

**Testimony of
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Communications, Technology, and the Internet**

Connecting Urban and Rural America: The State of Communications on the Ground

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My name is Steven Gill Sanders, Jr., and I am the President and General Manager of Northern Arkansas Telephone Company (NATCO).

NATCO is an independent, incumbent local exchange carrier, currently employing 43 people, that was founded in 1951 by my grandfather. It presently serves approximately 5,000 access lines in six rural northern Arkansas exchanges: the Flippin, Bull Shoals and Pyatt exchanges in Marion County, and the Lead Hill, Diamond City and Omaha exchanges in Boone County.

NATCO has a very rural and high cost service area. It is scattered over sections of a two-county area that no one else wanted to serve when my grandfather and father were putting the company together during the 1950s and 1960s. It is sparsely populated, with only Bull Shoals (2011 population: 1,948) and Flippin (2011 population: 1,354) having more than a couple hundred people, and the entire area having less than 7.6 lines per square mile. Its rocky terrain

makes it very expensive to bury telecommunications lines, while wind (periodic tornados) and severe electric and ice storms wreak regular havoc upon overhead lines.

While I'm here today solely as a representative of my company and lifelong resident of the state of Arkansas, there are hundreds of small, rural independent local exchange carriers (ILECs) across the country that have similar thoughts and views as the ones I'm about to present. Companies like NATCO face a formidable task – building communications networks in areas where there often isn't a business case for doing so because of sparse population and rugged terrain. If it were not for the services provided by NATCO and other rural telecommunications providers, many Americans, small businesses and anchor institutions in rural areas would be cut off from the benefits of modern communications. In addition, much of the wireless traffic in rural areas runs from towers through our networks to the broader network. Without the underlying wireline network, cell phones would not work.

Nonetheless, NATCO recognizes that the public telecommunications network is evolving from a voice network to a broadband network, and has been working hard to bring digital subscriber line (DSL) and other broadband services to its customers. We presently provide 65-to-70 percent of our rural customers with some form of broadband service, generally at broadband speeds in the 1 Mbps to-8 Mbps range. Thanks to the efforts of Senator Pryor and others, NATCO in 2010 received a Broadband Initiatives Program (BIP) grant-loan from the Rural Utilities Service that will soon enable us to provide Fiber-to-the-Home (FTTH) broadband services at initial speeds in the 20-to-50 Megabits per second range to over 400 customers in our Diamond City exchange. NATCO also upgraded about half of its Bull Shoals exchange with

FTTH broadband facilities during 2009 and 2010 but suspended that project in December 2011 due to the uncertainties arising from the FCC's November 2011 USF/ICC Order. Many of the reforms to the Universal Service Fund (USF) and intercarrier compensation (ICC) regime initiated by the FCC in its 2011 Order have caused rural ILECs to think twice about making further investments in their networks.

NATCO understands that this is a time of economic uncertainty and budget deficits, and that many are seeking re-examination of the continued need for many government programs. However, the federal USF program has had remarkable success in enabling over 95 percent of U.S. households to connect to the public voice network, and in beginning the transition to a public broadband network. It is both sad and frustrating to people like me who have grown up in the industry that the FCC has limited USF support for rural telephone companies to the \$2 billion aggregate amount they received in 2011 at a time when they need to make substantial investments in fiber facilities to upgrade their broadband services. The nation will not be well served if its rural residents have access to only the 4 Mbps download speeds and 1 Mbps upload speeds supported by the FCC in rural areas while their urban and suburban counterparts can obtain the 100 Mbps or better broadband speeds in both directions that are being encouraged by the FCC for urban America. This not only means that rural residents will have to wait much longer for information to appear on their computer screens, but more significantly, deprives them of the use of many of the business, educational, medical, and entertainment applications available to urban residents. This is the worst sort of "digital divide" and will deprive rural families of the opportunity to participate fully and fairly in the economic and social life of the nation.

In fact, let me emphasize what should be one of the fundamental principles of telecommunications law – namely, if all Americans are going to have equality of opportunity, rural residents need reasonably comparable access to the same broadband transmission and content as urban residents at rates that are reasonably comparable to the rates paid by urban residents. This principle is already in law, as Section 254(b)(3) of Communication Act, which states that federal support mechanisms for rural communications should be “specific, predictable and sufficient.” However, it needs to be much more thoroughly implemented and enforced.

Even within its \$2 billion USF budget for rural telephone companies, the FCC has created unpredictability and uncertainty that has brought broadband investment by RLECs to a virtual halt. The FCC’s Quantile Regression Analysis (QRA) model is a case in point. First, it is based upon the myth that RLECs have a surplus of capital available and that they are therefore inclined to over-invest in unnecessary infrastructure projects in order to maximize their USF support. I don’t know of any such companies and can guarantee you that I have to provide detailed justifications and projections to my Board and lenders before I can get approval of NATCO’s infrastructure investments. More important, the QRA puts managers like me in an impossible position. If I propose a \$3 million fiber upgrade for 2014, I will not begin to receive any USF support to help recover the cost until 2016, and then the amount I receive will be subject to significant potential decreases each year due to the operation of the QRA which calculates my maximum annual USF support each year on the basis of coefficients determined by the investment and operating costs of approximately 800 other rural ILECs of which I have no knowledge. The end result is that I cannot assure my Board and lenders that I can recover the

costs of potential infrastructure projects. I have had to suspend our Bull Shoals fiber upgrade and have not been undertaking additional broadband upgrades (other than the BIP project in Diamond City).

In addition, the FCC is presently proposing to reduce significantly the authorized rate of return (ROR) for rural ILECs on their interstate infrastructure investments. The FCC's proposed process ignores the procedure adopted by Congress in Section 205 of the Communications Act, and disregards pleas from the industry to wait until the effects of its 2011 "reforms" can be discerned before cutting ILEC revenues further. The FCC's ROR proposal is further defective because it is based upon interest rates that are unlikely to remain at their current historic lows and upon the capital costs of much larger companies which often have little or nothing in common with rural ILECs.

Part of making sure that broadband continues to reach rural Americans is ensuring that the USF is on stable footing. As explained above, the FCC has begun the process of modernizing the distribution side of the fund with mixed results. But it also must begin reform of the contributions side – the method by which consumers pay into the fund. The traditional contribution base, which was once heavily related to long distance usage, is changing because of things such as e-mail, cellular service, and other movement away from the long distance network.

As we look to expand our broadband network in rural areas, we also confront the issue of household broadband adoption. The FCC has recognized the importance of video programming

in encouraging broadband adoption. Our customers need access to high-speed broadband connections in order to take full advantage of online streaming video services such as Netflix or Amazon Prime. Sufficient and predictable funding for broadband buildout is essential in enabling rural consumers to access the diverse video programming options available online. Rural broadband providers are also encountering increasing difficulties and expense to obtain retransmission consent from broadcast stations. When Congress enacted retransmission consent in 1992, it set no limits in Section 325(b) of the Communications Act on what broadcasters could require for their consent. Over the years, broadcasters have determined that rural telephone companies and other small CATV operators need the broadcasters more than the broadcasters need them, and have been increasingly using this concept to demand larger and larger retransmission consent payments and other additional consideration. Likewise, many satellite programmers charge small operators much more than large CATV companies for their program channels. Even with programming cooperatives that many rural ILECs use, they still pay much more than the CATV MSOs [multiple system operators] for the most popular satellite channels.

Whereas no one wants Congress to regulate program content, there ought to be a national debate about the non-discriminatory pricing of such content so that people in all portions of the country and customers of both large and small carriers can have reasonably comparable and affordable access to it.

In conclusion, broadband has incredible benefits to offer to all Arkansans, whether rural, urban or suburban. But it's the rural economy, the one most geographically isolated, that stands to gain the most from the way broadband shrinks the distance between users. My company and

others like it are committed to serving our communities. There's an opportunity here for federal policymakers to assist us in building the networks of the future and that is by making sure policies are in place that adhere to principles and provisions of the Communications Act. I look forward to working with you to achieve this goal.