

# Phone companies present rural broadband plan

July 30 2011, By JOELLE TESSLER , AP Technology Writer

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(AP) -- AT&T Inc., Verizon Communications Inc. and four other telecom companies are offering a proposal to overhaul the \$8 billion federal phone subsidy program to pay for high-speed Internet connections in rural and other underserved areas.

They say the plan, which was filed with the Federal Communications Commission Friday, would bring [broadband](#) service to nearly all Americans within five years.

The proposal is one of dozens that the FCC will likely receive as it seeks to bring the federal program, called the Universal Service Fund, into the digital age. The agency voted unanimously in February to begin drafting a blueprint to modernize the fund.

But the new plan is particularly significant since it has the backing of six key telecommunications companies that are some of the biggest recipients of Universal Service dollars. In addition to AT&T and Verizon, the nation's two largest phone companies, the plan is supported by CenturyLink Inc., Fairpoint Communications Inc., Frontier Communications Corp. and Windstream Corp.

"To truly bring broadband services to all Americans, the rules of the road for the black rotary phone desperately needed to be updated for today's competitive, high-speed communications networks," said Hank Hultquist, vice president of federal regulatory at AT&T.

The Universal Service Fund was created to ensure that all Americans have access to a basic telephone line. It is supported by a surcharge on long-distance phone bills. The program subsidizes phone service for the poor and pays for Internet access in schools, libraries and rural health clinics. But more than half the money goes to pay phone companies that provide voice service in rural places where phone lines are unprofitable.

The FCC now wants to tap the rural program, called the High Cost Fund, to pay for broadband too. It envisions gradually transforming the High Cost program into a new Connect America Fund that would underwrite the cost of building and operating high-speed Internet networks in places that are too sparsely populated to justify costly corporate investments.

The agency's actions could have profound consequences not just for rural Americans still stuck with dial-up links or painfully slow broadband connections, but also for rural phone companies that rely heavily on Universal Service funding.

The telecom company proposal takes aim at several key criticisms of the Universal Service Fund, including complaints by Republicans that the program promotes waste by subsidizing multiple rural phone companies in places where the free market doesn't support even one and by giving telecom carriers little incentive to keep their costs down.

The telecom company plan would cap the size of the new Connect America Fund at \$4.5 billion annually, provide subsidies for only one provider in an area and target funding at places where there is no business case for companies to provide service on their own. In addition, it would create an Advanced Mobility/Satellite Fund to provide mobile broadband access in some of the hardest-to-serve areas.

The new proposal also seeks to overhaul 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.

The existing intercarrier compensation program is widely seen as 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. The new telecom plan would set one low, uniform rate for these payments.

The FCC welcomed the companies' proposal and the industry's efforts to tackle Universal Service reform. "We're pleased that many have taken up that challenge, and we will consider those proposals as we finalize reforms," the agency said in a statement.

That was echoed by the top Republican on the Senate Commerce Committee, Kay Bailey Hutchison of Texas. "I am pleased to see such a diverse group of small and large telecommunications providers working together to find consensus, which is no small feat on this complex and difficult issue," she said. "I urge the FCC to continue the momentum generated by this proposal and to keep our nation's rural communities in mind as it moves forward with the reform process."

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