 discriminatory because it does not require all
23 telecommunications carriers to contribute and to support
24 universal service as required by the Act.
25 Is the plan specific, predictable, and sufficient?

1 The May 8 order does provide for a specific and predictable
2 level of support, but one which is not sufficient to support
3 the federal definition of core services at just, reasonable,
4 and affordable rates.
5 There are a host of current federal mechanisms of
6 universal service support, including DEM weighting, the
7 averaging of access costs, current universal service fund
8 support, and long-term support. The 25-percent limitation
9 on future federal universal service support will not equal
10 even the current levels of federal support.
11 Measured against the act's universal service
12 principles, the 25-percent plan does not appear to comply
13 with the Act.
14 The uncertain environment related to the future
15 availability of federal support is having an adverse effect
16 on infrastructure investment in rural areas. Our US
17 borrowers are reporting a reluctance to invest in new plant
18 and equipment, due in part to the uncertain universal
19 service environment.
20 It is important that the Commission develop an
21 open and clear transition plan that sets forth markers for
22 meeting the goals of the Act -- an open competitive market,
23 an adequate, sufficient universal service support -- while
24 mitigating unnecessary rate impacts on individual consumers.
25 The federal commitment to universal service predates the

1 creation of this Commission. The Telecommunications Act of
2 1996 changed a great many things, but did not, but it did
3 not change that fundamental federal commitment.
4 The Rural Utility Service has been pleased to
5 comment on this and other proceedings. We stand ready to
6 assist the Commission in assuring that the promises of the
7 Communications Act of 1934, the Rural Electrification Act of
8 1936, our authorizing statute, and the Telecommunications
9 Act of 1996 are kept to all Americans of this one nation.
10 MR. KENNARD: Thank you very much. Questions for
11 our distinguished panelists? Commissioner Ness?
12 MS. NESS: Thank you, Mr. Chairman. Commissioner
13 Hagen, on average, what do residents of North Dakota pay for
14 local service?
15 MR. HAGEN: In the cities like Bismarck, about 12
16 and a half. In rural, it can average -- we have one,
17 practically nothing, down around six dollars I think it is
18 in Minot, up to about $25, $26, Consolidated Telephone
19 Company, in rural. They serve around Dickinson and the
20 western part of the state.
21 MS. NESS: Chairwoman Johnson, can you tell me,
22 please, on average, what your residents of the District of
23 Columbia pay for local service?
24 MS. JOHNSON: On average, the monthly rate is
25 about $13. We have quite a few subsidies for citizens of

1 the District of Columbia. We have rates as low as one
2 dollar for senior citizens that meet certain income
3 guidelines. We also have a basic message rate plan for many
4 of our citizens at three dollars per month, again subsidized
5 for the low-income citizens in the District of Columbia.
6 MS. NESS: Commissioner Welch?
7 MR. WELCH: The basic rates currently hover around
8 $12 or $13, although we have before us a proposal right now
9 that would reduce our very high access charges and raise
10 basic rates by about another $3.50. So they may go up to
11 about $15 or $16.
12 MS. NESS: I ask that because, implicit in
13 everything that has been said has been the cost to the
14 consumer. And I am very concerned about the cost to the
15 consumer, so that all of our citizens can afford telephone
16 service. But the rates vary from state to state, from city
17 to town, whatever it might be.
18 Is there a way of -- do you look at that issue in
19 your ad hoc proposal? I raise that because the Commission
20 had a benchmark which was based on the revenues per line.
21 Yours is based on the cost to the carrier per line. Can you
22 comment a little bit on the pros and cons of those two
23 approaches? And what that means, as far as what the
24 individual consumer pays for service?
25 MR. WELCH: Yes, I would be pleased to. One of

1 the reasons the ad hoc proposal selected a cost basis rather
2 than a revenue basis is that revenue comparisons tend to be
3 very difficult. And the example I gave for Maine's rates is
4 probably indicative.
5 If you just looked at Maine's basic monthly
6 charge, it would appear to be lower than, say, the charge in
7 D.C. If you combine it with Maine's toll rates, which
8 average about 50 cents a minute at times, it's not clear
9 that that comparison is apt. And in fact, there is a lot of
10 rebalancing going on around the country that makes any
11 snapshot picture just looking at a particular rate difficult
12 to achieve.
13 So we addressed it by, in a sense, assuming that a
14 state would do what it needed to do in the rebalancing area.
15 And in terms of balancing its own internal subsidies. So
16 that if you match the cost components of the USF, you would
17 ultimately enable a state to reach parity to the extent that
18 particular state believed it was essential, through the kind
19 of USF funding we are describing.
20 MS. NESS: Okay. Does anyone else want to comment
21 on that issue, of what a consumer pays versus what the cost
22 of the line might be? Any other comments? Chris?
23 MR. MCLEAN: I would think it's important to
24 realize that a six-dollar line in a place perhaps like North
25 Dakota or another rural area is only able to have a calling

1 scope that could reach a few hundred people. So that it's
2 not a fair comparison to look at the cost to the District of
3 Columbia, where you could reach perhaps several million
4 people for a local rate.
5 MS. NESS: Okay. In your ad hoc proposal,
6 Commissioner Welch, you talk about holding harmless, I
7 believe on a company-by-company basis. So that a company
8 that is getting a significant amount of support presently
9 would continue to receive exactly that amount, if not more.
10 Is that correct?
11 MR. WELCH: That is correct.
12 MS. NESS: What incentives would be built into
13 your proposal to encourage cost savings? We are in a
14 declining-cost industry. And if we are just holding
15 harmless, what would be the incentive for a company to try
16 to reduce its costs?
17 MR. WELCH: I think you would be left with,
18 although I don't want to understate the importance of this,
19 the traditional role of the State Commissions to ensure that
20 rates are provided at efficient, at efficient costs. And we
21 would expect that, as competition began to drive costs down,
22 that the benchmarks against which the performance of any
23 particular company would be measured, even the smaller
24 companies, would tend to drive, to force that company to
25 meet standards of greater efficiency. Regardless of the

1 level of federal support it was given.

2 MS. NESS: In talking about the need to make sure

3 that all citizens have affordable telephone service,

4 Commissioner Hagen and Chris McLean, you talk about it

5 having to be a federal subsidy. The federal subsidy so far

6 has been referred to -- and I believe, Commissioner Welch,

7 your proposal also refers to it -- as being from interstate

8 carriers. The Act provides that it has to be interstate

9 carriers.

10 The question is, should it be pulled from or based

11 upon revenues that are interstate revenues or intrastate

12 revenues as well? Would the three of you comment on the

13 issue as to whether or not we ought to be pulling from both

14 inter- and intrastate revenues of interstate carriers? Or

15 should the burden be solely on the interstate portion to

16 fund what is essentially an intrastate service?

17 Commissioner Hagen.

18 MR. HAGEN: I suppose you would probably naturally

19 like to have just an interstate fund. But you have to be

20 fair, and we know that. And in spite of what I testified,

21 and that is our position, I happen to like Tom Welch's study

22 very much; I think there is a lot in there.

23 I think you really have to look at probably

24 interstate and intrastate. But work out something that is

25 fair.

1 The FCC has got a very tough job. And I think I
2 speak for all Commissioners in all 50 states. We know it.
3 We know you are working hard at it. And the fact that you
4 are listening to us is tremendous. And we have great faith
5 that when you put all of the A through Z things together, we
6 are going to be coming out all right.
7 And I would say even further than that, even if it
8 doesn't work 100 percent of what we all may want and like,
9 you can correct it down the road.
10 MS. NESS: Commissioner Welch.
11 MR. WELCH: I certainly agree that a case can be
12 made that any funding should be drawn from as broad a source
13 as you can find.
14 I think that the ad hoc proposal addresses the
15 question of funding with a horizontal cut, in that the
16 states, to the extent they would need to provide the balance
17 within themselves, would be drawing from their own resources
18 to get up to this nationally average level. And only after
19 the states had reached that level would any federal support
20 kick in.
21 So under the proposal, we consider it appropriate
22 for that to be the portion that would come from interstate
23 revenues. Because the plan sort of assumes that you have
24 picked up whatever you need to to get up to the national
25 average from intrastate revenues.

1 So I think it would be appropriate to have this,
2 this safety net federal fund drawn from interstate revenues.
3 MS. NESS: Chris?
4 MR. MCLEAN: First, we would prefer that the term
5 be support. We don't consider universal service to be a
6 subsidy. And the service has observed that the Commission's
7 approach to schools, libraries, and rural health care would
8 comply with the principles of the Act. So that is certainly
9 an option that I believe the Commission acknowledged that it
10 has the power and authority and jurisdiction to take a
11 national approach. And certainly we wouldn't have as many
12 difficulties with issues of comparability and sufficient
13 levels of support to assure just, reasonable, affordable
14 rates.
15 MS. NESS: Commissioner Welch, your -- can you
16 tell me how many states, both high-cost states and then
17 low-cost states, support your ad hoc proposal?
18 MR. WELCH: I want to be careful in my response,
19 because we have never polled them for whether they agree
20 with everything in the plan.
21 There were 14 states who signed a recent pleading
22 to this Commission, states both high- and low-cost, who
23 indicated general support. There are states other than that
24 who have also indicated varying levels of support, and there
25 are a number who have expressed indifference. And there is

1 a small number who have opposed it.

2 I think the support comes from both high- and

3 low-cost states. And we continue to work to see if there

4 are particular ways in which the plan can be adapted to

5 assure that the legitimate concerns of other states are

6 addressed.

7 MS. NESS: Okay. Chairman Johnson, do you feel

8 that it is inappropriate for a low-cost state to provide any

9 support for expenses in a high-cost state?

10 MS. JOHNSON: Oh, absolutely not, Commissioner

11 Ness. We believe that the District of Columbia ought to pay

12 into the fund. I mean, I have had a chance to look at

13 Commissioner Welch's plan. I believe that it is probably

14 the fairest approach to it, by asking states to take care of

15 their own first out of intrastate revenues, and have the

16 Federal Government subsidize or support whatever the

17 remaining amount is.

18 By no means do I wish to suggest by my remarks

19 that the District of Columbia believes that it should not

20 contribute to the universal service fund. Our difficulty is

21 that we are a paying state, a payor state, in all instances,

22 under any scenario, including the one developed by

23 Commissioner Welch. We are simply asking that, as the FCC

24 develops its plan, you take into account the peculiarities

25 of our state as you try to decide how much you are asking

1 our citizens to contribute to a federal universal service
2 fund.
3 MS. NESS: Without expressing any comment on the
4 substance of your plan or an opinion on the substance of
5 your plan, I do want to thank you so much for all of the
6 effort that you and fellow commissioners have made toward
7 coming up with a solution. It is an extraordinarily
8 difficult problem, as Commissioner Hagen so eloquently
9 stated. And it's one that, for me, I'm particularly
10 grateful so many state commissioners have really rolled up
11 their sleeves, have looked at it as an issue that affects
12 the entire country, as opposed to the specific interests of
13 their own state, and have really tried to work together to
14 come up to a solution.
15 So I want to thank all of you for that effort.
16 And that is the end of my questions, Mr. Chairman.
17 MR. KENNARD: Thank you, Commissioner.
18 Commissioner Furchtgott-Roth.
19 MR. FURCHTGOTT-ROTH: Thank you, Mr. Chairman.
20 And I would like to thank the staff for putting together
21 this very fine panel and this entire hearing this morning.
22 And I'd like to thank the panelists for their very
23 informative views.
24 It's always a pleasure to hear from the states.
25 And it's always a pleasure to see Chris McLean, who has

1 always been a very forceful and articulate advocate for
2 rural interests.
3 Commissioner Ness has done a very fine job of
4 asking several questions that I had hoped to ask. And I
5 just would like to follow up on a couple of these.
6 Chairman Johnson, I'd like to go back to the
7 question of your views on whether a federal fund can,
8 whether the FCC has the authority to develop a federal fund
9 based on intrastate services. I think Commissioner Ness
10 asked directly to the other three panelists, but I wasn't
11 quite sure I got your answer on that.
12 MS. JOHNSON: I believe so, Commissioner. I think
13 that it is -- I mean, I agree with the other panelists, that
14 you ought to draw support from as broad a base as possible,
15 quite frankly, which is why personally I am supportive of
16 Commissioner Welch's plan.
17 I believe that support ought to come from both
18 intrastate and interstate revenues, and measured perhaps by
19 cost. But I believe it's unfair -- not unfair. But I
20 believe it would be a fairer approach to draw the support
21 from both, as opposed to just interstate revenues.
22 MR. FURCHTGOTT-ROTH: Commissioner Welch, would
23 you characterize your plan as --
24 MR. WELCH: The way the plan is currently drawn,
25 there would, for the safety net provision, which is really

1 all that the federal fund would be, that would be drawn from
2 interstate revenues.
3 I think it's a little unfair to characterize it as
4 having, as being a universal service plan that only draws
5 from interstate revenues, because the -- each state taking
6 care of its own provision would require, I think, the states
7 to draw considerable resources from within themselves in
8 order to reach the level, sort of the threshold before
9 federal support kicked in.
10 MR. FURCHTGOTT-ROTH: I was wondering if I could
11 ask each of the panelists how they interpret subsection F of
12 254, which is the state responsibility for universal
13 service, state authority. Particularly the last sentence.
14 And I don't mean to get you to review in detail the statute.
15 I'm not a lawyer, and I'm not going to pretend to be one.
16 But I'm particularly interested in issues
17 regarding conflicts between state authority and federal
18 authority to collect for universal service mechanisms, and
19 the statutory requirement that state mechanisms not
20 interfere with federal mechanisms.
21 How do you all interpret this in terms of how you
22 all envision intrastate or your state universal service
23 plans?
24 MR. WELCH: I am only a recovering lawyer, so I
25 don't want to speak as a lawyer. How I envision the system

1 to work, however, I will respond to.

2 I think that it is, that the responsibility to
3 ensure the universal service objectives of the Act are met
4 is a responsibility that is shared by the FCC and the State
5 Commissions. I think it is appropriate for the FCC to view
6 its role as filling in the gaps, where a state cannot
7 achieve what it needs to.

8 I also think it is incumbent upon the states to
9 develop, to the extent they need one, universal service
10 mechanisms that do make explicit whatever subsidies may
11 exist in their rates.

12 So whether or not it is technically a requirement
13 of the Act, I think it is both consistent with the overall
14 objectives of the Act and with the objectives of the State
15 Commissioners, as I know them, to develop plans that are
16 consistent with both ensuring universal service and ensuring
17 that that's done in a procompetitive and explicit way.

18 So I would see the role as the states developing
19 their own universal service mechanism that would provide
20 sufficient support, as I've indicated in the plan. And then
21 the federal support would be sort of brought in on top of
22 that, where needed.

23 I do think there is a role for this Commission,
24 for the Federal Communications Commission, to ensure that
25 where there are federal funds being brought into a state,

1 that those ought to be distributed in a way that the FCC
2 considers to be appropriate in the FCC's eyes as being
3 procompetitive and consistent with the Act. So I think some
4 standards and objectives are entirely appropriate.
5 I think states ought to have some degree of
6 freedom to craft particular kinds of universal service
7 support that are appropriate for their own circumstances,
8 but within some guidelines.
9 MR. HAGEN: I would agree with what Commissioner
10 Welch said. I really don't have any problem with it. I'd
11 just add to that, our state still doesn't have a state
12 universal service fund. But if I had to predict anything in
13 the next North Dakota Legislature, which starts in '99,
14 coming from the Regulatory Reform Review Commission that I
15 sit on, that's exactly one of the bills that will come out
16 of that Commission and go to the Legislature. And I think
17 it will pass.
18 We have all of the authority right now to do this,
19 but we do not have taxing authority. And the legislators,
20 there are four legislators who sit on that Commission. And
21 they know we need a state universal service fund, which will
22 do part of what Tom was talking about. So I think that's
23 going to happen in North Dakota.
24 MS. JOHNSON: Commissioner Furchtgott-Roth, in the
25 District of Columbia we have a universal service fund and a

1 local Act which requires us to expand that fund. It's
2 obviously expanded out of intrastate, it's funded out of
3 intrastate revenues.
4 It serves to support our low-income citizens, our
5 senior citizens. And under a new local Act we also have to
6 consider support to our handicapped citizens, as well.
7 I don't believe that, although I am a practicing
8 lawyer -- I hesitate to say this. But I don't believe that
9 the sentence in the Act that you have directed our attention
10 to obviously would not provide a problem to the District of
11 Columbia. And I have to agree with Commissioner Hagen and
12 Commissioner Welch, that I still don't believe this would
13 keep a state, this particular provision would keep a state
14 from adopting a universal service support system within a
15 state that would allow it to take care of its own. I just
16 don't read this that way.
17 MR. FURCHTGOTT-ROTH: I certainly did not suggest
18 that anyone should read it that way.
19 MR. MCLEAN: I would say that, first, the state
20 mechanisms have to be consistent with the federal
21 mechanisms. And that states are permitted to do
22 supplemental, supplemental universal service, such as a
23 dollar rate for senior citizens that may not be contemplated
24 by the federal system.
25 I would like to quote three of the commenters in

1 this proceeding -- Senators Dorrigan, Kerry, and
2 Rockefeller -- who were three of the authors of this
3 provision when it was in the Senate. And they say the Act
4 called for a coordinated federal and state universal service
5 system, where state support mechanisms were intended to
6 augment federal support systems, not the other way around.
7 MR. FURCHTGOTT-ROTH: Thank you very much.
8 MR. KENNARD: Commissioner Powell?
9 MR. POWELL: I would like to ask an open-ended
10 question, which I think is another side of this equation
11 that is not really being addressed that squarely on the
12 panel.
13 What do you all believe Congress's objective was
14 by making the system explicit rather than implicit? What
15 did it hope to achieve?
16 Because by varying degrees, one might say that if
17 some of the objectives expressed here today were the most
18 desirable ones, or were the central import, as Mr. McLean
19 suggests, of the Act, you don't necessarily have to do that.
20 And so I would ask what people think Congress
21 intended or we are trying to achieve by going from implicit
22 to explicit. Chris, you were there. Maybe --
23 MR. MCLEAN: Well, I think that there is an
24 unnecessary mysticism about the idea of explicit. The term
25 explicit means known, revealed, understood. So just the

1 simple act of identifying and quantifying an implicit
2 support mechanism does convert it to an explicit support
3 mechanism.
4 And the importance of that process is to be able
5 to know whether that support is known between carriers, and
6 that the support burdens are shared on an equitable,
7 non-discriminatory, competitively neutral basis.
8 So there, the idea of explicitness doesn't mean
9 taking charges from one place and putting it to another, or
10 having a certain way of rates being reflected. It just
11 means that the obligations are known; that the costs are
12 known. And the section specifically refers between
13 carriers.
14 So I think that there is a little bit too much
15 being read into that idea. Once we know what all of the
16 support mechanisms are, then we can evaluate whether they
17 are fairly shared.
18 And in drafting the statute, Congress moved away
19 from language that talked about the universal service
20 support fund, and included provisions talking about
21 universal service support mechanisms. So I think that's
22 what you have to bear in mind when you look at the Act's
23 direction towards explicitness.
24 MR. POWELL: I'll come back to that in a second.
25 MR. WELCH: I think the Act's requirement for

1 explicit mechanisms is really a necessary corollary to
2 moving to a competitive local environment.
3 You want carriers to compete based on their
4 underlying economic costs. As soon as you say that, you
5 have to find a way of extracting from the historic rate
6 structures that have grown up the things that are unrelated
7 to those costs, and making them portable. And I don't think
8 you can do that unless you make them explicit.
9 So I see it as really central to that component.
10 I think that if you were to ask me to speculate about the
11 motives of Members of Congress, I would not do so, except to
12 say this. I think there is probably also a growing trend
13 towards making sure that people know what they are paying
14 for. And that support mechanisms, like many other things,
15 ought to be exposed to particular public scrutiny. So that
16 may have been in the minds of some.
17 But even without that, I think that to go to
18 competition, you have to make those explicit.
19 MR. HAGEN: I would agree with both Commissioner
20 Welch and Chris McLean. I think, as I understand it, they
21 are probably both right. And I guess I wouldn't try to
22 guess at the motives of Congress, except only to say that
23 maybe some of them regret making it explicit, because people
24 tend to think, well, there's another tax on top of whatever.
25 I happen to think Congress, when they talk about

1 taxes, should be up front and say this is a tax that's
2 needed because we live in a civilized society, and that's
3 the way it is. You've got to pay some taxes, as you have to
4 pay these costs in the telephone arena. We've got a
5 terrific telephone system, best in the world. It didn't
6 just happen. It happened because a lot of people wanted it,
7 supported it, and it costs some money.
8 MR. POWELL: Well, I asked that question in part
9 to somewhat get at the answer that Commissioner Welch
10 offered, which is the -- my firm belief that
11 implicitity/explicitity also is embedded in that it's the
12 command to be sensitive to economic efficiency as a
13 necessary component of ushering in the competitive
14 environment that I personally believe Congress was equally
15 as committed to as the components that reflect universal
16 service. And in there lies what I think is a tension.
17 And I just think we can't lose sight of that fact.
18 Which raises questions such as, when you're balancing
19 whether you continue to maintain, I think as Commissioner
20 Hagen suggested, 100-percent federal fund, which means
21 interstate, which means access charges, which have economic
22 and competitive consequences. And we can't push aside those
23 potential consequences without some consideration of making
24 sure we are making judgments about what we lose in the one
25 and the other.

1 I suppose that we also have to be willing to say
2 out loud that implicit to explicit means there are going to
3 be some revelations that are not going to be comfortable.
4 And I don't think anybody was -- I'd be surprised to hear
5 that anyone believed that anyone was naive about that.
6 It was going to reveal the situations that
7 Chairperson Johnson has pointed out. And it seems to me, I,
8 at least, interpret in that an obligation to take serious
9 consideration the concerns of equity among America's states,
10 as we try to rationalize this system. So I think it is a
11 serious and overriding goal.
12 Commissioner Hagen, sort of with that as a set-up,
13 I'm curious whether you have concerns as for the residents
14 of your state, that if, for example, as you urged, there was
15 100-percent funding from federal mechanisms, what impacts
16 those would have on your customers' long-distance rates?
17 What impacts those things might have on bringing competition
18 to your state? And whether you are suddenly reflecting a
19 judgment that you don't believe that competitive forces will
20 prove as valuable to your consumers as they might elsewhere?
21 Mr. McLean made a good point about comparing rates
22 because of who you can reach. But it also highlights the
23 importance of who your consumers may need to reach who are
24 at long distance from you. And that's going to be impacted
25 if the access charges reinstate.

1 MR. HAGEN: I think we are aware of that. And as
2 I said, what I was talking about isn't written in stone. I
3 like Tom Welch's. But yeah, there would be some impact on
4 long-distance rates. That's a given, I guess.
5 But I guess I've got confidence in the long run
6 that it is just going to work out.
7 MR. POWELL: Me, too, I hope. Mr. McLean, I don't
8 really, I don't mean to be flip about this. But I'm
9 curious, when you say it's not a subsidy, it's a support.
10 What's the difference, in any meaningful way?
11 MR. MCLEAN: Oh, it's a huge difference. First of
12 all, this entire Act is about universal service.
13 Competition is a mechanism, a means of providing universal
14 service.
15 When we talk about support, it's about how we
16 share the costs of that network. We have to have one
17 national network.
18 My ability here in Washington, D.C. to call a
19 friend in Scotts Bluff, Nebraska isn't just valuable to the
20 person in Scotts Bluff. In fact, some would argue that that
21 may be a negative. But it is valuable to me in Washington,
22 D.C. to be able to reach out to any place in the United
23 States.
24 The value of any phone is its ability to reach any
25 other phone. And so that's a shared cost. It's a shared

1 responsibility. It's not a subsidy. It's not doing a favor
2 for the people in rural America. It's that rural America is
3 part of this one nation, and that rural America needs to be
4 part of this network, because that enhances the value of the
5 network.
6 Every additional person we put on the network
7 enhances the value of the network, even for the
8 easiest-to-serve customers. Competition will provide
9 universal service at just, reasonable, and affordable rates
10 for most consumers. But there are areas where competition
11 just won't do the job. And that's why we need this support
12 mechanism, and the shared cost to do that.
13 MR. POWELL: I suppose that's fair. But I would
14 just say that we have an obligation to also be careful in
15 shifting our definitions of universal service when they are
16 convenient. That is, there are differences between what can
17 be achieved if you mean ubiquity, and what you can mean when
18 you say affordability. I have no doubt that competition can
19 produce ubiquity in the value of --
20 MR. MCLEAN: But ubiquity and affordability are
21 linked.
22 MR. POWELL: Not necessarily.
23 MR. MCLEAN: If rates go to --
24 MR. POWELL: Not when you start, not when you
25 start with, you know, a history and a legacy of a

1 monopolistic system.

2 MR. MCLEAN: If rates go to $150 in North Dakota,
3 which they might in a world without universal service
4 support, those citizens will give up the telephone. They
5 will not, they will fall off the network. We will not have
6 as ubiquitous a network as we would otherwise have.

7 So ubiquity and affordability are linked.

8 MR. POWELL: That's all I have, Mr. Chairman.

9 MR. KENNARD: Commissioner Tristani.

10 MS. TRISTANI: Mr. Chairman, I just have a couple
11 of questions. I know that we are running a little over our
12 time.

13 I'm kind of a little troubled, or maybe I'm having
14 difficulty understanding. And Commissioner Welch, I hate to
15 pick on you, but you were the first to answer Commissioner
16 Furchtgott-Roth's question about section F.

17 And maybe I read the Act differently, and I think
18 maybe I read it a little bit more like Mr. -- like Chris.
19 But I thought we started with kind of the federal universal
20 service fund. And then states, if they could, if they
21 wished, could add onto that.

22 And I think it's wonderful for those states that
23 can maybe do more than that, and perhaps be the first ones
24 on line. A lot of states already have funds. But I know
25 there are a lot of states that don't. And I know there are