

**Testimony of Steve Hamlen
President and Chief Operating Officer of United Utilities, Inc.
Before the Senate Committee on Commerce, Science and Transportation
Monday, April 11, 2005**

Mr. Chairman, Senator Inouye and members of the Committee, I am Steve Hamlen, President and CEO of United Utilities, Inc. (United), headquartered in Anchorage, Alaska. I appreciate the opportunity to appear before you today, both in my capacity as CEO of United Utilities, as well as on behalf of the United States Telecom Association (USTA), in support of making the Universal Service Administrative Corporation (USAC) permanently exempt from the requirements of the Anti-Deficiency Act.

Mr. Chairman, while I know you are very familiar with my company, I would, for the benefit of the rest of the committee, like to take a moment to tell everyone about United and why universal service support is so critical both to my company and our customers.

United, an Alaskan native-owned telecommunications carrier, receives Universal Service funds for eligible services provided to schools, libraries, health care providers, and residents in rural Alaska. United serves a population of approximately 25,000 residing in 60 communities. These communities are primarily inhabited by Native Americans, many of whom live a subsistence lifestyle. United's communities are accessible only by air and water and this service area is approximately 150,000 square miles -- comparable to the size of New York, Pennsylvania and Ohio. English, Science,

and Algebra classes are now being offered via distance learning networks in rural communities where it has not been economical, or feasible, for school districts to provide a full time instructor. Village Health Clinic aides are now being assisted by doctors located miles away. Children, teachers, and health care professionals are gaining access via the Internet to vast amounts of information. And low income households and those living in high cost areas have access to basic telephone service at affordable rates. Clearly, the E-Rate, Rural Health Care and other universal service programs are improving the quality of life for those living in the communities United serves.

USTA is the premier trade association representing service providers and suppliers of the telecom industry. USTA's 1,200 member companies offer a wide range of services, including local exchange, long distance, wireless, Internet, Internet Protocol video and telephony, and cable television service. Our membership ranges from the smallest rural telephone companies to some of the largest corporations in America. All of us in USTA are well aware of the crucial role played by you and Senator Burns on the last night of the 108th Congress to temporarily resolve the crisis of applying the ADA to USAC. Of course, we also deeply appreciate the ongoing efforts of Senators Snowe and Rockefeller. Their tireless work during the past decade is deeply appreciated by our members – and our customers.

We are an organization where the agenda is set by and for the membership. Today that agenda centers on securing a strong and viable future for universal service. We believe USAC's permanent exemption from the requirements of the Anti-Deficiency

Act is consistent with our call for securing a strong viable future for Universal Service and freeing our companies from government micromanagement. It is imperative that this exemption be permanently codified this year. The imposition of the Anti-Deficiency Act on USAC threatens the very survival of rural telephony, the availability of Internet and distance learning services to schools and libraries, the availability of telemedicine for health care, and exemplifies the need for comprehensive legislation.

Given the rugged terrain and conditions in rural Alaska, United would not be able to provide these services at an affordable rate without universal service support. Universal service support allows companies like United to provide basic and advanced telecommunications services to all Americans, whether they are in cities such as Anchorage or in the most rural parts of Alaska. That is why it is so important that the Universal Service system continue to be viable and that threats to the system, such as the unnecessary application of the Anti-Deficiency Act to USAC, be eliminated.

The application of the Anti-Deficiency Act to USAC will lead to overall higher consumer phone bills for all customers and dramatic increases in the phone bills of rural America. It threatens affordable service in high cost areas as well as the viability of the Lifeline and Link-Up Programs which provide reduced phone rates for low income families.

As you are aware, due to actions by the Federal Communications Commission to comply with government accounting rules and the Anti-Deficiency Act, last year USAC

was forced to radically change the timing of its funds distribution. Under the government accounting rules, before USAC is permitted to “obligate” funds, it must have those funds on hand. Commitment letters to recipients of the schools and libraries and rural health care programs are considered “obligations” and therefore subject to the application of these new standards. These programs are designed to provide Internet access, Distance Learning, and often telecommunications capabilities to our nation’s schools and libraries. In addition, the program helps to develop a robust communications network to allow rural health care providers to properly diagnose and treat patients in rural America. As a result of the FCC’s actions, USAC suspended new funding commitments in the E-Rate and Rural Health Care programs in August 2004.

Mr. Chairman, as you know, the Universal Service program is funded through an assessment, based on a “contribution factor,” on the amount of interstate revenues received by telephone companies. The assessment is then placed on customers’ telephone bills. Consequently, a significant increase in the contribution factor results in a significant increase in every telephone customer’s monthly phone bill. As the ADA compliance issue emerged last year, USAC informed us that in order to ensure adequate funding going forward, the first quarter 2005 USF Contribution Factor might need to be increased by almost fifty percent.

There is a strong indication that, if the Anti-Deficiency Act exemption is not made permanent, the same “obligation” restrictions placed on funds for recipients of schools, library and rural health care programs would also be placed on high cost and low

income support. This would lead to a disruption of universal service support to rural phone companies and a potential interruption in affordable telephone service to rural customers. Further, the “contribution factor” would again have to be significantly raised, possibly to over 20%, resulting in further significant increases to consumers’ bills.

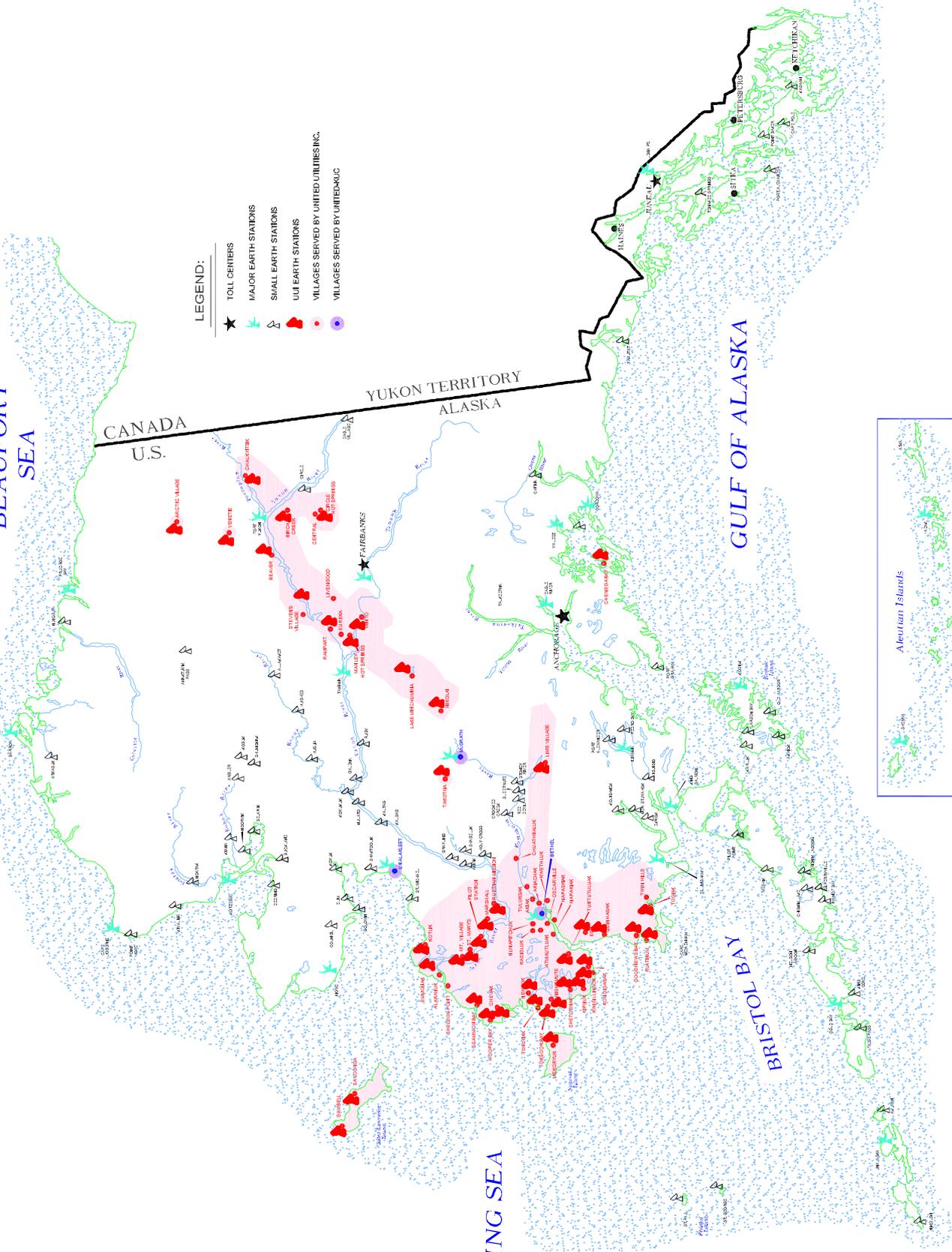
Mr. Chairman, Universal Service helps to make sure that networks are viable in rural areas, and that the networks are continuously upgraded and maintained. Networks that reach into every community provide Internet service, distance learning, e-mail, dial tone and real-time communications across rural and urban America and across the globe. Universal Service ensures that networks will be available across the country to provide affordable access to the new communications services which all Americans expect. In fact, given the importance of communications to bringing technology and economic growth to rural America, Universal Service may be more important today than at any other point in our nation’s history, as we transition from an industrial to an information society. Consequently, it is critical that the continued viability of universal service not be threatened either by the applications of the Anti-Deficiency Act to USAC or by any of the other challenges facing the Universal Service system today. Mr. Chairman and members of the committee, I appreciate the opportunity to address you on the specific issue of the Anti-Deficiency Act. The FCC’s application of the Anti-Deficiency Act to USAC threatens the Universal Service system and a permanent exemption is warranted. It is critical that the current one-year suspension of the ADA from application to USAC be made permanent by legislation this year.

We support passage of S. 241. While it's April and we believe the Congress can develop and pass legislation that provides us with a secure Universal Service program as well as a regulatory regime that creates a level playing field for all telecom providers, we understand the Committee wants to move this legislation forward. This is especially important should unforeseen circumstances slow down efforts toward comprehensive reform.

Thank you for the opportunity to present testimony; I am available to answer any questions.



BEAUFORT
SEA



LEGEND:

- ★ TOLL CENTERS
- ★ MAJOR EARTH STATIONS
- △ SMALL EARTH STATIONS
- △ UUI EARTH STATIONS
- VILLAGES SERVED BY UNITED UTILITIES INC.
- VILLAGES SERVED BY UNITEDKALC

CANADA U.S. YUKON TERRITORY ALASKA

GULF OF ALASKA

BRISTOL BAY

BERING SEA



NORTH

“E” Rate Program

Providing Learning Opportunities in Rural Communities

