



Post Office Box 1970 • Mountain Home, AR 72654  
T 870.425.3100 • F 870.435.8250

Oral Statement of

Lang Zimmerman  
Commissioner  
Arkansas Economic Development Commission

--

Vice President  
Yelcot Communications  
Mountain Home, Arkansas

Before the

United States Senate  
Commerce, Science, and Transportation Subcommittee on  
Communications, Technology, and the Internet

For its Field Hearing on  
"Connecting Urban and Rural America: The State of Communications on  
the Ground"

Little Rock, Arkansas  
Monday, August 19, 2013

Thank you, Mr. Chairman, for inviting me to participate in my dual role as a Commissioner on the Arkansas Economic Development Commission and as a broadband provider in rural north-central Arkansas through my family company Yelcot Communications.

I appreciate you holding this field hearing back in Arkansas where the businesses run the gamut from small mom-and-pop up to the world's largest company. Every entity throughout this gamut relies not only on the availability of broadband networks, but also their robustness and reliability. Beyond the business world, where the AEDC focuses, the sectors of government, medicine, education, agriculture, and non-profits have similar requirements.

AEDC's primary goal is the recruitment of new business to the state and the retention and expansion of those already here. In recent years redundant fiber networks have become as important to business site selection experts as redundant power supplies. Businesses need to retain connectivity to internal and web-based networks on a continual and reliable basis. And it's not just big businesses; small rural firms making niche products without a brick-and-mortar storefront rely on their websites for order taking, processing, and delivery. If the Internet is down, their business is down because all of their sales are online.

An excellent example is the pending Big River Steel Mill in Osceola, Arkansas. This project represents a \$1.1 billion investment in Arkansas and the promised creation of 525 jobs with an average salary of \$75,000/year. In talking to the AEDC project manager in preparation for this hearing, I made the comment that Big River Steel probably didn't have a big need for broadband. I learned in a hurry that the mill is being constructed by the German steel-mill specialist company SMS Siemag, whose engineers will be performing diagnostic testing and receiving online streams of reports from the mill equipment in Arkansas. There is no way the owners of a \$1.1 billion steel mill would want production halted because of a bad internet connection.

Speaking now as a provider I can tell you that the recent changes to the Federal Universal Service Fund (USF) and Intercarrier Compensation (ICC) mechanism have put a big damper on the expansion of broadband investment from telephone companies like Yelcot. The FCC's USF and ICC "Transformation" Order and subsequent follow on proceedings have, or are proposed to, significantly changed how rural rate-of-return telecommunications providers recover their costs. Some of the reforms and proposals include: caps on costs that can be included in the calculation of USF support; phased down payments from long distance providers for access to the local network;

increased broadband requirements; and reductions in the rate of return that companies are authorized to earn on their investments. The caps depend not just on investment individual companies make, but also on what investment is made by other companies across the country. A company has no way of knowing if any investment puts them in a position to be "capped" and lose support. In addition, the FCC has begun the process of re-evaluating the rate of return that rural telephone companies are authorized to earn on their investment, including a proposed significant reduction in the current authorized rate of return. This lack of predictability in the application of the new caps on support and reductions in revenue makes investment risky, and has started a race to the bottom, rather than give companies the regulatory certainty we need to make the enhancements to our broadband networks necessitated by the Transformation Order.

Thank you for giving me this opportunity to address the committee.