



Statement of

Delbert Wilson
General Manager
Hill Country Telephone Cooperative
Ingram, Texas

On behalf of

NTCA
National Telecommunications Cooperative Association
OPASTCO
Organization for the Promotion and Advancement of Small Telecommunications Companies
WTA
Western Telecommunications Alliance

Before

United States Senate
Committee on Commerce, Science, and Transportation

In the Matter of

“Universal Service: Transforming the High-Cost Fund for the Broadband Era”

June 24, 2010

Executive Summary

Today, in tandem with unprecedented technological advances, American consumers are dramatically altering their communications expectations both at work and at home. Now, more than ever, we all rely upon dynamic communications products and services to meet our national, economic, and personal security needs.

Rural communications providers throughout the country continue to respond aggressively to the challenge of meeting these communications demands by rapidly transforming their traditional switched voice systems into powerful and dynamic Internet protocol (IP) broadband networks. This is a natural response for rural community-based providers that have a long history of taking their service responsibilities seriously. While the successful fulfillment of this mission is not without tremendous cost, today we are fortunate to have a set of time-tested tools in place that can and will ensure these costs are recoverable.

Regrettably, many Americans today are either unfamiliar with, or have forgotten, the value of these critical cost recovery mechanisms, not the least of which is universal service. Indeed, the very agency charged with carrying out our national universal service policy and managing its related program appears to be among these. While the Federal Communications Commission's (FCC's) recently released *Connecting America: The National Broadband Plan* (NBP) rightly aspires to "bringing the power and promise of broadband to us all" it unfortunately fails to comprehend the value of and manner in which existing cost recovery tools, such as the universal service fund (USF), could help ensure such vision becomes reality.

Clearly, we believe our highest priority must center on not chasing after untested alternatives, concepts and theories but rather on focusing directly on not just preserving, but strengthening the tools, such as universal service, that we already know are working. This is the manner in which we as a country will be able to proudly meet the broadband challenges of this era, and to do so in a way that restores America's communications preeminence in deed – not simply word.

Introduction

Chairman Rockefeller, Ranking Member Hutchison and members of the Committee, thank you for the invitation to participate in today's hearing on "Universal Service: Transforming the High Cost Fund for the Broadband Era." My name is Delbert Wilson, and I am the general manager of Hill Country Telephone Cooperative in Ingram, Texas. I welcome the opportunity to engage in this discussion regarding the critical importance of our nation's universal service policy and program and how best to strengthen them for our broadband future.

My remarks today are being made on behalf of Hill Country Telephone Cooperative as well as the National Telecommunications Cooperative Association (NTCA), the Organization for the Promotion and Advancement of Small Rural Telecommunications Companies (OPASTCO), and the Western Telecommunications Alliance (WTA) which collectively represent more than 1,100 rural rate-of-return (RoR) regulated community-based providers from around the nation.

Collectively, the service territories of these companies cover more than one-third (37%) of the nation's land mass yet their total subscriber base accounts for about 5% of the national total.

Rural Company Dynamics

Hill Country provides advanced telecommunications services to more than 11,000 customer members in 15 exchanges located in 14 counties. Our service area is immense; spread over 2,900 square miles of rugged terrain throughout south central Texas – equivalent to an area twice the size of Rhode Island. Our customer density is only 4.68 subscribers per square mile. We have 109 employees and our company's annual revenues are in the range of \$19 million.

By way of comparison, Windstream, who is also appearing here today, is a mid-sized carrier that operates in 23 states with a work force of approximately 9,500 and annual revenues of about \$4 billion. U.S. Cellular, who is also testifying today, is the fifth-largest wireless service provider in the country, serving six million consumers in 26 states with a work force of approximately 8,700 and annual revenues of about \$3.7 billion.

While Hill Country is very small in comparison to these two entities, it is important to note that even among small rural companies, it is on the higher end of the average rural company in terms of customer, employee, and revenue figures, which is due largely to its extreme geographic footprint as well as the diverse product line it offers. I point this out simply to underscore exactly what sort of cost dynamics are involved in providing state of the art communications services in rural America today.

The Promise of Broadband

We believe that broadband offers the promise of a better tomorrow for all Americans, but especially for those living in rural America. Broadband is the great equalizer between rural, suburban, and urban regions, because distance and location disappear. Truly, broadband capability yields the ability for rural communities and their citizens to effectively compete in the global economy. Indeed, there is simply no question that rural economic development depends on access to broadband. Last year, the United States Department of Agriculture (USDA) released a study entitled “Broadband Internet’s Value for Rural America.” It found that “employment growth was higher and nonfarm private earnings greater in counties with a longer history of broadband availability.”

Rural local exchange carriers (RLECs) have long understood the power and the promise of broadband and advanced communications services. Today Hill Country is working hard at deploying state-of-the-art soft switches, digital loop carriers to shorten local loops for greater bandwidths, and miles of fiber optic cables. RLECs across the nation are doing the same thing with the objective of providing an array of reliable high-quality voice, data, and video services. The future of rural communities and America as a whole increasingly rests upon the deployment of robust broadband oriented infrastructure that can simultaneously provide for the critical needs of consumers and businesses, and the myriad health, safety, civic and educational entities on which every American depends.

Considering the diverse and extreme nature of the areas Hill Country and its fellow RLECs serve, we long ago recognized the need for a coordinated comprehensive national broadband strategy that would adequately consider and respond to such dynamic changes in the communications environment.

Imagine our hope when Congress and the President developed and enacted the provisions of the America Recovery and Reinvestment Act (ARRA) that mandated a national broadband plan. Imagine our optimism when little more than a year later, after months of outreach and hard work the Federal Communications Commission (FCC) actually issued such a report. Yet, imagine our extreme disappointment as we began to read and comprehended the misaligned premise, assumptions, and objectives of this plan and what it likely means for the future of rural America.

The Grand Experiment

The Communications Act contains very specific clauses that mandate with certainty the statutory right of every American to communications services of a comparable nature in terms of price and scope. That means that rural Americans residing in the far corners of Hill Country's vast and sparsely populated service area are entitled to communications services that are comparable to those available to people, for example, living in the DC Metropolitan area.

Naturally there is a cost factor associated with that policy and through the years, legislative and executive branch policymakers have taken great care through a series of appropriate steps to foster building a multi-use network that enables broadband deployment through a successful cost recovery structure that ensures this long-time national statutory policy is effectively met. It is a cost recovery strategy comprised of many pieces – cost-based universal service support, RoR regulation, intercarrier compensation, and National Exchange Carrier Association (NECA) pooling. It is an approach that was developed in order to ensure that all Americans share in the benefits as well as the responsibilities associated with such a commitment.

Yet now, after years of effort, dedication, comprehension, and success, the FCC has put forth a kind of grand experiment that all signs suggest will lead to the demise of this successful structure.

Specifically, we are concerned because the NPB appears to:

- Discriminate against rural consumers, by proposing to fund rural networks at speed standards that will render them obsolete almost as soon as they are built;
- Discard proven funding mechanisms that can easily be adapted to support broadband, and proposes replacing them with inherently unpredictable and unworkable economic models and reverse auctions;
- Provide inadequate funding to support build-out and maintenance of broadband services in rural provider service areas;
- Severely underestimate the vital role rural providers play, and must continue to play, in the provision of broadband services to Americans in rural areas including their role as “carriers of last resort”; and,
- Fail to consider reasonable alternatives that could accomplish the FCC’s broadband goals without harming rural consumers.

Discrimination Against Rural Consumers

On the surface, the NBP seems to say all the right things from “Broadband is the great infrastructure challenge of the early 21st century” to “The plan is in beta, and always will be.” Its underlying reality, however, lies deeper in its resounding theme that dwells on the provision of 100 megabit per second (Mbps) speeds to 100 million Americans while pursuing a minimal speed objective for non-competitive regions that is 25 times less than that. Due to the extreme costs associated with providing broadband in rural America, there is little doubt as to which end of this spectrum rural communities will slide. This particular issue has caused a great deal of concern among legislators to the degree that at least 22 Senators, some on this very panel, and

more than 45 Representatives have signed onto letters to FCC Chairman Genachowski expressing their disapproval with these standards that will cause a digital divide between rural and urban Americans.

Disregarding Proven Funding Methods

In addition to the potential to create a permanent digital divide, the NBP contains another major flaw in its proposal to move away from the time-tested method by which rural networks are supported. It is important to point out again that the individual companies that make up the rural provider industry I am representing today are a diverse group, with occasional differences of opinion on legislative and regulatory policy matters. However, let there be no question regarding our unified opposition to the overall approach envisioned by the NBP in terms of funding rural broadband networks in the future. We are specifically alarmed at how the plan proposes to alter the universal service program and other key tools such as RoR regulation and intercarrier compensation that are so crucial to effective rural deployment.

Rural providers have already made significant progress towards accomplishing many of the NBP's goals. They have made broadband service of varying speeds available to over 95% of their customers. Substantial portions of their networks have already been converted to state-of-the-art, Internet protocol-based (IP-based) technologies, designed to handle traditional voice services as well as data, video, and other broadband services and applications described in the NBP. Clearly they are providing the infrastructure and services that policymakers and the public alike are demanding and they have been able to do this largely due to the regulatory structure that is in place for the rural sector of the industry today.

The FCC should abandon the NBP's attempt to force rural providers to shift away from the RoR form of regulation to a price cap-like incentive based approach. Even assuming the FCC has the legal authority to do so, which we argue is unlikely, existing RoR methods have played a key role in efficiently achieving today's levels of broadband deployment in rural provider serving

areas. RoR regulation has been one the government's most successful regulatory systems because it encourages companies to actually make investments in infrastructure that connect insular and sparsely populated areas, while allowing companies to recoup some of those costs. This system has provided for over 96 percent voice penetration and approximately 90 percent broadband availability using the FCC's current broadband definition.

Alternative incentive regulation methods such as those proposed in the NBP, in contrast, are demonstrably ineffective in encouraging carriers to extend service to areas where a profitable business case cannot be made for such deployments. And contrary to claims by some, RoR regulatory methods remain fully viable in the broadband environment.

The NBP also suggests moving away from cost-based approaches in favor of cost modeling to determine cost recovery needs. It is difficult to evaluate details of the NBP Model envisioned by the NBP because the Model itself, and the associated data used to create it, have not been made available to the public for testing, and indeed may never be testable by outside parties. And while the FCC has made perfectly clear its intent to cap and phase-out existing funding mechanisms, the NBP is remarkably vague as to exactly how new support mechanisms based on the Model will function. For example, the NBP proposes eventually to create a new Connect America Fund (CAF), but this mechanism, like the NBP Model itself, is mostly an unknown at this point. Without a clear description of how the pieces will all fit together (along with specific proposed rule language), interested parties cannot reasonably be expected to offer informed comment on individual portions of the NBP.

However, preliminary results of analyses of the NBP Model by our organizations make clear that funding available under the Model will not be sufficient to accomplish the NBP's objectives. If, for example, the Model used to determine "gap" funding were to be used to entirely replace existing funding mechanisms, and funding is limited to the \$23.5 billion over 20 years the Model estimates as necessary to fill the gap, rural provider funding would be slashed by as much as

90% compared to current levels, even though approximately 70% of rural provider service territories are currently “unserved” based on proposed speed standards. While it does not appear likely the FCC plans to use “gap” funding calculated by the Model to determine all broadband universal service support, under any scenario it appears funding cuts for rural study areas contemplated by the Model would make it impossible for RLECs to sustain existing broadband service levels. If implemented, these funding cuts would likely cause rates for both voice and broadband services to rise significantly in rural provider serving areas. Such price escalations would, of course, dramatically reduce existing “take” rates for broadband services in rural provider serving areas if indeed such service remains available at all.

Both prior to and following the release of the NBP, many parties have put forth so-called universal service reform proposals. The reality is that most have been little more than efforts to drive support away from carriers that are committed to market-wide service in order to create an environment more beneficial to their less inclusive business plans. For example, at least one of the witnesses here today has put forth such a plan that is designed to move support out of markets that are perceived to be competitive. This type of proposal highlights a basic misunderstanding of how a ubiquitous broadband network is deployed and maintained. Limiting or eliminating support in areas where there may be competition overlooks how costs are spread over an entire network. This approach also overlooks how diminishing support in one part of the provider’s market will lead to escalating costs throughout the remainder of its service area. If the support is allowed to truly follow the costs, perhaps there would not be a problem. If, on the other hand, such a proposal attempts to preclude support from following the costs, we could very well see situations where carrier-of-last-resort (COLR) and public safety responsibilities are abandoned as more remote regions of a rural market are no longer able to sustain themselves. Clearly such outcomes are neither consistent with current public policy nor that which is evoked throughout the NBP.

More Workable Alternatives

We accordingly urge policymakers to refrain from further consideration of these unworkable approaches that will do little more than slow or even eliminate future deployment and adoption. Instead, the NBP should be redirected to consider and emphasize the specific alternatives that were suggested in the NBP development proceedings, including various “benchmark” approaches to funding end-to-end broadband services in rural areas. If adopted, these approaches could be used to encourage rural providers and others to meet FCC-established broadband deployment and adoption targets on a timely basis. Moreover, our organizations believe these alternative mechanisms could be implemented well in advance of the 10-year transition approach embraced by the NBP and in a legally-sustainable manner, which is more than could be said of many of the NBP’s parameters.

A key feature of these alternative approaches is that they would build on the success of proven support mechanisms to target broadband deployment and adoption. While the NBP dismisses such programs as outmoded “legacy” plans, today’s time-tested cost-recovery structure, including RoR regulation, NECA pooling, intercarrier compensation, and cost-based universal service support, have permitted rural providers to deploy and operate multi-use, broadband capable networks over vast portions of the nation’s geography. The FCC should be looking to continue and improve this success story, not undermine it.

The NBP correctly notes existing universal service and intercarrier compensation cost recovery programs were created in an earlier, pre-broadband era, and must be adapted to focus on broadband service of today’s era. We agree completely and have been among the first to argue that it is long past time for reorienting these programs for the needs of tomorrow. Indeed, in recent years, our organizations have testified on this matter before this panel and its House counterpart on several occasions and laid out specific recommendations and approaches in this regard.

If adopted as described, the NBP's funding proposals will destroy the prospects of improving broadband service in rural provider serving areas, cause dramatic reductions in existing broadband service levels, and may indeed make it impossible for rural providers to continue providing even basic voice services in many rural areas of the country.

Inadequate Cost Recovery

Just as we have been opposed to the existing regulatory cap as well as proposed statutory caps on the high-cost fund (HCF) of the universal service program, so too are we deeply troubled by the NBP's concept of imposing an overall cap on high cost funding as we reorient the universal service program from voice to broadband. We cannot comprehend how policymakers that propose to reestablish the United States as the undisputed globally preeminent broadband force can simultaneously give consideration to a cap on high cost funding or new caps or freezes on other critical cost recovery streams such as Interstate Common Line Support (ICLS). Such approaches show a lack of understanding about what these mechanisms represent and how they fit together. If implemented, these concepts would immediately dampen, if not eliminate, all short-term prospects for improved broadband deployment and adoption in rural provider markets. As COLRs, Hill Country and my rural colleagues bear unique and significant cost burdens that fully justify maintaining funding mechanisms without caps or freezes both for today's, as well as tomorrow's, communications infrastructure. Again, there are significant costs associated with building a multi-use broadband capable network in rural areas. Capping or freezing funding mechanisms will make it extremely difficult, if not nearly impossible, to meet our national policy and economic broadband goals in the future.

Extending and Repaying Credit

Refocusing USF for the broadband future must be done with extreme care and vigilance because there is great potential for shockwaves to be sent throughout the RLEC ecosystem. For instance, in part and parcel with placing caps on funding and moving away from RoR regulation, the NPB as written would quickly lead to the inability of rural providers to repay billions of dollars in

loans extended by the USDA's Rural Utilities Service (RUS) as well as the rural sector's primary financiers CoBank and RTFC. Committee members should know that in a December 22, 2008 filing with the FCC, the RUS specifically laid out just how important universal service support is to the agency's massive telecommunications lending portfolio. In that document, the RUS outlined how its nearly \$4 billion tax-payer financed loan portfolio could be put at risk by proposals that would curtail universal service flows in one way or another. Then RUS Administrator Jim Andrew stated that a recent analysis of borrowers at the time showed that 53% of the loans outstanding at that time would not be feasible were universal service funding to be frozen. He went on to say that if toll revenues (interstate and intrastate access revenues, interstate and any intrastate universal service funding, and end-user subscriber line charges) were frozen, two-thirds of the loans would not be feasible. This stark reality was underscored again just last week when current RUS Administrator Jonathan Adelstein alluded to the importance RUS lending, universal service funding, and the need to avoid creating a digital divide between rural and urban Americans.

Of course the importance of all these mechanisms is no secret to those of us that are involved in the industry. We are extremely concerned by the NBP proposals as we go about our efforts to try to meet our consumers' needs and otherwise plan for the future. The inability to secure financing at reasonable rates threatens our ability to continue to make upgrades to the underlying infrastructure as well as build out to the unserved areas of our service territories. Ultimately, this hurts rural consumers and those that rely on the underlying network to deliver broadband-reliant services.

Listening to the needs of rural consumers and understanding the ever growing importance of broadband in everyday life, Hill Country is actively engaged in a major outside plant modernization project. This \$57 million initiative involves the deployment of 560 miles of fiber optic cable, 280 digital loop carriers and state-of-the-art soft switches throughout a substantial portion of our market area. Why are we doing this? Quite simply because our subscribers are

demanding it and we recognize that to be a part of the national and global economies, they need it.

Let me give you some examples: Strategic Oil Field Services, which does business globally, moved their office location 12 miles in order to receive Hill Country's broadband service. This connection to the world was imperative to its ongoing successful operations and ensured that much needed jobs stayed in rural America. Another business, NIA, which is an insurance fraud investigation company, recently contracted for a 100 Mbps symmetrical service link which is helping them operate more efficiently as well as increasing their employment rolls. There is also an automobile chassis parts distributor/warehouse located in Hill Country's Center Point Exchange due exclusively to the fact that we were able to offer high bandwidth for this company's catalogue mail order business. In our Leaky Exchange, we have a day-trader who was able to set up his business because of broadband connectivity. In addition, Hill Country proudly has fiber to all of its schools, enabling fast connections for all types and levels of educational learning opportunities. Clearly broadband is essential to the economic well being of rural America today.

Along with alternative approaches to broadband funding mechanisms, the FCC should consider ways to improve broadband adoption rates in rural provider areas. These tend to be low among customers in such areas due in part to the cost of obtaining middle mile transport to the Internet backbone, and the extraordinary high cost of obtaining video content, which makes it difficult for rural providers to offer attractive bundled service packages.

We have also recommended that policymakers turn their immediate attention to the urgent need to adopt universal service fund (USF) contribution reform measures, as well as address outstanding intercarrier compensation (ICC) issues including confirming application of existing access charge mechanisms to Voice over Internet Protocol (VoIP) services. The failure to address these issues will further undermine prospects for accomplishing the goals of the NBP.

Conclusion

We had great hopes for the NBP and what it could mean for all Americans, yet here we are again scrambling to fix and otherwise redirect an emerging federal policy that fails to adequately comprehend the rural circumstance as it appears crafted mostly with urban factors in mind. Here we have a plan that is almost entirely about arriving at a point in time where, largely through competition, deregulation, and private investment, some 100 million households will have affordable access to actual broadband speeds of 100 Mbps down and 50 Mbps up.

Simultaneously, it appears to have an unstated yet all too clear flawed objective of destroying a working regulatory system for economically difficult-to-service markets with the mistaken belief that competition, deregulation and unsupported private investment might somehow yield at least a minimum actual broadband speeds of 4 Mbps down and 1 Mbps up.

It is obvious this goal, which is 25 times slower than the vision for competitive areas, is the fate that awaits rural America. We have communicated these concerns to executive and legislative branch policymakers alike. Our organizations have implored these parties to reassess and redirect the NBPs overall approach to funding broadband services in rural provider serving areas before undertaking any further steps to implement the plan.

We strongly urge the FCC to not implement the specific proposals set forth in the NOI and NPRM ahead of the opportunity for the public to thoroughly evaluate, discuss, and comment on other related elements of the NBP that may not be directly addressed in these proceedings yet are crucial to their direction nonetheless.

Today, I again implore you to give serious consideration to the stark realities the NBP represents for rural America and to ask yourselves if this is how we should be going about ensuring that America as a whole reclaims its global broadband preeminence. I cannot imagine how your answer could be anything but a resounding “no.” Thank you.