

FCC to update phone subsidy program for broadband

February 7 2011, By JOELLE TESSLER , AP Technology Writer

(AP) -- The federal government spends more than \$4 billion a year, collected from phone bills, to subsidize phone service in rural and poor areas. Now, it's considering ways to give those places more for the money: high-speed Internet connections instead of old-fashioned phone lines.

The [Federal Communications Commission](#) is set to vote Tuesday to begin work on a blueprint for transforming a subsidy program called the Universal Service Fund to pay for broadband.

The details the agency works out could have profound consequences not just for residents of rural areas who are still stuck with dial-up connections or painfully slow broadband speeds. Many rural phone companies - including both landline and [wireless carriers](#) - rely heavily on Universal Service funding and could lose some of this money. New FCC rules could also pave the way for [cable companies](#) to begin collecting from the program.

Although the Universal Service Fund was established to ensure that all Americans have access to a basic telephone line, the Internet is replacing the telephone as today's essential [communications service](#), FCC Chairman Julius Genachowski said.

"Broadband serves the same role in the 21st Century that telephone service served in the 20th Century," Genachowski said. "So we need to modernize this program."

The Universal Service Fund already pays for Internet access in schools, libraries and rural health clinics, in addition to subsidizing phone service for the poor. But more than half of last year's \$7.9 billion in overall spending went to the High Cost fund, which pays phone companies that provide landline [voice service](#) in remote, sparsely populated places where phone lines are unprofitable. Mississippi, Texas and Kansas were the biggest beneficiaries of these payments in 2009, according to FCC data.

In the corporate world, the biggest beneficiaries are the biggest phone companies: AT&T Inc. and Verizon Communications Inc. But smaller, more rurally focused carriers like CenturyLink Inc., Windstream Corp. and Telephone & Data Systems Inc. derive a larger share of their revenue from the fund.

The FCC envisions gradually transforming the High Cost program into a new Connect America fund that would underwrite the cost of building and operating broadband networks in underserved and unserved communities. Those networks would be able to handle data traffic as well as regular voice calls.

The FCC expects the transition to take place over a period of years, so that subsidies for phone lines would not disappear before an Internet-based alternative is available in an area.

According to AT&T Senior Vice President Robert Quinn, the changes to the Universal Service Fund are long overdue since the current program is spending billions to support a shrinking voice communications market instead of the technology of the future.

"If we don't come up with a rational way to support broadband, the cost of maintaining yesterday's technology will crush us," Quinn said.

Genachowski stressed that one of the agency's top priorities is ensuring that Universal Service money is well spent. Over the years, the program has come under fire - particularly among Republicans - for promoting waste by subsidizing multiple rural phone companies in places where the free market doesn't support even one. Critics also complain that the program gives many carriers little incentive to keep their costs down since reimbursements are based on the expenses that they report.

Among other things, the FCC will explore capping the size of the Universal Service program, limiting the number of carriers that can receive funding in a particular place and setting strict benchmarks to help determine reimbursement rates for companies that do get funding. It will also propose using "reverse auctions" to award Universal Service money to carriers that can build broadband networks at the lowest cost.

As part of its plan to modernize the Universal Service Fund, the FCC will also look at ways to revamp the multibillion-dollar "intercarrier compensation" system, the Byzantine menu of charges that phone companies pay each other to connect calls and link their networks. Any changes to the Universal Service Fund would also require changes to intercarrier compensation because rural phone companies tend to rely heavily on both funding sources.

AT&T, Verizon and others argue that the current intercarrier compensation system is outdated and irrational since phone company payments vary widely based on the type of carrier involved, the type of network traffic being exchanged and the distance that the traffic travels. That leads carriers to game the system - by sending traffic along inefficient routes or pumping up traffic volumes, for instance - in order to manipulate access payments.

The FCC says the current set-up also produces incentives for phone companies to maintain old voice lines that bring in intercarrier

compensation payments, instead of investing in new broadband networks. The agency hopes to gradually reduce these payments and use Universal Service funding to help fill the gap for companies that rely on that money.

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