

**Statement of Edward Merlis
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Before the House Congressional Rural Caucus
Task Force on Telecommunications**

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Mr. Chairman and members of the Caucus, I am Edward Merlis, Senior Vice President, Government and Regulatory Affairs of the United States Telecom Association (USTelecom). On behalf of our more than 1,200 innovative member companies ranging from the smallest rural telecoms to some of the largest corporations in the U.S. economy, I want to thank you for this opportunity to discuss the need for universal service reform.

Our member companies offer a wide range of services across the communications landscape, including voice, video and data over local exchange, long distance, Internet and cable networks. We are united in our belief that it is time to update the nation's communications laws to reflect the dramatic technological and marketplace changes all consumers have witnessed in recent years.

USTelecom is an organization where the agenda is set of, by and for the membership. In late 2004, our board unanimously adopted twin principles that we believe should serve as the foundation for updating our nation's telecom laws:

- The reform of Universal Service to ensure affordable, reliable telecommunications for all Americans in the 21st century;
- The establishment of consumer-controlled, market-based competition through the elimination of government-managed competition.

USTelecom has long held that the current funding system is eroding at a rapid pace requiring the current system be reformed. To support its legislative principle regarding universal service, USTelecom has proposed a series of reforms that will strengthen and preserve universal service. These include:

- broadening the base of contributors;
- carefully targeting recipients;
- providing universal service support to networks in order to speed broadband deployment.

Over the course of the last year, we have seen a greater understanding and recognition that the communications world has changed and with that understanding Congress is now poised to update our nation's telecom laws.

I would like to commend the Rural Caucus for its work over the past 16 months to ensure that all Americans have access to affordable and reliable communications services. This effort is vital to our nation, and we especially appreciate the legislative

principles the Congressional Rural Caucus submitted to the House Energy and Commerce Committee urging that universal service, Intercarrier compensation, network access/interconnection and access to advanced broadband be addressed and incorporated into any telecom update.

I am pleased to report that as the year begins important new legislation is in the works, all designed to strengthen and stabilize universal service.

In the House, Representative's Terry and Boucher draft legislation takes a comprehensive approach which comports with a number of USTelecom principles including broadening the base of contributors to include intrastate services, cable modem, and VoIP. The legislation also contains an important provision to stop phantom traffic by requiring any communications provider that originates traffic to offer sufficient identification as well as allows universal service support of broadband.

In addition, Senator Conrad Burns has just introduced comprehensive USF legislation – S. 2556. His bill also broadens the contribution base to include intrastate revenues, broadband and broadband voice as well as allow USF support for broadband. Senators Smith, Dorgan and Pryor have also introduced legislation that would broaden the revenue base, address Intercarrier compensation and create a \$500 million broadband account. Finally, I must also point out that Sen. DeMint has also introduced legislation with a universal service component. However, we are concerned that it would reduce and cap the universal service fund and abdicate responsibility for this program to the states.

It is our belief that video will be a key driver for broadband deployment across the nation. Local telecom companies will deploy video services across their new broadband networks that will drive subscriber growth and, thus, network deployment because they offer significant new capabilities.

Toward that end, USTelecom recommends the Caucus not abandon the second tenet of our legislative principles, the establishment of consumer-controlled, market-based competition through the elimination of government-managed competition.

I am certain most in this room have heard about how some of our large member companies have begun to offer video services in those communities in which they have spent months working to obtain a franchise. Once they have entered a market-- prices have dropped on average 20% for consumers. But this is not a story limited to two or three of the world's largest telecom providers.

Ben Lomand Telephone, in McMinnville, Tennessee has the capability to offer video service to 60% its approximately 42,000 customers today and expects to be able to offer it to 100% within the next 18 months. Before the company may offer this service it must apply for and receive 25 different franchises. After 18 months of trying, however, the company has received only 15 franchises. Some of these franchises are required for areas in which Ben Lomand serves as few as 100-200 telephone customers. This

cumbersome, archaic franchising process is a significant barrier to competitive entry into the local video market, both urban and rural!

As Congress moves towards updating our nation's telecom laws, no segment of our country has more to gain and more at stake in this debate than rural America. It is critical that we have policies that encourage investment and head-to-head competition throughout the country...policies that speed new services, choices and value to our people...while upholding vital social objectives that remain important to the nation—chief among them, our commitment to ensuring affordable, reliable access to a dial tone for all Americans.

We are encouraged by the work of this caucus and members such as Representatives Terry and Boucher who recognize the vital role of universal service to ensuring that rural America has every opportunity to reap the full benefits of this new world of communications.

Again, Mr. Chairman, thank you for this opportunity to appear today. We look forward to working with you, the members of the committee, and the staff to develop sound policies that will ensure all Americans have access to affordable and reliable communications service.