ONE HUNDRED FOURTEENTH CONGRESS

Congress of the United States House of Representatives

COMMITTEE ON ENERGY AND COMMERCE 2125 RAYBURN HOUSE OFFICE BUILDING WASHINGTON, DC 20515-6115

> Majority (202) 225-2927 Minority (202) 225-3641

MEMORANDUM

July 27, 2015

To: Subcommittee on Communications and Technology Democratic Members and Staff

Fr: Committee on Energy and Commerce Democratic Staff

Re: Subcommittee Hearing on "Continued Oversight of the Federal Communications Commission"

On <u>Tuesday</u>, <u>July 28</u>, <u>2015</u>, <u>at 10:15 a.m.</u> in room <u>2322</u> of the Rayburn House Office <u>Building</u>, the Subcommittee on Communications and Technology will hold a hearing titled "Continued Oversight of the Federal Communications Commission (FCC)." This will be the third hearing this year related to FCC oversight.

I. OVERVIEW OF THE FCC

The Federal Communications Commission (FCC) is an independent agency charged with regulating interstate and international communications by wire and radio. The FCC is led by five Commissioners who are appointed by the President and confirmed by the Senate to serve staggered five-year terms, except when filling an unexpired term. Commissioners serve until their successors have taken office but cannot serve in an unconfirmed or reappointed position "beyond the expiration of the next session of Congress subsequent to the expiration of said fixed term of office."

The Administrative Procedure Act (APA) largely governs the FCC's rulemaking and adjudicatory processes. Congress last formally authorized the FCC in 1990. The last comprehensive revision of the Communications Act was the Telecommunications Act of 1996, which was designed to increase competition and reduce regulatory barriers to entry in the telecommunications marketplace.

¹ 47 U.S.C. § 154(c).

II. KEY ISSUES BEFORE THE FCC

A. Net Neutrality

The FCC adopted a new set of rules on February 26, 2015, that were designed to protect consumers, free expression, and innovation online. The rules, which apply to both wired and wireless broadband services, are:

- (1) *no blocking*—broadband access providers are prohibited from stopping consumers from accessing content online;
- (2) *no throttling*—broadband access providers cannot slow down or degrade the quality of online content such as streaming videos; and
- (3) *no paid prioritization*—broadband access providers cannot cut special deals for Internet fast lanes, which would undercut a level playing field for competition.

The FCC also enhanced its existing rules for transparency and adopted rules that prevent broadband access providers from unreasonably interfering with or unreasonably disadvantaging consumers' access to the content of their choice. Finally, the FCC announced that it will also take enforcement action to ensure that discrimination against content or services does not occur at points of interconnection, which are those places along its network where a broadband provider hands off traffic to connect to the rest of the Internet.

The FCC rooted its decision in multiple sections of the Communications Act. Most significantly, the order classifies broadband service as a telecommunications service under Title II of the Communications Act. At the same time, the FCC recognized that many aspects of Title II are not relevant to modern broadband service. The FCC, therefore chose not to apply over 700 of the regulations that fall under Title II, including rate regulation, tariffing, and last-mile unbundling provisions. The FCC did maintain several key Title II provisions for broadband including those that protect consumer privacy, access for people with disabilities, and universal service.

In January 2015, Senator Thune and Reps. Upton and Walden released a legislative discussion draft to codify some of the network neutrality principles. The draft would have also stripped the agency, however, of nearly all its existing authority over broadband providers.

On March 3, 2015, Rep. Blackburn introduced H.R. 1212, a bill that would overturn the FCC's net neutrality order. H.R. 1212 would further block the FCC from issuing new or revised consumer protections for the open Internet.

The House Appropriations Committee ordered H.R. 2995, favorably reported to the House on June 17, 2015. That appropriations bill includes language prohibiting the FCC from using any funds to implement or enforce the Open Internet rules until the pending court cases are resolved.² The FCC's rules went into effect on June 12, 2015, after the U.S. Court of Appeals

² H.R. 2995, §630.

for the D.C. Circuit denied a stay request filed by US Telecom.³ The broader court challenge filed by US Telecom and other parties remains pending in the D.C. Circuit.

B. Spectrum

In the Middle Class Tax Relief and Job Creation Act of 2012 (the Public Safety and Spectrum Act), Congress charged the FCC with administering a number of spectrum auctions and making more spectrum available for unlicensed services.⁴

1. AWS-3 Auction

The Commission was tasked with auctioning 65 megahertz of mid-band spectrum for mobile broadband use. Bipartisan oversight from the Subcommittee on Communications and Technology helped the FCC successfully complete the AWS-3 auction in January of this year, bringing in net proceeds that exceeded \$42 billion. Under the law, the first \$7 billion of auction revenues would go towards construction of the nationwide interoperable public safety broadband network known as FirstNet. The auction proceeds will also result in \$20 billion in net deficit reduction. Finally, \$115 million will be used for next generation 911 implementation grants.

Some parties raised concerns following the auction regarding bidding relationships in particular among designated entities and Dish Network. Dish and two of its affiliated designated entities won \$13.3 billion in spectrum licenses. In connection with their winning bids, these parties sought \$3.1 billion in bidding credits under the FCC's designated entity and auction rules. According to media reports, the FCC is considering issuing an order that would disallow the bidding credits based on findings that the affiliated designated entities did not qualify for bidding credits.⁵

2. Incentive Auctions

Congress authorized the FCC to conduct "incentive auctions" whereby spectrum licensees can voluntarily relinquish their licenses in exchange for a portion of the proceeds of the subsequent sale of the spectrum rights. The Public Safety and Spectrum Act provides a specific process for an incentive auction of the broadcast television spectrum for mobile broadband services. In addition, the legislation permits the FCC to create guard bands in the 600 MHz band plan following the broadcast television incentive auction, which can be used for innovative unlicensed services such as super Wi-Fi with longer reach and faster speeds than traditional Wi-Fi. The Public Safety and Spectrum Act also preserves the FCC's ability to promote competition through spectrum aggregation limits and other rules. The FCC recently disclosed that it intends to begin the auction at the end of March 2016.

The Commission staff is engaging in extensive outreach efforts across the country to encourage broadcaster participation. On June 12, 2015, the U.S. Court of Appeals for the D.C.

³ See http://www.commlawmonitor.com/2015/06/articles/uncategorized/d-c-circuit-denies-stay-open-internet-rules-become-effective-june-12/.

⁴ P.L. 112-96.

⁵ *See* http://www.wsj.com/articles/fcc-poised-to-reject-dish-entities-3-3-billion-auction-discounts-1437075619.

Circuit denied the Petitions for Review filed by NAB and Sinclair Broadcasting alleging the FCC violated the Public Safety and Spectrum Act provisions that require the FCC to make reasonable efforts to preserve the service areas and populations served of stations that will be repacked after the incentive auction.⁶

Adoption of a Public Notice establishing the final auction procedure, along with a Reconsideration Order of spectrum caps for the incentive auction were deleted from the July 2015 Agenda Meeting. The final procedures are now set to be considered as part of the Commission's August 6th meeting. Some of the issues that will be decided at the meeting include whether to allow broadcasters to be assigned channels within the broadband band plan, and how to ensure sufficient spectrum is reserved for unlicensed operations.

3. Other Spectrum Issues

Since the last oversight hearing, the FCC has updated its Designated Entity (DE) rules. The FCC adopted new rules that follow a recommendation made by several subcommittee members. This new framework will apply to all future auctions, including the incentive auction.

The FCC is also working on finding new spectrum for broadband use. For instance, following direction from Congress the FCC is working with the National Telecommunications and Information Administration to explore ways to allow new unlicensed services in several parts of the 5 GHz spectrum band. The FCC acted last year to free an additional 100 megahertz in the lower part of the 5 GHz band for unlicensed services.

In February 2015, Rep. Eshoo, Latta, and Matsui introduced the Wi-Fi Innovation Act to direct the FCC to conduct tests in the 5 GHz band to determine if spectrum can be shared without interfering with current users. The subcommittee then launched in April, a bipartisan effort to explore ways to share the upper 5 GHz band.

Finally, the FCC adopted rules in April 2015 that created the Citizens Broadband Radio Service in the 3.5 GHz band. The service adds 100 megahertz of spectrum for new wireless broadband service.⁷

C. Pending Merger Transactions

Generally, proposed telecommunications mergers must be approved by the FCC and the Department of Justice (DOJ). The DOJ has to determine whether a transaction raises any antitrust concerns, while the FCC conducts a public interest review that looks at factors beyond competitive harms. The FCC has reviewed a number of mergers over the past few years.

⁶ See http://www.broadcastingcable.com/news/washington/appeals-court-denies-broadcaster-auction-challenge/141696.

⁷ See FCC Makes 150 Megahertz of Contiguous Spectrum Available for Mobile Broadband and Other Uses Through Innovative Sharing Policies, News Release (April 17, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-333083A1.pdf),

Comcast proposed in February last year to acquire Time Warner Cable for \$45 billion. The deal would have combined the first and second largest cable companies in the country. On April 24, 2015, Chairman Wheeler announced that the companies abandoned their bid to merge after FCC and DOJ staffs indicated they had concerns with the deal.⁸

AT&T proposed in May last year a \$49 million acquisition of DirecTV, the nation's largest satellite television provider. The FCC stopped the informal 180-day clock on March 19, 2015. On July 24, 2015, the FCC granted the transaction with conditions related to high-speed fiber buildout, along with a condition prohibiting AT&T from excluding affiliated video services and content from data caps on its fixed broadband connections and a requirement to submit all completed interconnection agreements to the FCC with regular reports on network performance. ¹⁰

Charter Communications and Time Warner Cable announced their intention to merge on May 26, 2015, along with a deal for Charter to buy Bright House Networks. ¹¹ The FCC has announced its review team for the merger, and established a docket. ¹² The parties filed their public interest statement on July 25, 2015, ¹³ but a formal pleading schedule has yet to be adopted by the FCC.

D. Community Broadband

On the same day that it adopted the new network neutrality protections, the FCC also granted petitions to two municipalities seeking to meet local demand for broadband service. The cities of Chattanooga, Tennessee and Wilson, North Carolina both provide gigabit speed broadband but were unable to expand their networks due to state laws restricting community broadband. The FCC pre-empted these states' laws because they act as a barrier to broadband investment and competition, in conflict with Section 706 of the Telecommunications Act.

⁸ *See* Statement of FCC Chairman Tom Wheeler on the Comcast-Time Warner Cable Merger, News Release (Apr. 24, 2015) (online at https://apps.fcc.gov/edocs/public/attachmatch/DOC-333175A1.pdf).

⁹ *See* 180-Day Clock Stopped in Comcast-Time Warner Cable-Charter and AT&T-DirecTV Transaction Proceedings, News Release (Mar. 13, 2015) (online at https://apps.fcc.gov/edocs/public/attachmatch/DA-15-327A1.pdf).

¹⁰ See Statement of FCC Chairman Tom Wheeler on Recommendation Concerning AT&T-DirecTV Transaction, News Release (July 21, 2015) (online at http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0721/DOC-334501A1.pdf).

¹¹ See http://www.forbes.com/sites/antoinegara/2015/05/26/charter-communications-to-buy-time-warner-195-71-55-billion-cable-giant-john-malone/.

¹² See Review Team Announced for Proposed Charter-Time Warner Cable-Bright House Networks Transaction, News Release (July 8, 2015) (online at http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0708/DOC-334291A1.pdf).

¹³ See Public Interest Statement, MB Docket No. 15-149 (June 25, 2015) (online at https://transition.fcc.gov/transaction/charter-twc-bhn/charter-twc-bhn-public-interest.pdf).

Rep. Blackburn introduced H.R. 1106 on February 26, 2015, to prohibit the FCC from preempting state laws that present barriers to municipal broadband networks.

E. <u>Universal Service</u>

The FCC administers four programs in the Universal Service Fund: high cost support for rural telecommunications networks, the Lifeline program to connect low-income Americans, E-Rate funding for schools and libraries, and the rural health care program. These programs are funded through a line item charge on consumers' monthly phone bills.

1. High Cost Fund

In 2011, the FCC adopted major reforms to update the high cost USF program. Last year, the Court of Appeals for the Tenth Circuit upheld the FCC's reforms and affirmed that Section 706 was an independent grant of authority that permits the FCC to take action to facilitate broadband deployment. ¹⁴

2. E-rate

Since E-rate was created in the Telecommunications Act of 1996, the program has successfully connected 97% of U.S. classrooms to the Internet, but many schools and libraries lack affordable access to high-speed broadband service that enables digital learning opportunities. The FCC issued two orders last year to bridge this gap. In the first, the FCC streamlined the program and prioritized increasing Wi-Fi connectivity in schools. In the second order, the FCC increased E-rate funding by \$1.5 billion annually to make sure that all schools and libraries have the capacity necessary for modern broadband services.

3. Lifeline

The Lifeline program provides discounted phone service for qualifying low-income households. The FCC has taken significant steps to address waste, fraud, and abuse within the program by imposing tougher subscriber eligibility requirements and annual recertification requirements, among other reforms. Recognizing the barriers to broadband adoption by low-income households, the FCC has also conducted pilot projects to use Lifeline support for broadband. On June 18. 2015, the FCC opened a proceeding to seek comment on restructuring the program to support broadband service, along with proposals to streamline and tighten eligibility processes. ¹⁵

F. Tech Transition

The wireline communications industry has been steadily decreasing its reliance on analog copper infrastructure while using more IP-based fiber optic cable. To keep pace, the FCC has been exploring ways to modernize its rules to reflect the changing technology. The FCC is set this month to consider a number of updates to its rules. The Commission will consider whether large providers should provide smaller carriers with access to their IP networks at reasonable

¹⁴ In re: FCC 11-161, 753 F.3d 1015 (10th Cir. 2014).

¹⁵ See FCC Takes Steps to Modernize and Reform Lifeline for Broadband, News Release (June 18, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-333992A1.pdf).

comparable rates to what they had been charged on the older network. Second, the Commission will consider how to ensure consumers can purchase backup power for their phones in the event of an emergency.

G. Public Safety

The FCC has taken a couple of steps this year to improve our public safety communications. The Commission started the year by adopting new rules that will improve the accuracy of location data that first responders receive when someone calls 911.

Next month, the FCC is set to consider new backup power rules for consumers. IP-based networks provide a number of advantages over older copper-based systems. But these new systems are more reliant on commercial power and can be more vulnerable to outages during an emergency. To address this gap, the FCC will consider whether to give consumers the option to purchase backup power that can be used in the event of a power outage.

Looking ahead, Chairman Wheeler has committed to complete a proceeding by the end of this year to improve the resiliency of wireless networks.

H. Consumer Protection

Late last year, the FCC launched a new consumer complaint database. This new database makes it easier to compile data about specific issues and problems that are impacting consumers. Policymakers can use this information to better inform their decisions.

The FCC also passed new rules this summer regarding robocalls. While the new rules clarify a number of issues that have been raised in related litigation, critics have alleged that they create new loopholes that could lead to an increase in unwanted calls. Others have raised concerns that the rules could hamper the democratic process.

I. Enforcement

At its July 2015 agenda meeting, the FCC adopted a plan to modernize its Field Office operations, by closing 11 field offices, ¹⁶ but keeping open offices in 13 cities throughout the U.S. ¹⁷ Additionally, the FCC will maintain a "field presence" in Alaska and Puerto Rico, and "rotate periodically" through Kansas City with rapid deployment teams stationed in Columbia, MD and Denver. ¹⁸ Concerns regarding the original proposal were raised by the National Association of Broadcasters, public safety entities, and Members of Congress, which resulted in a revised proposal that reduced the number of offices slated to be closed.

¹⁶ Offices will close in Anchorage, Buffalo, Detroit, Houston, Kansas City, Norfolk, Philadelphia, San Diego, San Juan, Seattle, and Tampa.

¹⁷ Offices will remain in Atlanta, Boston, Chicago, Columbia (MD), Dallas, Denver, Honolulu, Los Angeles, Miami, New Orleans, New York, Portland (OR), and San Francisco.

¹⁸ See FCC Adopts Plan to Modernize Field Operations, News Release (July 16, 2015) (online at http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0716/DOC-334393A1.pdf).

Additionally, the FCC's Enforcement Bureau has taken several actions in recent months on a variety of issues:

- *GPSPS Cramming-Slamming Forfeiture Order:* On July 23, 2015, the FCC announced a \$9,065,000 fine for GPSPS, Inc., an Atlanta, GA telephone company for unauthorized switching of consumers' long distance carriers and for unauthorized charges on consumer bills. ¹⁹
 - *T-Mobile 911 Outages:* On July 17, 2015, the FCC announced a \$17.5 million settlement with T-Mobile regarding two nationwide 911 service outages in 2014, along with an agreement by T-Mobile to implement a compliance program on 911 resilience and 911 risk management processes. ²⁰
 - AT&T 2010 Transparency Rule NAL: On June 17, 2015, the FCC released a \$100 million Notice of Apparent Liability against AT&T for alleged violations of the 2010 Open Internet transparency rule that AT&T mislead consumers about unlimited mobile data plans. ²¹
 - *iHeart Communications EAS Violation:* On May 19, 2015, the FCC announced a \$1 million settlement with iHeart Communications for misuse of emergency alert system (EAS) tones during a syndicated broadcast that resulted in a multi-state retransmission of false EAS alerts. ²²
 - *Verizon and Sprint Mobile Cramming Settlement:* On May 12, 2015, the FCC announced that Verizon Wireless will pay \$90 million and Sprint will pay \$68 million to settle investigations into unauthorized third-party premium text messaging service charges, with a majority of the settlement money used to fund consumer redress programs, along with other consumer protections.²³
 - *AT&T-SNET Lifeline Settlement:* On April 29, 2015, the FCC announced a \$10.9 million settlement with AT&T and its former subsidiary Southern New England

¹⁹ See FCC Fines GPSPS \$9.065 Million for Illegally Billing Customers and Switching Their Phone Companies (News Release) (July 23, 2015) (online at http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0723/DOC-334461A1.pdf).

²⁰ See FCC Reaches \$17.5 Million Settlement with T-Mobile for Nationwide 911 Outages, News Release (July 17, 2015) (online at http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0717/DOC-334433A1.pdf).

²¹ See FCC Plans to Fine AT&T \$100 Million for Misleading Consumers About Unlimited Data Plans, Violating Transparency Obligations, News Release (June 17, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-333877A1.pdf).

²² See FCC Fines iHeart Communications \$1 Million for Transmitting Fake Emergency Alerts During "The Bobby Bones Show," News Release (May 19, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-333516A1.pdf).

²³ See Verizon & Sprint to Pay \$158 Million to Settle Mobile Cramming Investigations, News Release (May 12, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-333427A1.pdf).

Telephone regarding overbilling to the FCC's Lifeline program for failing to recertify the eligibility of customers under FCC rules.²⁴

- AT&T Consumer Privacy Settlement: On April 8, 2015, the FCC announced a \$25 million settlement with AT&T regarding an investigation into consumer privacy violations in AT&T's call centers in Mexico, Columbia, and the Philippines where almost 280,000 U.S. customers' names, social security numbers and other account related data were disclosed without authorization.²⁵
- *CenturyLink and Intrado 911 Outage Settlement:* On April 6, 2015, the FCC announced a \$16 million settlement with CenturyLink and a \$1.4 million settlement with Intrado Communications for an April 2014 multi-state 911 outage of more than six hours, along with agreements to adopt compliance plans. ²⁶
- *Roman LD, Inc. Slamming NAL:* On April 2, 2015, the FCC released a \$5.9 million Notice of Apparent Liability against Roman LD, Inc., an Irving, TX telephone company for allegedly switching consumers' long distant telephone services without authorization.²⁷
- Verizon 911 Outage Settlement: On March 18, 2015, the FCC announced a \$3.4 million settlement against Verizon regarding an April 2014 911 outage where 750,000 California residents were unable to call 911 on Verizon's service.²⁸

J. Process Reform

FCC Chairman Wheeler has stated since his tenure began in November 2013, that one of his priorities is to improve the efficiency and transparency of the agency's processes. Upon taking office, Chairman Wheeler directed an advisor to develop process reform recommendations. Initial recommendations included streamlining agency processes and data collections; eliminating or streamlining outdated rules; improving interactions with external

²⁴ See AT&T and SNET to Pay \$10.9 Million for Overbilling Federal Lifeline Program, News Release (Apr. 29, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-333257A1.pdf).

²⁵ See AT&T to Pay \$25 Million to Settle Consumer Privacy Investigations, News Release (Apr. 8, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-332911A1.pdf).

²⁶ See FCC Fines CenturyLink and Intrado \$17.4 Million for Multi-State 911 Outage, News Release (Apr. 6, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-332853A1.pdf).

²⁷ See FCC Plans \$5.9 Million Fine Against Roman LD, Inc., for Misrepresenting Its Identity and Illegally Switching Consumers' Phone Companies, News Release (Apr. 2, 2015) (online at: https://apps.fcc.gov/edocs_public/attachmatch/DOC-332830A1.pdf).

²⁸ See Verizon Agrees to \$3.4 Million Settlement to Resolve 911 Outage Investigation, News Release (Mar. 18, 2015) (online at https://apps.fcc.gov/edocs_public/attachmatch/DOC-332570A1.pdf).

stakeholders; and improving the internal management of the agency.²⁹ The Commission sought comment from stakeholders on the proposed recommendations, and is actively working toward implementing reforms.

At the March 19, 2015, FCC Oversight hearing, Chairman Wheeler announced his intention to create a Task Force on FCC Process Reform, which will be made up of representatives from each of the Commissioner's offices, to complement the Staff Working Group on Process Reform that was created when he became Chairman. The FCC recently announced that the Task Force has been formed and that it will "consider ways to improve the effectiveness of the Commission's internal processes from the Commissioners' perspective, taking into account views expressed by internal and external stakeholders about the FCC's internal processes and protocols." 30

In its most recent quarterly workload report to the Committee on Energy and Commerce, the FCC indicated that since May 1, 2014, the total volume of items pending for more than 6 months has dropped more than 49%, with the total volume of licensing-related items pending more than six months has dropped by more than 40%.³¹

II. WITNESSES

The following witnesses have been invited to testify:

Tom Wheeler

Chairman

Federal Communications Commission

Ajit Pai

Commissioner

Federal Communications Commission

²⁹ Federal Communications Commission, *Report on FCC Process Reform* (Feb. 14, 2014) (online at www.fcc.gov/article/da-14-199a2).

³⁰ See Task Force on FCC Process, Blog (July 21, 2015) (online at https://www.fcc.gov/blog/task-force-fcc-process).

³¹ See Letter to the Honorable Greg Walden and Tim Murphy (July 15, 2015).