

**Statement of Jeff Gardner
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Before the

U.S. Senate Subcommittee on Communications, Technology and the Internet

***Connecting Urban & Rural America: The State of Communications on the Ground*
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Chairman Pryor: Thank you for your leadership on communications policy and for inviting me to testify today.

Windstream traces its roots back to Sheridan, Arkansas, where our predecessor began as the local phone company in 1948. This year, Windstream is proud to have joined the FORTUNE 500, and we are still proud to call Little Rock our headquarters.

Windstream unites rural and urban America with an innovative business model:

- Rural – We provide universal, carrier-of-last-resort service to some of the most remote areas in the nation, including many in Arkansas. About 90% of Windstream’s exchanges are smaller than Sheridan. Although we have vigorous competition from wireless and cable companies in the rural towns, we also reach many locations that those providers consider too remote and too costly to address.
- Urban – In urban markets like Little Rock, we are a competitive carrier, going head to head with the largest incumbent phone companies, as well as incumbent cable companies. Windstream caters to businesses large and small, offering a personalized approach to management of every aspect of communications infrastructure.
- National network – Linking these diverse customer groups is the Windstream network and associated infrastructure, including more than 20 data centers that support cloud-based storage and services. Our network includes 115,000 miles of fiber-optic cable – enough to circle the Earth 4 ½ times.

Mr. Chairman, let me provide a few examples of how we serve your constituents and how those services could be affected by your work leading this subcommittee.

Connecting Schools & Universities

Educational institutions are significant and valued Windstream customers. Windstream serves a wide range of campuses, from small Arkansas districts with a few hundred students to Ivy League institutions.

In particular, one of Windstream's longstanding customers is the Mooresville Graded School System in North Carolina, which is considered a national leader in using high-speed broadband and wireless devices to overhaul its pedagogical approach and drive significant gains in student achievement. Windstream data connections have helped make these achievements possible, as we provide 1 Gigabit connections to each of Mooresville's lower schools and a 5 Gigabit connection to its high school. Although Mooresville's achievements are widely known in educational circles, the district gained additional acclaim this summer when it hosted a visit by President Obama. At Mooresville Middle School, the president announced ConnectEd, his plan to expand the E-Rate program to enable more schools to follow in Mooresville's footsteps.

Closer to home, Windstream provides 100 Megabit speeds to each of the 24 elementary schools in the North Little Rock district and 1 Gigabit speeds to the district's two high schools. As in the case of Mooresville, this service is funded in part through the FCC's E-Rate program.

Earlier this summer, I accepted an appointment by Governor Beebe to the FASTER Arkansas Task Force, which is studying broadband access in public schools and developing recommendations on areas for improvement. In my view, a critical threshold question is, why are some districts not moving up to higher-speed services? Based on Windstream's experience serving schools and businesses, very advanced offerings are deployed, even in smaller communities, and are in use by many. To the extent that educational entities do not use these services, we need to explore the cause: Is it lack of availability of facilities, lack of funding, or another reason like lack of computers or tablets in the schools, teacher training, or curriculum support?

Clearly, there is strong interest in Arkansas and at the national level in capitalizing on recent technological advances. Some have said there are opportunities for new types of educational materials; for broader dissemination of educational devices, from smart boards to computers; for more self-paced learning; and more effective assessment and targeted intervention by instructors. Windstream supports these goals and objectives and would like to

be a partner in developing a vision for this increasingly digital future, whether that's through state efforts or reforms to the FCC's existing E-Rate program.

Connecting Rural America

As you know, Windstream is one of the three largest providers of phone and broadband service to rural Arkansas. In this capacity, I have seen firsthand how engaged and effective you have been in improving the state's rural communications. Windstream is in the closing stages of an investment program funded jointly with the U.S. Department of Agriculture to upgrade broadband for about 13,000 rural Arkansans. In addition, Windstream contracted with the University of Arkansas to provide broadband links to more than 200 rural health sites. These both were significant projects for the state and both were made possible by the 2009 Recovery and Reinvestment Act, also known as the stimulus bill. Thank you for the important role you played in these success stories.

As we think about the challenges that lie ahead for rural Arkansas, two basic facts remain as true today as they were 20 years ago:

- 1) Wireline networks are essential for all communications.
- 2) The economics of rural communications are challenging.

I spent much of my career in the wireless industry and am as fascinated as anyone by the amazing changes that we have seen. But policy makers must not lose sight of the fact that all robust communications still come down to electrons or light moving along a wire. Wireless towers and antennas connect back to a terrestrial network. In fact, in Arkansas, as wireless carriers have upgraded to next-generation 4G services, they have come to Windstream for network connections. In the last two years, Windstream has constructed fiber backhaul facilities for 380 wireless towers in the state.

In addition, for all wireless networks and technologies, one of the most important traffic management tools is offloading traffic onto landline networks as quickly as possible. Often, this means handing off traffic to Wi-Fi networks supported by wireline providers. One recent analysis found that Wi-Fi already handles more than two-thirds of the data for LTE subscribers and that its share is expanding. When consumers use tablets and smart phones at home, at a hotel, or in a shop, chances are they are connecting through a wired Wi-Fi connection.

And, of course, many rural consumers live in places where wireless service is not so prevalent or reliable. The wired network – increasingly via broadband – remains the sole tether

for rural residents to stay in touch with family, friends, and business interests around the state, country, and world.

In rural Arkansas, a modern and reliable wireline network continues to serve an important role comparable to good roads and bridges.

But the economic challenges of serving rural America are as old as the telephone itself. The basic question is, how can we deploy, operate, and maintain expensive assets in areas with low population density? As a general principle, network costs are lower per subscriber in more densely populated areas but higher in rural areas, while total revenue potential in an area decreases with lower density. That's why we have universal service programs and intercarrier compensation systems.

Today's hearing is timely, because the FCC is in the process of dramatically reshaping the financial underpinnings of universal rural networks. This transition must succeed, because the stakes are very high for rural America, including much of Arkansas, but many details remain unresolved.

"USF/ICC reform" has become shorthand for a top-to-bottom overhaul of rural communications programs, starting with the Universal Service Fund itself, and also including the federal and state components of intercarrier compensation, as well as state USF programs. The FCC's reform order in 2011 mandated specific and sizable reductions in intercarrier compensation and proposed a fundamental overhaul of universal service for high-cost areas. Apparent even at a high level, the math here is simple and challenging. On one side of the ledger, intercarrier compensation has been slashed by billions of dollars, while federal universal service funding remains at roughly the same level as before. On the other side of the ledger, the FCC's goals now are to sustain ubiquitous voice service while also, simultaneously, substantially increasing broadband access in rural America.

We understand the need for reform – in fact we pushed for it and helped get the comprehensive reform order across the finish line in 2011 – but the job is far from complete.

This spring, the FCC decided to invest \$485 million in rural broadband expansion via Phase 1 of the Connect America Fund. You played an important role in that decision, Mr. Chairman, and I thank you. Pursuant to commitments made while the FCC was considering the rules for this round of Phase I funding, Windstream will match – on at least a dollar-for-dollar basis – the total amount of Phase I funding it receives. As a result, this coupling of public and private investment dollars will enable us to enhance broadband or deliver it for the first time to hundreds of thousands of consumers in Windstream's territory.

Still, unresolved aspects of reform, coupled with slashing of intercarrier compensation, have created troublesome uncertainty for “price cap” carriers and the consumers they serve. For the future, there are plans to estimate the price cap carriers’ costs of providing service to certain rural areas, then offer funding above a high cost threshold, along with a set of performance requirements, to serve the area. There has been an unspoken assumption that the proffered funding will be reasonable to the provider, but also attractive to policymakers who are trying to cover the nation with ubiquitous voice and broadband on a constrained budget. We are hopeful that these dual objectives soon will be fulfilled, and that the strain from existing uncertainty will be lessened. But we need the FCC to continue in a transparent and deliberate fashion as it moves forward with the next phase of reform, and ask the Committee to keep a watchful eye in its oversight role.

Connecting Urban America

Just as in rural markets, urban communications ultimately ride along a wireline network. In 2012, wireline networks moved 99% of all video traffic. The most recent data for 2013 suggests that Wi-Fi, a technology tied to landline networks, is carrying four times the data load of cellular.

Windstream’s focus in urban markets is on business customers, and we serve more than 450,000 businesses, including most in the FORTUNE 500. In Little Rock, for instance, Windstream serves some of the largest medical facilities. In the hospitality industry, Windstream ranks as one of the largest communications technology providers nationwide, supporting more than 1 million rooms. Windstream also serves major government entities, prominent universities, and leading financial institutions. Of course, we serve many small and medium-sized businesses and locations too.

In the past year, Windstream has seen particularly strong growth in demand for off-site data storage and related services. For example, a financial institution in Charlotte may want to back up its data at Windstream’s Little Rock data center to ensure 24/7 access and safety in the event of an unforeseen disruption to its operations in North Carolina. Windstream now operates more than 20 data centers, from Boston to Phoenix and from Chicago to Little Rock. Each has state-of-the-art electrical systems, secure entry, and a range of services, from cloud computing to disaster recovery.

In your role as chairman, I would ask that the subcommittee pay close attention to sustaining competition in urban markets.

There has been considerable discussion in Washington about the vigorous rivalry among firms that seek to serve residential customers. For phone and Internet service, most homes can choose at least between a legacy phone company and a legacy cable company. Wireless and satellite providers also are competitive for a narrower set of services. As a result, only about one home in four now receives voice service from a traditional landline phone company.

Yet alternate infrastructure – and the range of competitors – is narrower for businesses that need sophisticated, high-capacity communications. The majority of buildings across the country continue to be served only by a connection from a Bell Operating Company.

In 1996, a Republican Congress and a Democratic president agreed to a landmark law that reduced regulation of telecommunications in exchange for specific strategies to promote market competition. The provisions of the 1996 Telecommunications Act allow Windstream to compete even in markets where a Bell company still has a lock on critical infrastructure.

Citing the advancement of IP technologies and competition in residential markets, some have called for a sweeping rollback of the powers of the Federal Communications Commission. But few players in industry believe that fact-based policy reforms – especially when business customers are considered – will come so easily or conform neatly with partisan political philosophies.

Like Windstream, most companies are deploying IP in their networks and appreciate the importance of this conversation, which is enhanced by the creation of an FCC task force on the issue. This transition, however, is a process, and will unfold in different ways and at different times for each provider.

Increasingly, there is no "one size fits all" approach. As you know, Windstream operates as an ILEC in some areas, in others as a CLEC -- indeed, as one of the nation's largest and most successful CLECs. So when it comes to issues such as interconnection, competitive access, transport, privacy, and public safety, we are keenly aware of the need for public policy to balance regulatory treatment among competing platforms; to avoid disincanting wireline investment; and, at the same time, to avoid competitive harm, especially during this transition period that we are in, a transition that is technology-driven.

I suggest that the subcommittee seek out specifics regarding changes in the communications market, and that it take care when considering policy reforms in response. In areas where the competitive or economic dynamics are not fully understood or where there are gaps in our knowledge, we will need to gather and analyze the right data to understand the specifics of the situation. In particular, we need to be wary of using competition in residential markets as a reason to withdraw regulatory rights and obligations that enable competition in business markets. Modernizing our regulatory structure and planning for a smooth transition

to an IP world are essential to the health of the wireline industry and all the benefits that it brings our nation. It is critical that reforms be judicious and founded on fact-based assessment of the modern communications marketplace.

The State of Communications on the Ground

Mr. Chairman, I congratulate you on convening today's dialogue. It is important that the oversight and legislative efforts of the Senate Commerce Committee be grounded in a practical understanding of the challenges that lie ahead for Arkansas consumers and companies. All providers in rural areas have been placed under financial strain by the end of intercarrier compensation and the overhaul of universal service. This situation merits a watchful approach by your subcommittee. In addition, consequences of moving to the IP era may be enormous. I would urge you to cast a wary glance on policy reform proposals, in response, that sound simple and easy – as the transition to an “all IP world” is complicated and entails different consequences for different types of customers. Continued competition across the communications landscape will require reforms targeted to varying conditions.

Again, thank you for the invitation to appear today and to testify.