

Thank you for the opportunity to testify. I am Nanette Thompson, Chair of the Regulatory Commission of Alaska and state chair of the Federal-State Universal Service Joint Board.

The focus of my testimony today will be the importance of universal service funding for rural areas.

Congress expressed its desire that universal service be preserved in light of emerging competition and other market forces through Section 254 of the Telecommunications Act of 1996. Section 254 was written largely for the benefit of small telephone companies in rural areas of the nation. It is not clear that the full benefits of universal service have been achieved as Congress intended.

In 1998, before the universal service reforms enacted by the FCC, the total high cost universal service fund was about \$1.7 billion and was devoted primarily to small and high cost telephone companies. In comparison, today the universal service programs total about \$4.3 billion.

While the universal service fund has seen exceptional growth since 1998, rural companies have been largely left behind as the FCC has concentrated its efforts to non-rural company support and access charge reform. While the rural mechanism supporting local rates has remained largely unchanged, many non-rural companies receive substantially greater levels of universal service support today than they did before the Act was passed. For example, even though the FCC's cost model deems only 7 states worthy of non-rural high cost support, the FCC has provided an additional \$435 million to non-rural companies in 44 states under the CALLs access charge support program. California, New York, and Virginia, which are relatively low cost states, collectively receive about 20% of this funding.

Similarly, while the schools and library universal service fund, in concept, is a worthy effort, a high proportion of the \$1.4 billion in program funding goes to relatively urban, low cost areas. For example, California, Illinois, and New York collectively receive \$565 million, or about 40% of all school and library funding. The funding to these three states for their school and library programs is close to half that available to all rural companies nationwide for high cost loop support (\$1 billion). I am not suggesting that California, Illinois, and New York should not receive school and library support, but it is not evident that Congress intended such high levels of school and library funding to be so devoted.

As a member of the Federal State Joint Board on universal service, I am concerned that the fund not grow to such high levels as to burden consumers throughout the nation. We must use our universal service funds wisely and target funding to our most needy areas. Without universal service funding, many areas of Alaska would face local rate increases ranging between \$25 and \$97 per month. Telephone service throughout much of rural Alaska would become unaffordable absent federal

support.

I hope to work cooperatively with the FCC to ensure that the rural areas of the country are provided sufficient support while ensuring that universal service funds benefits the public as intended by Congress. We must ensure that any funding provided accrues to the benefit of consumers and not to the utilities' pocketbooks.

While I believe there may be room for improvement in many of the current federal universal service programs, I wish to express my support for Commissioners Abernathy, Martin and Copps who presently serve on the Universal Service Joint Board as well as Chairman Powell. The FCC has a daunting task attempting to balance conflicting public needs while addressing controversial and complex issues.

The universal service joint board is working on three important issues. We have been asked to recommend additions or deletions to the list of services supported by universal service funding, to recommend changes to the lifeline and linkup programs to make them more effective and to recommend definitions of reasonably comparable rates and sufficient support to be used to benchmark universal service funding. We are also participating with the FCC in a hearing later this week to take testimony on the various proposals for modifying the fund's contribution mechanism. The Joint Board has been working to effectively analyze specific issues that impact the states. It provides an opportunity for me to strive to insure that affordable, reliable communications services are available to all Americans.