WRITTEN STATEMENT

of

MICHAEL K. POWELL

Chairman

Federal Communications Commission

on

"Financial Turmoil in the Telecommunications Marketplace: Maintaining the Operations of Essential Communications"

Before the
Committee on Commerce, Science, and Transportation
United States Senate

Tuesday, July 30, 2002
9:30 a.m.

SUMMARY OF WRITTEN STATEMENT OF
FCC CHAIRMAN MICHAEL K. POWELL

JULY 30, 2002

Protecting consumers from service disruption is the Federal Communications Commission's first and highest priority. The Commission has worked to have advanced warning of carriers that may discontinue service and has been in regular contact with State Commissions to coordinate our responses. We are also actively coordinating with other governmental entities including the Department of Justice, the National Communications System and the Office of Critical Infrastructure Protection.

Regarding WorldCom's bankruptcy, I remain confident that we are not facing a crisis in the provision of services that the company provides. Should WorldCom move to discontinue services, Commission rules require WorldCom to advise its consumers of this intention and WorldCom may not terminate service until the 31st day after the Commission issues a public notice. To be clear, WorldCom has not undertaken to discontinue service to its consumers but in the event that it decides to do so, these notice provisions will apply. The Commission also believes that it is important to advise consumers of what risks, if any, they are facing. To that end, we recently issued a consumer alert with respect to WorldCom that was covered widely by major publications. In addition, the Commission is fully engaged in WorldCom's bankruptcy proceedings in New York.

While the corporate scandals are dominating the headlines, it is very important for us to focus on the broader distress that has hit the telecommunications sector. I again applaud the Committee for taking up this important discussion. Clearly, the telecommunications industry is riding on very stormy seas. This is an industry where nearly 500,000 people in the United States alone have lost their jobs and approximately $2 trillion of market value has been lost in the last two years. By some estimates the sector is struggling under the weight of nearly $1 trillion in debt. However, this market is not collapsing and is not going to fail over time. Communications services remain vital to consumers around the globe. It is in the interest of every citizen for this industry to recover and to ultimately succeed in bringing new and vital communications capabilities to people's lives.

In order to facilitate a recovery, we must understand what led to the current turmoil in the market. The story is quite straightforward at bottom. It begins with the Internet Gold Rush. Talk of the internet doubling every 100 days, infinite bandwidth, and "Internet time" dominated the pages of magazines. Investors, too, bought into and fed the hype—literally—as they flooded the market with cheap capital that was consumed by thousands of companies. Companies in all sectors of the telecommunications industry, from wireline to undersea to wireless, across the globe and with global ambitions, set out to build national and global networks—some, as we all undoubtedly recall, by digging up streets to lay fiber, some through acquisition, some by bidding billions of dollars for spectrum, some by investing in foreign markets—to win the race to stay ahead of expected demand. In so doing, telecommunications companies throughout the world amassed a staggering amount of debt in building near identical networks.

As we have painfully come to find out, the ambitious demand projections for network capacity did not materialize. To be sure, by any historical measure, traffic grew at an astonishingly high rate. Demand did not, however, grow at rates anywhere near sufficient to meet the supply of network capacity that telecommunications companies flooded into the market. Anxious companies began to realize that the necessary demand was not there and when investors, in the midst of the dot-com crash, became weary and demanded a return on their investment, companies began to race to gain market share to boost revenues and pay down debt, in hopes of being a survivor. These companies quickly found out that there was not simply enough revenue to go around to pay down debt and generate a return on investment for all of the vast number of competitors that had previously entered the market.

The results were devastating. As some telecom companies began to fail and enter bankruptcy, others resorted to fraud and deception to mask these core fundamental problems facing their companies. Some went so far in their deception to not only mask failure, but to inflate, artificially, revenue growth—to make it look like the dream was real.

Though the problems are significant, recovery can be achieved if several critical steps are taken. I believe that there are six critical elements to managing the current turmoil and stabilizing the industry over time:

<u>First, protect service continuity</u>. The road to recovery begins with our tireless efforts to protect consumers by ensuring continuity of service and in maintaining the integrity and reliability of our Nation's telecommunications network in light of the risks and realities stemming from current and continued bankruptcies. The Commission and our State counterparts will continue to work together and with telecommunications firms facing financial difficulties to stay well ahead of any service disruptions.

<u>Second, root out corporate fraud</u>. The degree of deception and malfeasance that has been uncovered in recent weeks is deplorable. There is no hope for any sector of the economy if corporate leadership and government do not root out and stomp out such deception and breach of public trust. Governments must continue to vigorously seek out, prosecute and jail corporate wrongdoers that have personally profited (often) while defrauding the American people.

<u>Third, restore financial health</u>. Next, to address the capital shortage facing the telecommunications industry, telecom firms must work diligently to clean up their balance sheets to restore some financial stability and reality to this industry.

<u>Fourth, acknowledge prudent industry restructuring</u>. It is difficult to imagine the industry stabilizing without some modest and prudent restructuring. Depending upon the facts of any given transaction, such restructuring is not necessarily adverse to consumer interests. One cannot think about long-term consumer benefits without also considering the long-term prospects of carriers that provide quality services to consumers.

<u>Fifth, provide new revenue through new services</u>. Many communications markets have matured (or are doing so quickly) with respect to core services and the opportunity for further

penetration is waning. Therefore, to grow and expand revenues companies must offer new services. In doing so, companies must strive to stimulate the demand that will help bring it into line with the current over-supply of excess capacity. In the residential space, all indications are that the opportunities to develop new services and sources of revenue will come from broadband.

Sixth, reform economic and regulatory foundations. Finally, the long term prospects of the industry will not be bright if State and Federal policymakers do not continue to work hard and diligently to create genuine and viable economic a regulatory foundations for communications services growth and competition. Nowhere is this more pressing than in local markets. Currently, the cold fact remains that the economic foundations remain weak in local markets, especially for new entrants and increasingly for incumbents. Local firms, many of whom are being tasked with the chore of upgrading networks to provide one of the platforms to deliver broadband services, have little pricing flexibility for retail services. We, along with our State counterparts, must work together to improve these foundations through regulatory reform. For instance, we must consider rate rebalancing at the state level to provide carriers with greater pricing flexibility. We must continue to pursue doggedly the worthy universal service goals of ubiquity and affordability as new networks are deployed, based on sound economic principles. We must also provide incentives for more effective and sustainable competitive entry through our network access policies by providing incentives to new entrants and incumbents to produce an efficient wholesale market and by providing a regulatory framework that promotes competition, investment and innovation to deploy advanced networks.

We must all take the steps necessary for recovery and I ask that Congress also assist us in our efforts by providing the Commission with more tools to protect and promote the public interest. I thank you for your time and I look forward to working with you all to implement our plan for recovery for the telecommunications industry.

Good morning, Mr. Chairman and distinguished Members of the Committee. I applaud your decision to hold this hearing—one that looks more broadly at the turmoil in today's telecommunications market and assesses its implications for the sector, public policy and consumers. I am pleased to participate in this important discussion.

I will focus my comments in two areas: First, I will discuss the immediate challenges posed by WorldCom's bankruptcy filing and outline our response, which will largely serve as a template for future bankruptcies, should they unfortunately occur. Second, I will attempt to explain the current distress in the telecom market—how it came about, and the steps I believe critical for its recovery.

I. Protecting Consumers From Service Disruption

Protecting consumers from service disruption is our first and highest priority. Let me say at the outset that I remain confident that we are not facing a crisis in the provision of services stemming from WorldCom's bankruptcy. We have spent many hours reviewing the situation and everything, thus far, confirms that view. We have had first-hand discussion with creditors and lenders, with senior WorldCom executives, and with critical WorldCom customers and government users. All are confident that there is not an imminent threat of major service disruption. I am a MCI WorldCom residential long distance customer and, for what its worth, have no plans to change my service based on what I have seen.

In the last year, regrettably, the Commission has had to cope increasingly with the specter of bankruptcy in this industry. Consequently, we have developed responses to these situations, in cooperation with our State colleagues, that endeavor to achieve three goals (1) maintain the operation of the network, (2) contain the fallout to prevent damage to other companies or consumers, and (3) provide for an orderly transition of customers and assets, should that be necessary. Our actions generally have four components, all of which we have employed in addressing the WorldCom situation.

A. Heightened Alert

It is now more critical than ever to have significant advanced warning of trouble. In order to anticipate possible danger areas, the Commission is employing its industry analysts and other resources to keep close track of the financial health of the sector and individual companies. We have opened up new lines of communications with lenders and creditors—who often are calling the shots just before bankruptcy—in order to assess the immanency of possible collapse. This was the purpose of my trip to New York days after the accounting scandal was revealed. We have increased our dialog with significant customer groups, who can also warn of difficulty, by spotting service degradation and service disruption.

B. Inter-governmental Coordination

One of the first critical steps is to coordinate our actions with other government entities. The Department of Justice represents the Commission in bankruptcy proceedings, thus we have been in constant contact with the Department in preparing our responses to the court. Additionally, in cases such as this it is vital to understand what risks are presented to critical government operations and discuss responses with other Federal agencies. The Commission has a formal relationship with the National Communications System (NCS), which is responsible for monitoring and responding to mission critical communication needs of the Federal government. The FCC is a member of that organization and has had discussions about the risks and possible responses, should any disruption become a serious threat. The FCC is also a member of the JTRB, which considers emergency responses to preserve critical communications needs of the government. Additionally, the Commission has discussed risks and responses with the Critical Infrastructure Protection Board. Finally, given that there are allegations of fraud, in the WorldCom matter, we have been active as a member of the Corporate Fraud Task Force, created recently by President Bush, to ensure government-wide coordination of the investigation.

We also have been in regular consultation with State Commissions in an effort to assess the impact of bankruptcy on local markets and consumers, and coordinate our regulatory responses. State Commissions often play a key role in ensuring the continuity of operations and reconciling tensions between regulatory policy objectives and bankruptcy law. These efforts will continue throughout this proceeding.

Importantly, we also consult and inform the Congress as to the status of these matters and advise where legislative action may be required. We have engaged in an important dialogue with Members of Congress to help them better understand developments in the telecommunications sector and to further explain the Commission's role in the bankruptcy process. We have been asked to explore and have provided insight as to whether we believe the Commission needs any additional authority in the context of protecting consumers while carriers undergo bankruptcy proceedings. I renew that call for additional legislation today. Although it may be that Congress, in its good judgment, finds it appropriate to provide the Commission with additional authority in this area, as I have demonstrated and as I pledge to you today, the Federal Communications Commission will be unwavering in our use of each and every tool at its disposal to protect the interests of consumers in these difficult times.

C. Active Engagement in Bankruptcy Proceedings

Bankruptcy actions often move quickly and the Commission must act promptly to ensure the interests of consumers are protected before the court. Our authority stems largely from section 214 of the Communications Act. The Commission's rules require WorldCom for example, to incorporate specific wording advising customers of their right to file comments with the Commission against such discontinuance. WorldCom must then file a copy of its notice with the Commission, and the Commission will then issue a public notice of the filing. WorldCom may only discontinue service on the thirty-first (31^{st}) day after the issuance of the public notice. It is important to note, however, that this thirty (30)-day grace period is a minimum period required by our Rules and that the Commission may extend this period should the public interest warrant such an extension.

The day WorldCom filed for bankruptcy, we took several immediate actions to ensure our regulatory requirements would not be neglected. I promptly sent CEO John Sidgmore a letter advising him of his regulatory obligations. Additionally, I sent a second letter to the company asking them to commit in writing to provide notice to customers of the company's plan to exit the wireless resale business and to offer a transition plan for moving those customers to other networks. Our inter-Bureau task force stands ready to handle applications or other regulatory implications of WorldCom's bankruptcy.

In addition to ensuring the company complies with the law, the Commission will (as it did with WorldCom) advise the bankruptcy court of our concerns with respect to the impact on consumers and urge that any ordered shutdown, provide for a transition for customers. Given the significance of WorldCom, our Deputy General Counsel flew to New York for the initial hearing and worked with the Department of Justice to urge the Court to consider important public policy objectives; which include continuity of operations, a transition for any displaced customers, and due consideration of the impact on other telecommunications service providers that generally must continue serving the bankrupt carrier.

As an outgrowth of this participation, Judge Gonzalez, last week, granted interim approval for WorldCom to continue making its payments into the Federal universal service fund. Furthermore, the Universal Service Administrative Company reports that WorldCom is current with its contributions to this important fund that keeps high-cost telephone service affordable. We have been advised by WorldCom that it expects that its next payment, due in mid-August, will be made in a timely fashion.

In this bankruptcy phase, we will remain an active participant in the court proceedings and make additional preparations for possible questions and issues that arise. This may include a possible transfer of assets to other providers, which must be approved by the FCC.

D. Consumer/Customer Awareness

The Commission also believes it is important to advise consumers of the risks, if any, they are facing and remind them of options they may have. In this regard, we recently issued a consumer alert with respect to WorldCom that was reported widely by the media. (See Attachment A.)

In sum, if companies in the telecom industry enter into bankruptcy, either to restructure or to cease operations completely, there will be no greater role for the Federal Communications Commission than to ensure the continuity of operations for consumers, and for critical government users. To date, we have been fairly successful. In all of the 23 wireline or fixed wireless bankruptcy cases we have seen since November 2001, an orderly transition was achieved and all, but the most minor, disruptions of customer service were avoided. In every major bankruptcy situation that we have encountered we have been, and will continue to vigorously be, an active and aggressive participant in the bankruptcy proceedings.

II. The Broader Turmoil in the Telecommunications Industry

While the corporate scandals are dominating the headlines, it is very important for us to focus on the broader distress that has hit the telecommunications sector. I again applaud the Committee for taking up this important discussion. Clearly, the telecommunications industry is riding on very stormy seas. This is an industry where nearly 500,000 people in the United States alone have lost their jobs and approximately $2 trillion of market value has been lost in the last two years. By some estimates, the sector is struggling under the weight of nearly $1 trillion in debt. And, most segments have seen precipitous declines in stock values: The long distance industry is down 68% year-to-date, the wireless industry is down 71%, the ILECS are down 40%. Clearly, there are very serious stresses on this important industry.

However, this market is not collapsing and is not going to fail over time. Communications services remain vital to consumers around the globe. Communications traffic continues to increase at historically formidable rates. And, importantly, the closing of time and distance barriers to information will continue to fuel global productivity and change all institutions of society, albeit slower than once fantasized. It is in the interest of every citizen for this industry to recover and to ultimately succeed in bringing new and vital communications capabilities to people's lives. Recovery, however, is not going to occur overnight and is likely to require difficult—even painful—choices. Successful recovery is dependent on the collective efforts of Congress, Federal and State regulators, the private sector and the financial markets.

A. How Did We Get Here?

In order to facilitate a recovery, we must understand what led to the current turmoil in the market. The story at bottom is quite straightforward. It begins with the Internet Gold Rush. The Telecommunications Act of 1996 and the commercialization and mass-market adoption of the Internet led to a near hysterical belief that the opportunities for growth were limitless. Talk of the Internet doubling every 100 days, infinite bandwidth, and "Internet time" dominated the pages of magazines. Very few did not get swept up in the hot air.

Investors, too, bought into and fed the hype—literally—as they flooded the market with capital that was consumed by thousands of companies. Companies in all sectors of the telecommunications industry, from wireline to undersea to wireless, across the globe and with global ambitions, set out to build national and global networks—some, as we all undoubtedly recall, by digging up streets to lay fiber, some through acquisition, some by bidding billions of dollars for spectrum, some by investing in foreign markets—to win the race to stay ahead of expected demand. In so doing, telecommunications companies throughout the world amassed staggering amounts of debt in building nearly-identical networks.

The business model of the day was one of which Kevin Costner would be proud—it was premised on "A Field of Dreams." There was a belief that demand would materialize almost overnight. "Build it and they will come" was the business model of the day for long-haul carriers and many new entrants. The fiber rush was on, with carriers building massive national and global networks, with astonishing amounts of capacity. (By some estimates, a 500-fold increase in capacity.) The problem is they did not come—demand turnout was not doubling every 100 days, but rather every year.

Anxious companies began to race to gain market share to boost revenues and pay down debt, in hopes of being a survivor. Hyper-competition ensued in various markets across the industry, as they contained more industry participants than the market could support and vicious price wars ensued, driving down overall industry and individual company revenues. At the same time, many telecommunications companies learned the painful lesson that traffic growth did not necessarily lead to concomitant growth in revenues, as their markets were largely saturated.

There were not enough untapped customers from which to derive new revenue. To make matters worse, many of these companies had to write off revenues as many of their customers (namely, bankrupt ISPs and dot-coms) disappeared through bankruptcy. These companies quickly found out that there was simply not enough revenue to go around to pay down debt and generate a return on investment for all of the vast number of competitors that had previously flooded to the market.

The results were devastating. As some telecom companies began to fail and enter bankruptcy, others resorted to fraud and deception to mask these core fundamental problems facing their companies. Some went so far in their deception to not only mask failure, but to inflate, artificially, revenue growth—to make it look like the dream was real. The bursting bubble leaves us today with several core problems in several market segments that must be rectified:

- Accounting scandals that have rocked an industry already fraught with problems;
- Mountains of debt—estimated at $1 trillion worldwide;
- Inefficient industry structures characterized by excess capacity;
- Lack of investor confidence;
- Capital markets closing to new investment; and
- Companies that have pulled back on capital spending in this capital-intensive industry.

Given the interconnected and inter-dependant nature of the telecom network, the industry fallout has caused collateral damage across the industry worldwide. As telecommunications companies have dramatically scaled back capital expenditures, equipment manufacturers and vendors have struggled as sales have fallen precipitously. The access to capital crunch has taken some of the fuel out of the CLEC industry leading to many bankruptcies over the past two years and increasing liquidity concerns. Long distance and wireless companies continue to face pricing pressures and along with cable companies and ILECs, significant debt loads. Though the problems are significant, recovery can be achieved if several critical steps are taken.

I believe that there are six critical elements to managing the current turmoil and stabilizing the industry over time (See Attachment B):

1. Protect Service Continuity

The road to recovery begins with our tireless efforts to protect consumers by ensuring continuity of service and in maintaining the integrity and reliability of our Nation's telecommunications network in light of the risks and realities stemming from current and continued bankruptcies. The Commission and our State counterparts will continue to work together and with telecommunications firms facing financial difficulties to stay well ahead of any service disruptions. We will also constantly keep the American public informed so that they too can take action to protect themselves if and when the need arises.

2. Root Out Corporate Fraud

The degree of deception and malfeasance that has been uncovered in recent weeks is deplorable. There is no hope for any sector of the economy if corporate leadership and government do not root out and stomp out such deception and breach of public trust. Governments must continue to vigorously seek out, prosecute and jail corporate wrongdoers that have personally profited (often) while defrauding the American people. Such actions have dealt a staggering blow to already suffering confidence levels. I commend the continuing swift and strong actions taken by the government in bringing those responsible for fraudulent actions to justice. I also commend the strong actions taken by Congress in passing corporate-oversight reform legislation, which the President is now signing into law. The new corporate leadership that is taking the helm has been put on notice. One hopes – and demands – that they lead with a strong ethical and moral foundation. These actions by Congress, the Administration, and firms within the industry must continue not only to address core fundamental problems, but also to help restore investor confidence in corporate America and in the telecommunications industry.

3. Restoring Financial Health: Cleaning Up the Balance Sheets

Next, to address the capital shortage facing the telecommunications industry, telecom firms must work diligently to clean up their balance sheets to restore some financial stability and reality to this industry. Companies will also have to become more transparent so that investors and potential buyers can assess the true value of the company's assets. It is estimated that telecommunications companies worldwide are carrying approximately $1 trillion in debt, much of which will never be repaid and will have to be written off by investors. As a result, capital markets are retrenching and telecommunication companies in need of financing to support their capital-intensive enterprises are suffering. Until firms substantially pay down their debt, much-needed capital will continue to sit on the sidelines and the recovery will be stalled. As we have seen, many industry participants are finding ways to cut costs, by downsizing, shedding assets, and significantly cutting back on capital expenditures to pay down debt. These are painful, but necessary steps. But, if these steps are taken, we must ensure that the integrity of the telecommunications network and the quality of service provided to consumers does not suffer. Alienating consumers during this time will only serve to further the pain as consumers turn away and take with them much-needed revenues.

4. Prudent Industry Restructuring

It is difficult to imagine the industry stabilizing without some modest and prudent restructuring. The long-haul markets are glutted with excess capacity that dramatically exceeds demand (even given the strong growth in demand that we have seen). Additionally, in some sectors, revenues are being diluted as price wars and aggressive competition make it difficult to secure an adequate return on investment in very capital intensive enterprises. This is particularly acute in the long distance and wireless markets. Pressure will continue to mount for companies to restructure or exit the market completely by merging with another.

Depending upon the facts of any given transaction, such restructuring is not necessarily adverse to consumer interests. One cannot think about long-term consumer benefits without also considering the long-term prospects of carriers that provide quality services to consumers. For other industry participants, survival and health will depend on prudent industry consolidation. I emphasize “prudence” because some mergers clearly could present a threat to competition and may not be in the public interest. That can only be determined upon careful and thorough review of a particular transaction. Regulators will have to walk a fine line to achieve stability, while not squelching competitive opportunity.

5. New Revenue Through New Services

During the meltdown, carriers became acutely aware that traffic growth did not directly correlate with revenue growth. Many communications markets have matured (or are doing so quickly) with respect to core services and the opportunity for further penetration is waning. Therefore, to grow and expand revenues companies must offer new services. In doing so, companies must strive to stimulate the demand that will help bring it into line with the current over-supply of excess capacity. In the residential space, all indications are that the opportunities to develop new services and sources of revenue will come from residential broadband. The reasons are twofold.

First, the provision of broadband services to residential consumers has room for substantial subscription growth over the next several years. Currently about 65 million households pay a monthly subscription rate to access the Internet. Approximately14 million are doing so through broadband connections, leaving more than 50 million households as a near-term addressable market. With the deployment of broadband over the next five to ten years, a whole new generation of the consuming public that will have grown up with the Internet as an integral part of their daily lives will enter the market, increasing the potential addressable market.

Second, the development and deployment of broadband infrastructure will provide firms—from telecommunications to entertainment to information to equipment vendors—with the opportunity to develop new services that will use the broadband infrastructure to reach consumers. Today we envision, and companies are beginning to provide, home networking, telemedicine, distance learning and home security; tomorrow's visionaries will take the infrastructure to new heights not understood or appreciated today.

We must, however, be sure to learn from our past mistakes of inflated expectations that do not line up with consumer demand and recognize that the build-out will take time. To achieve this broadband future and to harness the opportunities it provides, the construction project that has taken place over the last six years must now focus on uncorking the network at the last mile, and regulatory policy must lead the way. Today, with the proliferation of cable modem services, DSL services and increasingly wireless platforms and other innovative networks, such as powerline, we are beginning the process of bringing capacity to the edges of the network—where it is needed most.

6. Reform Economic and Regulatory Foundations

Finally, the long term prospects of the industry will not be bright if State and Federal policymakers do not continue to work hard and diligently to create genuine and viable economic a regulatory foundations for communications services growth and competition. Nowhere is this more pressing than in local markets. Currently, the cold fact remains that the economic foundations remain weak in local markets, especially for new entrants and increasingly for incumbents. Local firms, many of whom are being tasked with the chore of upgrading networks to provide one of the platforms to deliver broadband services, have little pricing flexibility for retail services. We, along with our State counterparts, must work together to improve these foundations through regulatory reform. For instance, we must consider rate rebalancing at the state level to provide carriers with greater pricing flexibility. We must continue to pursue doggedly the worthy universal service goals of ubiquity and affordability as new networks are deployed, based on sound economic principles. We must also provide incentives for more effective and sustainable competitive entry through our network access policies by providing incentives to new entrants and incumbents to produce an efficient wholesale market and by providing a regulatory framework that promotes competition, investment and innovation to deploy advanced networks.

We must continue to engage in effective oversight and enforcement of our regulations to ensure that competition is not stifled at the gate. We must engage in better spectrum management that promotes more efficient use of spectrum while continuing to find ways to get more spectrum into the markets.

If we accomplish these objectives, it will be the consumer that is the ultimate beneficiary through the proliferation and adoption of new innovative services that the consumer demands and values. For the past year, the Federal Communications Commission has initiated proceedings to effectuate this reform and we will work diligently to implement these fundamental policies that will provide regulatory clarity and certainty, survive judicial scrutiny and promote long-term sustainable competition and growth to serve the public interest. I pledge to you that we will accelerate our efforts to complete the task before us.

III. How Congress Can Help

We must all take the steps necessary for recovery and I ask that Congress also assist us in our efforts by providing the Commission with more tools to protect and promote the public interest.

First, we ask that Congress extend and clarify our section 214 discontinuance authority to bring it in line with the realities of today's marketplace so that we can limit any service disruption in these troubled times. Our authority under section 214 is at best unclear and, at worst, does not extend to certain critical services such as the Internet backbone.

Second, I once again, respectfully, call upon Congress to adopt Chairman Upton's proposal to help us put some real teeth in our enforcement authority (as I did 15 months ago to the House and over a year ago to the Senate) by increasing the maximum fine allowable under the Act from $120,000 to $1 million for a single violation and from $1.2 million to $10 million for a continuing violation and to lengthen the statue of limitation for common carrier enforcement. It has remained my strong view that these increased penalties along with the stepped up enforcement of our rules will have a solid, deterrent effect against illegal activities. While the House adopted these measures as part of H.R. 1542, the Senate has yet to adopt a similar increase in our enforcement authority. I respectfully urge you to pass legislation that would provide the Commission with increased enforcement authority to attack illegal activities.

Third, I urge Congress to continue its deliberations and craft and implement legislation that produces the right regulatory environment for the provision of broadband services. The importance of the development and deployment of broadband services to all Americans is too important for Congress to ignore and it must play a vital role in its development. Broadband very likely holds the key for the long-term recovery of the telecommunications industry and for our Nation's long-term economic growth and its ability to compete on the global stage. The Commission is committed to demonstrating leadership in this area by seeing through our core broadband policy proceedings initiated at the end of last year and the beginning of this year, and we will strive to complete those proceedings by year-end. The importance of the development, however, merits that Congress take a hard look at updating the Telecommunications Act of 1996 to provide the proper regulatory framework for broadband.

I take no position on the myriad proposals that currently are before this body. I only wish to emphasize that the importance of residential broadband to improving revenue growth and stimulating demand to drain excess capacity, merits the attention of Congress. I would welcome the opportunity to work with the Committee on these issues, in the context of its longstanding bipartisan approach to telecommunications reform.

I thank you for your time and I look forward to working with you all to implement our plan for recovery for the telecommunications industry.