

**Testimony of
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Kansas Senate Utilities Committee**

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Good morning and thank you for the opportunity to appear before your committee to discuss Cox's views on the FCC's recent Order to reform the federal Universal Service Fund and Intercarrier Compensation regime. After years of industry proposals, thousands of pages of comments and a handful of FCC Chairmen, a framework has been adopted which has the potential to modernize the communications industry and the mechanisms that support it for the 21st Century. While the FCC's Order makes significant strides in that direction, Cox has concerns that some areas need additional attention and reform if the goal of keeping communications available and affordable for all Americans is to be realized, while at the same time being mindful of the size of the USF and the cost of maintaining that fund to consumers.

Previous speakers have given you an overview of FCC's Order. I will focus my brief comments on a couple of areas that are of concern to Cox and offer some suggestions of issues the Kansas legislature should keep in mind as you evaluate the impacts of the FCC's Order on Kansas and consider any state-specific reforms in these areas.

First, as you know, the FCC's order transitions the current high cost support mechanism for voice service to the Connect America Fund (CAF) which will support deployment of broadband to parts of the country where service is not available today. The guiding principle for the distribution of these funds must remain on those areas where service is not available. Funding should not be distributed in areas of the country where an unsubsidized competitor currently offers broadband. In areas where an unsubsidized provider is offering service, competitive fairness as well as efficient use of CAF dollars dictates that funds should not be provided to the incumbent or any other carrier. The FCC has recognized this as it relates to larger, price cap carriers like AT&T and Centurylink, but not for smaller, rural rate of return carriers. In today's competitive marketplace, to make such artificial distinction based on the regulatory treatment of the carrier does not make sense. Regardless of the carrier or technology, if a competitor is offering broadband service in an area without the aid of government support it does not make sense to provide support to another carrier in that area.

Also, the FCC's Order gives incumbent carriers a right of first refusal for CAF funds to build out broadband to unserved areas in their existing service footprints. Funds would be available via competitive bids in areas where the incumbent did not exercise that right.

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As the Kansas Corporation Commission and the Kansas Legislature considers communications policies and possible reforms to the Kansas Universal Service Fund (KUSF), maintaining competitive parity must be a driving factor. Not providing support where an unsubsidized competitor is providing service not only makes sense from a competitive and policy standpoint, it is good for consumers. It is consumers, and your constituents, that ultimately support state and federal support mechanisms. Making sure that the funds are the right size necessary to support the goals of broadening the availability of broadband without unnecessarily providing support in areas where other carriers are able to make a business case for investment without government support will help to minimize the burden on consumers.

In addition, a key role that the states can play is in helping the FCC identify areas where broadband is currently unavailable to ensure that CAF funds are truly going to areas that are unserved. The state can be an impartial third-party to gather information from carriers. Also, the KCC can partner with the FCC to ensure that broadband build out commitments that carriers undertake in exchange for CAF funds are being met.

Second, reforms at the state level must be such that they are not contrary to efforts at the federal level to modernize our communications system. Kansas is a step ahead of other parts of the country by having already taken the step to unify access charges at the interstate level. This is the first step of ICC reform at the federal level. The Legislature and KCC will play a roll in ensuring that carriers in Kansas do not double recover from the state and federal funds to make up revenues that are lost as a result of ICC reform.

Finally, I want to talk briefly about the evolving nature of how networks are designed and services delivered today. The traditional public switched telephone network (PSTN) is rapidly being replaced by a multi-use networks that deliver voice, data and video services using Internet Protocol, or IP technologies. These evolving networks will offer many efficiencies and benefits to the industry and consumers. In order for the competitive market for voice services that developed since the 1996 Telecommunications Act to continue to thrive in this technology transformation, policy makers need to ensure that the policies which dictate how carriers interact and interconnect to provide voice services preserve and promote that market. Specifically, interconnection policies must afford providers the right to maintain or establish interconnection, including interconnection on an IP basis. Current requirements as they relate to voice traffic are technologically neutral, and just because networks have and are evolving to IP, the obligations of incumbent carriers and others should not diminish. It is that neutrality that has benefited consumers and service advancement since 1996 with a competitive marketplace

I appreciate the opportunity to share our views with you, and will be happy to answer any questions.