

UNIVERSAL SERVICE FUND

The Telecommunications Act of 1996 provides for a major restructuring of the Nation's communications laws, promotes universal service and open access to information networks, and provides for flexible government regulations. Under the Act, telecommunications carriers that provide interstate telecommunications services are required to contribute funds for the preservation and advancement of universal service. The contributions are used to provide services eligible for universal service support as prescribed by the FCC. Telecommunications carriers receive a credit towards their contribution by providing discount service to schools, libraries, and health care providers. Support will also be provided to carriers offering services in high cost areas of the United States and to carriers offering services to low income consumers. Interest income on these funds is utilized to benefit program recipients. Administrative costs of the program are provided from carrier contributions.

Unavailable Collections (in millions of dollars)

	2003 Actual	2004 Est.	2005 Est.
Receipts:			
02.00 Universal service fund	5,713	6,554	6,453
02.20 Universal service fund (interest)	30	28	38
02.99 Total receipts and collections	5,743	6,582	6,491
04.00 Total: Balances and collections	5,743	6,582	6,491
Appropriations:			
05.00 Universal service fund	-5,743	-6,554	-6,453
05.01 Universal service fund	0	-28	-38
05.99 Total appropriations	-5,743	-6,582	-6,491
07.99 Balance, end of year	0	0	0

Program and Financing (in millions of dollars)

	2003 Actual	2004 Est.	2005 Est.
Obligations by program activity:			
00.01 Direct program activity	5,945	6,613	6,629
00.02 Program support	59	69	71
10.00 Total new obligations (object class 41.0)	6,004	6,682	6,700

UNIVERSAL SERVICE FUND

(Universal Service Fund Cont'd)	Program and Financing (in millions of dollars)		
	2003 Actual	2004 Est.	2005 Est.
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	2,263	2,002	1,902
22.00 New budget authority (gross)	5,743	6,582	6,491
23.90 Total budgetary resources available for obligation	<u>8,006</u>	<u>8,584</u>	<u>8,393</u>
23.95 Total new obligations	-6,004	-6,682	-6,700
24.40 Unobligated balance carried forward, end of year	2,002	1,902	1,693
New budget authority (gross), detail:			
Mandatory:			
60.20 Appropriation (special fund)	5,743	6,554	6,453
60.20 Appropriation (special fund)	0	28	38
62.50 Appropriation (total mandatory)	<u>5,743</u>	<u>6,582</u>	<u>6,491</u>
Change in obligated balances:			
72.40 Obligated balance, start of year	397	397	493
73.10 Total new obligations	6,004	6,682	6,700
73.20 Total outlays (gross)	-6,005	-6,587	-6,925
74.40 Obligated balance, end of year	397	493	268
Outlays (gross), detail:			
86.97 Outlays from new mandatory authority	3,345	4,187	4,531
86.98 Outlays from mandatory balances	2,660	2,400	2,394
87.00 Total outlays (gross)	<u>6,005</u>	<u>6,587</u>	<u>6,925</u>
Net budget authority and outlays:			
89.00 Budget authority	5,743	6,582	6,491
90.00 Outlays	6,005	6,587	6,925

SPECTRUM AUCTION PROGRAM ACCOUNT

This program provides for direct loans for the purpose of purchasing spectrum licenses at the Federal Communications Commission's auctions. The licenses are being purchased on an installment basis, which constitutes an extension of credit. The first year of activity for this program was 1996.

As required by the Federal Credit Reform Act of 1990, this account records, for this program, the subsidy costs associated with the direct loans obligated in 1992 and beyond (including modifications of direct loans and loan guarantees that resulted from obligations or commitments in any year), as well as administrative expenses of this program. The subsidy amounts are estimated on a present value basis and administrative expenses are estimated on a cash basis.

Program and Financing (in millions of dollars)

	2003 actual	2004 est.	2005 est.
Obligations by program activity:			
00.05 Reestimates of direct loan subsidy	362	382	0
00.06 Interest on reestimates of direct loan subsidy	169	218	0
00.09 Administrative Expenses	24	9	9
10.00 Total new obligations	555	609	9
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	3	4	0
22.00 New budget authority (gross)	556	605	9
23.90 Total budgetary resources available for obligation	559	609	0
23.95 Total new obligations	-555	-609	-9
24.40 Unobligated balance carried forward, end of year	4	0	0
New budget authority (gross), detail:			
Mandatory:			
60.00 Appropriation	531	605	9
69.00 Offsetting collections (cash)	25	3	0
69.27 Capital transfer to general fund	0	-3	0
69.90 Spending authority from offsetting collections (total mandatory)	25	0	0
70.00 Total new budget authority (gross)	556	605	9

Program and Financing (in millions of dollars)

	2003 actual	2004 est.	2005 est.
Change in obligated balances:			
72.40 Obligated balance, start of year	3	18	0
73.10 Total new obligations	555	609	9
73.20 Total outlays (gross)	<u>-540</u>	<u>-627</u>	<u>-9</u>
74.40 Obligated balance, end of year	18	0	0
Outlays (gross), detail:			
86.97 Outlays from new mandatory authority	534	605	9
86.98 Outlays from mandatory balances	<u>6</u>	<u>22</u>	<u>0</u>
87.00 Total outlays (gross)	540	627	9
Offsets:			
Against budget authority and outlays:			
88.00 Offsetting collections (cash) from: Federal sources	25	3	0
Net budget authority and outlays:			
89.00 Budget authority	531	602	9
90.00 Outlays	515	624	9

Summary of Loan levels, Subsidy Budget Authority and Outlays by Program (in millions of dollars)

	2003 actual	2004 est.	2005 est.
Direct loan upward reestimate subsidy budget authority			
1350 Spectrum auction	531	600	0
1359 Total upward reestimate budget authority	531	600	0
Direct loan downward reestimate subsidy budget authority			
1370 Spectrum auction	-25	-3	0
1379 Total downward reestimate budget authority	-25	-3	0

Administrative expense data:

3510 Budget authority	24	9	9
3580 Outlays from balances	0	0	0
3590 Outlays from new authority	24	9	9

Object Classification (in millions of dollars)

	2003 actual	2004 est	2005 est
11.11 Personnel compensation: Full-time permanent	1	1	1
25.20 Other services	23	8	8
41.10 Grants, subsidies, and contributions	<u>531</u>	<u>600</u>	<u>0</u>
99.99 Total new obligations	555	609	9

Personnel Summary

1001 Total compensable workyears: Full-time equivalent employment	8	8	8
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SPECTRUM AUCTION DIRECT LOAN FINANCING ACCOUNT

As required by the Federal Credit Reform Act of 1990, this non-budgetary account records all cash flows to and from the Government resulting from direct loans obligated in 1992 and beyond (including modifications of direct loans that resulted from obligations in any year). The amounts in this account are a means of financing and are not included in the budget totals.

Program and Financing (in millions of dollars)			
	2003 actual	2004 est.	2005 est.
Operating Expenses:			
00.01 Direct Loans	0	0	0
00.02 Interest Paid to Treasury	393	343	313
00.91 Direct Program by Activities - Subtotal (1 level)	<u>393</u>	<u>343</u>	<u>313</u>
08.02 Downward subsidy reestimate	16	2	0
08.04 Interest on downward reestimate	9	1	0
08.91 Direct Program by Activities - Subtotal (1 level)	<u>25</u>	<u>3</u>	<u>0</u>
10.00 Total new obligations	<u>418</u>	<u>346</u>	<u>313</u>
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	22	46	0
22.00 New financing authority (gross)	442	300	313
23.90 Total budgetary resources available for obligation	<u>464</u>	<u>346</u>	<u>313</u>
23.95 Total new obligations	-418	-346	-313
24.40 Unobligated balance carried forward, end of year	46	0	0
New budget authority (gross), detail:			
Mandatory:			
67.10 Authority to borrow:	25	3	0
Offsetting collections			
69.00 Offsetting collections (Re-estimate)	1,147	706	0
69.00 Offsetting collections (Ini-reestimate)	0	0	0

Program and Financing (in millions of dollars)

	2003 actual	2004 est.	2005 est.
69.47 Portion applied to repay debt	-730	-409	-4,373
69.90 Spending authority from offsetting collections (total mandatory)	417	297	313
70.00 Total new financing authority (gross)	<u>442</u>	<u>300</u>	<u>313</u>
Change in obligated balances:			
73.10 Total new obligations	418	346	313
73.20 Total financing disbursements (gross)	-418	-346	-313
Outlays (gross), detail:			
87.00 Total financing disbursements (gross)	418	346	313
Offsets:			
Against gross budget authority and outlays:			
Offsetting collections (cash) from:			
88.00 Program account: total revised subsidy	331	600	0
88.25 Interest on uninvested funds	40	0	0
Non-Federal sources:			
88.40 Interest received on loans	23	16	11
88.40 Principal received on loans	86	89	72
88.40 Recoveries	467	1	159
88.40 Non-Federal sources	0	0	4,444
88.90 Total offsetting collections (cash)	<u>1,147</u>	<u>706</u>	<u>4,686</u>
Net budget authority and outlays:			
89.00 Financing authority	-705	-406	-4,373
90.00 Financing disbursements	-730	-360	-4,373

Status of Direct Loans (in millions of dollars)

	2003 actual	2004 est.	2005 est.
Cumulative balance of direct loans outstanding:			
1210 Outstanding, start of year	5,293	5,112	5,023
1231 Disbursements: Direct loan disbursements	0	0	0
1251 Repayments: Repayments and prepayments	-86	-89	-72
1263 Write-offs for default: Direct loans	-95	0	0
1290 Outstanding, end of year	<u>5,112</u>	<u>5,023</u>	<u>4,951</u>

Balance Sheet (in millions of dollars)

	2002 actual	2003 actual	2004 est.	2005 est.
ASSETS:				
1101 Federal assets: Fund balance with Treasury	21	46	0	0
Net value of assets related to post-1991 direct loan receivable:				
1401 Direct loans receivable, gross	5,293	5,112	0	0
1402 Interest receivable	295	285	0	0
1405 Allowance for subsidy cost (-)	-328	-968	0	0
1499 Net present value of assets related to direct loans	<u>5,260</u>	<u>4,429</u>	<u>0</u>	<u>0</u>
1901 Other Federal assets: Other assets	525	599	0	0
1999 Total assets	<u>5,806</u>	<u>5,074</u>	<u>0</u>	<u>0</u>
LIABILITIES:				
Federal liabilities				
2103 Resources payable to Treasury	5,771	5,065	0	0
2105 Other (liability to prog. acct.)	25	2	0	0
2105 Other Debt	10	7	0	0
2999 Total liabilities	<u>5,806</u>	<u>5,074</u>	<u>0</u>	<u>0</u>
4999 Total liabilities and net position	<u>5,806</u>	<u>5,074</u>	<u>0</u>	<u>0</u>



CHAIRMAN

Federal Communications Commission

Washington, D.C.

March 31, 2003

The Honorable Susan M. Collins
Chairwoman
Committee on Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairwoman Collins:

On January 31 2003, the U.S. General Accounting Office submitted a report entitled "Telecommunications: Comprehensive Review of U.S. Spectrum Management with Broad Stakeholder Involvement Is Needed" (GAO-03-277) to Senators Burns, Hollings, Inouye, and Kerry. This letter is to inform you of the actions that the Federal Communications Commission has taken on the recommendation made in the GAO Report, as well as the actions we continue to pursue on spectrum management overall.

The GAO Report notes several concerns regarding spectrum policy in relation to advancing technology, and proposes the creation of an independent study commission to review spectrum management in the United States. Specifically, the GAO Report recommends that "the Chairman of FCC and the Assistant Secretary of Commerce for Communications and Information, in consultation with officials from the Department of State, Office of Management and Budget, Office of Science and Technology Policy, and pertinent congressional committees, work together to develop and implement a plan for the establishment of a commission that would conduct a comprehensive examination of current U.S. spectrum management."

The underlying spectrum policy issues that the GAO Report addresses are vitally important to the U.S., and I am committed to spectrum policy reform. Indeed, spectrum policy speaks to many of the core Commission initiatives, including the digital migration, broadband and competition policy, media regulation, and homeland security. Consequently, the Commission has been moving aggressively and effectively to address spectrum management issues. As the GAO observes in its report, the increasing demand for access to spectrum and continuing advances in wireless technology and applications pose significant challenges for policymakers involved in spectrum management issues. Recognizing the need for a fundamental re-evaluation of spectrum policy in response to these developments and the fast-moving pace of change, I established a Spectrum Policy Task Force ("SPTF") staffed by senior agency personnel to identify outmoded procedures and policies, and evaluate changes in spectrum policy that could

increase the public benefits derived from the use of the radio spectrum. The SPTF's work resulted in an important report published in November 2002 that presents many significant and innovative new recommendations for spectrum policy reform.

We have received public comment on the SPTF Report's recommendations, and in an effort to begin implementing some of the ideas in the SPTF Report, the Commission recently released Notices of Inquiry on the subjects of allocating additional unlicensed spectrum and receiver performance specifications. We have also initiated consultations with other countries regarding proposals presented in SPTF Report, including countries that often look to the U.S. as a leader in spectrum policy. I look forward to building much further on the work of the SPTF in the coming months.

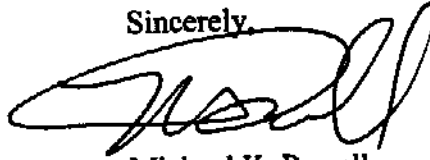
Additionally, the Commission and the National Telecommunications and Information Administration ("NTIA") have taken concrete steps to improve our communication and coordination. Assistant Secretary Nancy J. Victory, Director of NTIA, and I share a belief in the importance of effective coordination between our two agencies to ensure a common focus in our governmental efforts to manage a critical national asset, our radio spectrum. Toward this end, we met on December 10, 2002, along with senior spectrum policy teams from both organizations, to institutionalize and elevate the coordination between the two agencies beyond historical levels. The next formal spectrum leadership meeting will occur in the early summer of 2003, and coordination at the staff level of our agencies occurs regularly. For example, the Commission routinely coordinates its policy decisions with other governmental agencies that have a stake in spectrum management through NTIA's Interdepartment Radio Advisory Committee. And importantly, the Commission and NTIA have institutionalized the new, more robust regime of regular consultation and coordination by signing a new Memorandum of Understanding on spectrum coordination in January 2003, replacing one dating to 1940. The MOU builds on the inter-agency coordination requirement of the NTIA Act¹ and ensures that our heightened level of cooperation will continue for years to come.

These developments at the Commission and NTIA had been occurring concurrently with preparation of the GAO Report, and the SPTF Report shared many of the observations and conclusions expressed in the GAO Report. For instance, both the GAO Report and the SPTF Report emphasize the necessity of close coordination between the Commission and NTIA. Both emphasize the importance of dealing effectively with the increasing complexity of spectrum management. And the views expressed in the GAO Report are consistent with our conviction that the U.S. must move away from a command-and-control approach to spectrum management, in its stead moving to increased reliance on market-based mechanisms, while carefully recognizing and addressing the limitations of such mechanisms, and incorporating the flexibility to adjust for diverse spectrum environments and innovative technologies.

¹ See 47 U.S.C. § 922.

The dialog begun in these two reports will continue as we work with the NTIA and stakeholders in the private sector to reform spectrum policy to reflect twenty-first century conditions. We will consider the GAO proposal carefully and discuss it at our next spectrum leadership meeting.

Sincerely,



Michael K. Powell

cc: Director, Physical Infrastructure Issues, U.S. General Accounting Office
Office of Management and Budget
The Honorable Conrad Burns
The Honorable Ernest F. Hollings
The Honorable Daniel K. Inouye
The Honorable John F. Kerry



CHAIRMAN

Federal Communications Commission

Washington, D.C.

March 31, 2003

The Honorable Joseph Lieberman
Ranking Member
Committee on Governmental Affairs
United States Senate
326 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Lieberman:

On January 31 2003, the U.S. General Accounting Office submitted a report entitled "Telecommunications: Comprehensive Review of U.S. Spectrum Management with Broad Stakeholder Involvement Is Needed" (GAO-03-277) to Senators Burns, Hollings, Inouye, and Kerry. This letter is to inform you of the actions that the Federal Communications Commission has taken on the recommendation made in the GAO Report, as well as the actions we continue to pursue on spectrum management overall.

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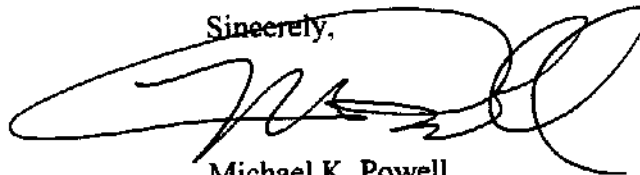
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These developments at the Commission and NTIA had been occurring concurrently with preparation of the GAO Report, and the SPTF Report shared many of the observations and conclusions expressed in the GAO Report. For instance, both the GAO Report and the SPTF Report emphasize the necessity of close coordination between the Commission and NTIA. Both emphasize the importance of dealing effectively with the increasing complexity of spectrum management. And the views expressed in the GAO Report are consistent with our conviction that the U.S. must move away from a command-and-control approach to spectrum management, in its stead moving to increased reliance on market-based mechanisms, while carefully recognizing and addressing the limitations of such mechanisms, and incorporating the flexibility to adjust for diverse spectrum environments and innovative technologies.

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Michael K. Powell

cc: Director, Physical Infrastructure Issues, U.S. General Accounting Office
Office of Management and Budget
The Honorable Conrad Burns
The Honorable Ernest F. Hollings
The Honorable Daniel K. Inouye
The Honorable John F. Kerry



CHAIRMAN

Federal Communications Commission

Washington, D.C.

March 31, 2003

The Honorable Tom Davis
Chairman
Committee on Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Davis:

On January 31 2003, the U.S. General Accounting Office submitted a report entitled "Telecommunications: Comprehensive Review of U.S. Spectrum Management with Broad Stakeholder Involvement Is Needed" (GAO-03-277) to Senators Burns, Hollings, Inouye, and Kerry. This letter is to inform you of the actions that the Federal Communications Commission has taken on the recommendation made in the GAO Report, as well as the actions we continue to pursue on spectrum management overall.

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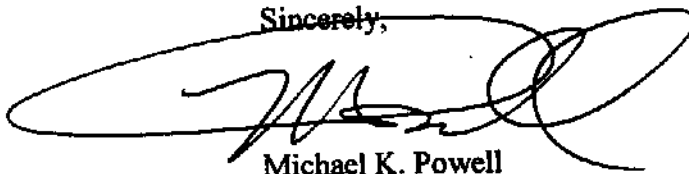
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Michael K. Powell

cc: Director, Physical Infrastructure Issues, U.S. General Accounting Office
Office of Management and Budget
The Honorable Conrad Burns
The Honorable Ernest F. Hollings
The Honorable Daniel K. Inouye
The Honorable John F. Kerry



CHAIRMAN

Federal Communications Commission

Washington, D.C.

March 31, 2003

The Honorable Henry A. Waxman
Ranking Member
Committee on Government Reform
U.S. House of Representatives
B-350A Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Waxman:

On January 31 2003, the U.S. General Accounting Office submitted a report entitled "Telecommunications: Comprehensive Review of U.S. Spectrum Management with Broad Stakeholder Involvement Is Needed" (GAO-03-277) to Senators Burns, Hollings, Inouye, and Kerry. This letter is to inform you of the actions that the Federal Communications Commission has taken on the recommendation made in the GAO Report, as well as the actions we continue to pursue on spectrum management overall.

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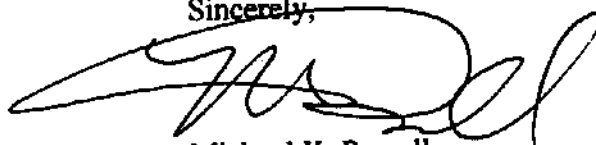
Additionally, the Commission and the National Telecommunications and Information Administration ("NTIA") have taken concrete steps to improve our communication and coordination. Assistant Secretary Nancy J. Victory, Director of NTIA, and I share a belief in the importance of effective coordination between our two agencies to ensure a common focus in our governmental efforts to manage a critical national asset, our radio spectrum. Toward this end, we met on December 10, 2002, along with senior spectrum policy teams from both organizations, to institutionalize and elevate the coordination between the two agencies beyond historical levels. The next formal spectrum leadership meeting will occur in the early summer of 2003, and coordination at the staff level of our agencies occurs regularly. For example, the Commission routinely coordinates its policy decisions with other governmental agencies that have a stake in spectrum management through NTIA's Interdepartment Radio Advisory Committee. And importantly, the Commission and NTIA have institutionalized the new, more robust regime of regular consultation and coordination by signing a new Memorandum of Understanding on spectrum coordination in January 2003, replacing one dating to 1940. The MOU builds on the inter-agency coordination requirement of the NTIA Act³ and ensures that our heightened level of cooperation will continue for years to come.

These developments at the Commission and NTIA had been occurring concurrently with preparation of the GAO Report, and the SPTF Report shared many of the observations and conclusions expressed in the GAO Report. For instance, both the GAO Report and the SPTF Report emphasize the necessity of close coordination between the Commission and NTIA. Both emphasize the importance of dealing effectively with the increasing complexity of spectrum management. And the views expressed in the GAO Report are consistent with our conviction that the U.S. must move away from a command-and-control approach to spectrum management, in its stead moving to increased reliance on market-based mechanisms, while carefully recognizing and addressing the limitations of such mechanisms, and incorporating the flexibility to adjust for diverse spectrum environments and innovative technologies.

³ See 47 U.S.C. § 922.

The dialog begun in these two reports will continue as we work with the NTIA and stakeholders in the private sector to reform spectrum policy to reflect twenty-first century conditions. We will consider the GAO proposal carefully and discuss it at our next spectrum leadership meeting.

Sincerely,

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Michael K. Powell

cc: Director, Physical Infrastructure Issues, U.S. General Accounting Office
Office of Management and Budget
The Honorable Conrad Burns
The Honorable Ernest F. Hollings
The Honorable Daniel K. Inouye
The Honorable John F. Kerry



CHAIRMAN

Federal Communications Commission

Washington, D.C.

June 30, 2003

The Honorable Susan M. Collins
Chairwoman
Committee on Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairwoman Collins:

On April 28, 2003, the U.S. General Accounting Office ("GAO") submitted a report to Congressman Anthony Weiner entitled Telecommunications: FCC Should Include Call Quality in Its Annual Report on Competition in Mobile Phone Services (GAO-03-501). GAO's report recommends that the Federal Communications Commission include call quality in its mandated annual report analyzing whether there is effective competition in the market for mobile phone services ("*Competition Report*"). This letter is to inform you that the Commission has implemented the recommendation made by the GAO.

In the *Competition Report* adopted on June 26, 2003, the Commission included a section setting forth information indicating that mobile phone service providers are competing on the basis of call quality.¹ In particular, the *Competition Report* notes evidence that (1) carriers are upgrading their networks to permit more subscribers to initiate and maintain access to the network; (2) carriers are advertising this improved call quality in order to differentiate their service from others in the market; and (3) consumers appear to be responding by subscribing to carriers that provide better call quality. In addition, the *Competition Report* notes that numerous third parties offer information to consumers about the call quality of individual carriers' services. I will forward a copy of the *Competition Report* to you when it is released.

The Commission values GAO's analysis of the call quality issue and shares the belief that the ability of consumers to make informed choices in the marketplace is critical to the growth of mobile phone services. I look forward to working with you to develop policies to improve consumer's mobile phone service experience.

Sincerely,

Michael K. Powell

cc: Director, Physical Infrastructure Issues, U.S. General Accounting Office
Office of Management and Budget

¹ See Eighth Annual Competition Report, FCC 03-150, at Section II.C.1.b.x., adopted June 26, 2003.



CHAIRMAN

Federal Communications Commission

Washington, D.C.

June 30, 2003

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Committee on Governmental Affairs
United States Senate
326 Dirksen Senate Office Building
Washington, D.C. 20510

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CHAIRMAN

Federal Communications Commission

Washington, D.C.

June 30, 2003

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Washington, D.C. 20515

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CHAIRMAN

Federal Communications Commission

Washington, D.C.

June 30, 2003

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Ranking Member
Committee on Government Reform
U.S. House of Representatives
B-350A Rayburn House Office Building
Washington, D.C. 20515

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Federal Communications Commission
Washington, D.C. 20554

July 23, 2003

The Honorable Susan M. Collins
Chairwoman
Committee on Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairwoman Collins:

On June 30 the Chairman of the FCC sent you a letter describing the action the Commission had taken in response to a recommendation made in report no. GAO-03-501, Telecommunications: FCC Should Include Call Quality in Its Annual Report on Competition in Mobile Phone Services. A copy of that letter is enclosed. The Chairman stated in that letter that he would forward a copy of the Competition Report to you when it was released. The Competition Report ("Eighth Report") has been released and a copy is enclosed.

Sincerely,

A handwritten signature in cursive script that reads "Jerry Cowden".

Jerry Cowden
Program Analyst

Enclosures:

1. June 30 letter from Chairman to Chairwoman Collins
2. Competition Report ("Eighth Report")



Federal Communications Commission
Washington, D.C. 20554

July 23, 2003

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United States Senate
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Washington, D.C. 20554

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CHAIRMAN

Federal Communications Commission

Washington, D.C.

December 19, 2003

The Honorable Susan M. Collins
Chairwoman
Committee on Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairwoman Collins:

On October 24, 2003, the U.S. General Accounting Office ("GAO") submitted a report entitled Telecommunications: Issues Related to Competition and Subscriber Rates in the Cable Television Industry (GAO-04-8) to Senator McCain, Chairman of the Committee on Commerce, Science, and Transportation. The Report contains two recommendations to improve the quality and usefulness of data that the Commission collects on cable television rates and competition in the multichannel video programming industry. Here I report on the actions the Commission has taken or intends to take to address the GAO recommendations.

First, the GAO recommends that the Commission "take immediate steps to improve the cable rates survey by (1) including more detailed, standardized instructions and examples for how to calculate the cost changes that the cable operators experienced in the previous year and (2) eliminating the requirement for the cost increases to sum to the change in rates."

Based on this recommendation as well as several discussions with GAO staff, the Commission's Media Bureau intends to modify the 2003 price survey questionnaire by eliminating questions that call for estimates of various categories of costs and substituting questions that can provide more accurate information regarding cable operators' costs. The revised questionnaire also will provide more specific instructions for the cost-related questions. Finally, the 2003 questionnaire will not require the information requested on cost increases to equal the change in rates.

Second, the GAO recommends that the Commission "review [its] process for maintaining the status of effective competition among franchises in order to keep these designations more up to date."

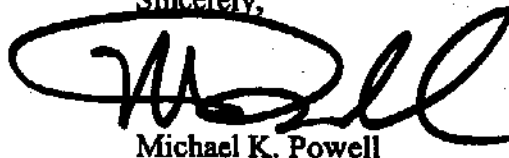
In response to this recommendation, the Media Bureau initiated a comprehensive review of our procedures for maintaining the list of effective competition franchises used in our cable rate survey. The Bureau reviewed each franchise on the list to determine that a corresponding Order is present in which a finding of effective competition was made, and corrected the list as

appropriate. Bureau staff also reviewed the notebooks provided by GAO that contain the staff's appraisal of current competitive conditions in a number of cable communities.

GAO also recommends that the designations of effective competition used in our annual cable industry price survey be updated on a regular basis. The Commission's rules currently do not provide a mechanism to update all effective competition determinations on a regular basis. Moreover, as the Media Bureau explained in its response reprinted in the final GAO report, this task would be very difficult to accomplish with current staffing levels and, in any case, might not produce the more accurate information anticipated by the GAO. Notwithstanding the reservations about this aspect of the recommendation, the Media Bureau will continue to consider cost-effective ways to update effective competition determinations and to improve the reliability and accuracy of the data collected in the cable price survey.

I appreciate the opportunity to report on the Commission's measures to implement the GAO's recommendations in this important area. If I can provide additional information concerning this or any other matter, please do not hesitate to contact me.

Sincerely,

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Michael K. Powell

cc: The Honorable John McCain
Director, Physical Infrastructure Issues, U.S. General Accounting Office;
Office of Management and Budget



CHAIRMAN

Federal Communications Commission

Washington, D.C.

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Federal Communications Commission

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Federal Communications Commission

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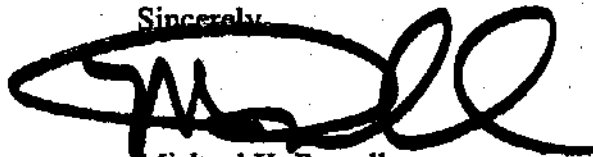
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