Presentation of Ann Hughes, Director-Regulatory, AT&T Kansas

Before the House Energy and Utilities Committee

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Good morning Mr. Chairman and members of the committee. I appreciate this opportunity to provide AT&T's perspective on the FCC's Intercarrier Compensation (ICC)/Universal Service Fund (USF) order.

My name is Ann Hughes and I am the Director of Regulatory Affairs for AT&T in Kansas. I have spent the majority of my 28 years with AT&T working on regulatory issues in Kansas and have specialized in the area of universal service funds during that time.

AT&T has long felt that both the legacy intercarrier compensation regime and the high-cost universal service program were in need of reform. Reform has been difficult to achieve, however, because of the differing opinions of the many stakeholders. While the FCC's order did not resolve all the issues, it took an important step in transforming the concept of universal service.

By redefining 21st century basic service as broadband, instead of traditional voice service, the FCC has recognized the fundamental technological transformation that has occurred over the past 15 years. This Order is designed to get fixed location broadband and mobile wireless broadband to homes and businesses that don't have it today. This will give those unserved consumers access to the advanced networks that are driving our nation's economy.

The Order creates a new Connect America Fund (CAF) which will ultimately replace the existing high cost support mechanisms. The transition to the CAF for large carriers like AT&T will occur in several phases.

CAF Phase I will freeze existing high cost support at 2011 levels and will also provide some incremental, one-time support in 2012 to spur immediate broadband build out to unserved locations.

CAF Phase II will use a forward-looking broadband cost model to determine the support available in unserved areas. Large carriers like AT&T Kansas will be offered the opportunity to accept a "state-level commitment" to accept the broadband and voice obligations associated with all eligible areas in its service territory, in exchange for high-cost support for those areas as determined by the cost model. If AT&T Kansas declines this state level commitment, other broadband service providers may participate in a competitive bidding process to receive this support.

CAF Mobility Fund is targeted toward ensuring the availability of mobile voice and broadband networks in unserved areas. AT&T Mobility, the mobile wireless part of our business, may compete for the CAF Mobility Fund support and, like other broadband providers, could compete for the CAF Phase II support.

CAF ICC Recovery sets up a transitional recovery mechanism to mitigate the effect of reduced intercarrier compensation revenues on carriers.

Of course, there remains important details that the FCC must work out. For example, we do not yet know what areas of the state will be eligible for support nor do we know the amount of support that will be made available.

On a state level, the FCC encourages legislators and regulators to review their current regulations and policies governing traditional wireline voice service, including Carrier of Last Resort (COLR) requirements and whether it is appropriate to maintain those obligations on entities that no longer receive federal, high-cost universal service funding. In other words, it may not be appropriate for a provider to be saddled with COLR obligations if it does not receive support for those obligations.

In conclusion, no one party is thrilled with all aspects of the FCC Order. But all stakeholders should focus on the significance of this decision. In the future, the basic level of service that national policy will encourage and fund will be broadband, both fixed locations and mobile wireless networks, and not simply voice service. This is a significant achievement and its impact on U.S. consumers should not be minimized. Thank you for allowing me to provide you this information and I would be happy to field questions at the appropriate time.