WRITTEN STATEMENT OF EDWARD DRILLING

PRESIDENT, AT&T ARKANSAS

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ON

CONNECTING URBAN AND RURAL AMERICA: THE STATE OF

COMMUNICATIONS ON THE GROUND

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Thank you, Senator Pryor, for inviting AT&T to join in today's discussion.

Access to broadband technologies has fundamentally changed society and the way we live, work and connect. It has helped drive innovation in the marketplace, open new markets, expand economic growth, connect us to family and friends, strengthen communities, serve as a tool for learning, and provide news and information. High-speed broadband access in rural areas delivers advanced broadband technologies, applications and services that fuel advancements and create efficiencies in areas such as farming, ranching, health care and education. And, thanks to amazing breakthroughs in wireless technology and increased deployment of next-generation mobile broadband--4G LTE--all these benefits can now travel with us.

Even as more Arkansans benefit from broadband deployment and access to the Internet, we have only just begun to reap the amazing rewards of high-speed broadband across this great nation. There's more to come: better, faster, and more reliable service and the development of even more applications and services.

Our effort to modernize and upgrade our antiquated 20th Century telephone networks and expand our mobile broadband network is aimed at meeting the demands of consumers who have embraced these new technologies and demand the next-generation of services and applications that high-speed Internet networks provide.

AT&T is committed to investing in Arkansas' future. In fact, during the past four years AT&T invested $840 million in Arkansas, $90 million of that occurred in the first half of this year alone. We continue to build out and deliver these state-of-the art, cutting-edge broadband technologies to Arkansas consumers. And we are not slowing down.

AT&T has increased our deployment of U-Verse and 4G LTE across the state. Our plan is by the middle of 2014, our fastest and most reliable 4G LTE network will be operational on the majority of our towers in Arkansas. We are increasing our deployment of fiber networks to more facilities and buildings around the state. And we are deploying fiber to more rural and hard-to-reach areas, particularly to more cell sites. What does this fiber build mean? It means that as we build out more fiber to more cell sites, and as we continue to increase our number of cell sites, we create a denser grid. This denser grid is capable of unlocking the full potential of the Internet and carrying the data-intensive traffic of these leading edge high-speed broadband applications and services that are serving and bringing substantial benefits to Arkansas' farmers and healthcare specialists. It also means the availability of more fiber to all areas of the state, that would decrease the costs of providing faster broadband service to schools and businesses.

Yet, AT&T, as an incumbent telephone company, faces difficult circumstances and a growing challenge to maintain these significant infrastructure investments in Arkansas. AT&T is no longer a monopoly telephone service provider. We provide broadband and communications services in a robustly competitive marketplace where consumers have many choices among various providers of networks, services and devices. Consumers and businesses have and continue to abandon the plain old telephone network in droves for broadband and mobile services offered by those alternative providers. For example, they are increasingly choosing wireless over traditional home phone service, as now approximately 50% of households statewide subscribe to wireless only service.

At the turn of this century, AT&T had nearly 1,033,382 residential and business telephone access lines delivering service in Arkansas. Today, the number of access lines we serve in the state has fallen dramatically. At the end of 2012, the number of access lines we served dropped to 414,020 lines – the equivalent of a 60% reduction in just twelve years. In fact, these double-digit access line losses happened while the number of households and businesses increased in the state during the past decade. The shift away from the legacy telephone network

is happening so fast that by the end of this year we estimate that less than 24% of Arkansas households will have service from AT&T. But, while we thus continue to lose wireline subscribers (and the revenues from serving those subscribers) at a rapid pace, we retain all the costs of maintaining our legacy wireline network to meet our regulatory obligation to provide service on demand to anyone that wants it. One does not need a Ph.D. in economics to understand that this business model is no longer sustainable.

This disappearing customer base means that incumbent telephone companies, like AT&T, must be provided a path that enables the retirement of antiquated telephone networks, and creates the right incentives to justify and bolster expanded investment by incumbents (and, indeed competing service providers) in next-generation high-speed Internet networks.

What does this mean for our Arkansas customers? It means creating an environment for AT&T and other incumbent telephone companies that accelerates the modernization and upgrade towards high-speed broadband networks. It means bringing access to the services and applications brought by high-speed broadband Internet to allow farmers and ranchers to engage in a more globally competitive market and create greater efficiencies for food growth, reduction in fuel consumption, livestock monitoring and irrigation management. It means building more fiber to cell sites, and bringing fiber closer to elementary, middle and high schools – so that this service capacity can be used to deliver the incredible benefits of high-speed Internet to empower Arkansas' students learning potential and fuel the imaginations of our next generation.

And it means bringing a modern broadband network closer to Arkansas to create opportunities for telemedicine consultations, in which specialized medical professionals from urban areas can diagnose, treat and provide long-term monitoring capabilities not previously available to rural residents and Arkansas' senior citizens.

How can policymakers provide additional regulatory and business certainty to help speed the investment necessary to meet rising consumer demand for 21st Century broadband services? The FCC can take the first step, and act quickly on AT&T's request to begin a collaborative process with industry, public interest groups, and consumers to implement trials in a few local markets to create a "real-world" test of the transition away from the antiquated legacy telephone network and towards the deployment of networks capable of offering voice, video and high-speed internet services. The trials will provide an opportunity for all stakeholders (including

consumers, industry and policy makers) to identify and engage in an informed debate about any gaps in technology, services or policy, and to develop solutions that address parties' concerns. In some cases, the solution may entail changes to proposed replacement services to ensure that they will support essential features and functions following the transition. In others, stakeholders may conclude that particular features and functions no longer are necessary or make sense in an all-IP world, or that entities that historically relied on TDM technology and services will have to adapt their own products and services to be compatible with next generation wireless and IP-based services. The important thing now is to commence those trials now so that we, as a nation, can begin to identify and resolve the issues (both known and unknown) that will arise as we complete the transition to next generation wireless and IP-based services while a TDM safety net is still in place so that an orderly transition can occur, along with the proper planning to make that happen.

As part of this process, the FCC must take a hard look at regulations that were written for a different technological and market landscape. Properly implemented, local market trials can play a key role in helping create a pro-consumer, 21st century regulatory framework that encourages innovation, facilitates significant and sustained investment, meets consumer demand for high-speed Internet service, and ensures that no consumer is left behind. Thank again for inviting me to speak on these important matters.