Statement of Jeff Gardner

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to the

Senate Committee on Commerce, Science & Transportation

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Chairman Rockefeller, Ranking Member Hutchison, members of the committee: Thank you for soliciting our thoughts on the effort to transform universal service to directly support both broadband and voice.

I am Jeff Gardner, President and CEO of Windstream, one of the nation's largest providers of broadband service to rural America, operating in 23 states. Windstream has aggressively deployed broadband service across our footprint, despite our rural profile and modest per unit support from the federal universal service program. Windstream shares your goal of universal broadband availability, and we have invested accordingly, deploying broadband everywhere in our service area where we can recover our investment.

Windstream has deployed broadband Internet access to 90% of our current voice customer base. In addition, to reach 94% broadband availability, we have applied to the Rural Utilities Service for $238 million in Round 2 stimulus funding, which would be matched with $80 million of our own capital.

Due to aggressive deployment and favorable pricing, Windstream is an industry leader in take-rate by consumers. We offer speeds of 3 to 12 megabits per second (Mbps), and our entry price for 3 Mbps broadband service is $30 a month. Among our residential voice customers, 53% subscribe to Windstream broadband.

No rational economic case exists for extending broadband to most unserved areas

As I noted earlier, Windstream's broadband deployment goal is aligned with this committee's goal. We want to reach the remaining 10% of our voice customers that do not have access to broadband service. However, the economics of achieving our shared goal are challenging. We estimate the cost of deploying broadband to the last 10%, at the 4 Mbps speed threshold recommended in the National Broadband Plan, to be in the range of $1.5 billion to $2 billion just for Windstream. Simply stated, we cannot earn an adequate return on our investment in these areas without an effective government program to bridge this gap. This is a microcosm of the problem confronted in the National Broadband Plan. Indeed, the Plan concludes that most unserved areas in the country would be money-losing projects.

When Windstream talks about its unserved 10%, we are not talking about places inside the town limits or near an "anchor institution" like a school or a library. Windstream already offers broadband in virtually every community in our footprint. This includes places like Mentone, Texas, which the *New York Times* said sits in "America's Emptiest County." In Mentone, more than 50 of our 61 voice customers have broadband available to them. Windstream even offers broadband in Orla, Texas, which is known as a "ghost town." To find

our unserved 10%, you must drive several miles or more outside of places like Mentone or Orla – to ranches or remote homes that sit miles from the nearest neighbor.

Even for Windstream, one of the most efficient carriers in the industry, the cost of deploying to these areas dwarfs the potential revenues. We must account for the cost of new electronics, property easements, necessary line upgrades, and labor. These costs are often higher in rural, sparsely populated areas with fewer potential customers from which to recover investment. Our standard prices, however, are consistent throughout our entire national footprint – whether you live in the least populous county in the United States or markets such as Lincoln, Nebraska. It does not take a spreadsheet to do the math on the projects in our last 10% – it is not even close to being economically feasible without additional government support.

There is much casual chatter about skipping over wireline networks and instead deploying some type of "low-cost" wireless service. But with current technology, this is a fantasy. Simply put, there is no such wireless technology available in Windstream's service territory that has the range and cost characteristics to outshine our upgrades to the existing landline telephone network. Moreover, wireless networks interconnect with and use second-mile fiber networks – the very facilities that Windstream and other wireline providers lack an economic case to deploy in rural, sparsely populated areas.

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The potential role of universal service in reaching the unserved

A reformed universal service program could overcome financial barriers to deployment. In particular, Windstream supports the National Broadband Plan's proposed framework and process for executing high-cost universal service reform. Although many critical details are left to decide later, the Plan concludes that a major program overhaul is necessary to pursue a more complex set of policy objectives: sustaining voice service, while also fostering broadband deployment and adoption throughout the nation.

Most policymakers, including those at the FCC, appear to agree that all Americans should have access to high quality voice and broadband services. But the existing universal service system cannot meet that goal. Due to existing program rules, millions of rural Americans have no broadband today, and they lack any realistic prospect of receiving it in the future.

It is true that universal service has funded deployment of state-of-the-art fiber networks – some of the finest in the world. But that level of funding is available only to about 800 small companies and co-ops that together serve a fraction of all consumers in rural America. Other companies, receiving minimal per line universal service funding, actually serve the bulk of rural consumers. The National Broadband Plan quantifies the impact of this disparity: About two-thirds of all housing units without broadband are located in the service territory of larger companies like Windstream, Frontier, CenturyLink, Qwest, and AT&T. If Windstream had access to the same per line support levels as the 800 small companies and co-ops, we too would be able to deliver higher speeds and serve more of our customers with broadband.

We have heard about the fear that reform might create a rural-urban divide, but the National Broadband Plan has recognized that the *current* rules have already created a rural-rural divide. It would be unconscionable to spend millions more on upgrades to the best networks in the nation before millions of others in rural America have access to any broadband at all. Universal service reform to bring at least 4 Mbps to all unserved rural areas, as the National Broadband Plan envisions, would make substantial progress in closing the "digital divide."

Windstream and others stand ready to contribute significant capital to such an endeavor and believe tangible results could be produced in a relatively short time. In December, Windstream and other rural broadband providers, serving a total of 12 million customers, proposed that the FCC create a broadband investment fund within universal service, targeting the highest-cost wire centers in the nation. The companies offered to contribute the first $800 per household in deployment costs if universal service would assist with the balance above that level. Those five companies projected that such a program would generate 95% broadband availability, at speeds of 6 Mbps, within five years.

Given wireless providers often use wired networks to transmit traffic beyond the cell tower, such an extension of wireline facilities also would create vital backhaul fiber facilities to support 4G service in the same rural areas. In other words, driving fiber deeper into the wired network would help enable 4G wireless service in those same remote areas.

Key ingredients of universal service reform

To the extent that this committee is engaged in the reform process, I would urge attention to several aspects that will be critical to its success:

- *Ensure that funding is technology neutral*. Although these words are often repeated, the problem persists. For instance, in the stimulus program, a wireline provider had to construct a system 10 times as fast to be awarded the same number of points as an otherwise identical wireless provider with a system delivering a total of 2 Mbps upstream and downstream.

- *Match support levels to mandates*. The FCC has recognized that it will be expensive to deploy even a base level of broadband at 4 Mbps to the remaining unserved areas. Mandates and requirements raise costs. Providers cannot be expected to invest in money losing propositions. Policymakers must ensure that support amounts make it economically feasible for a company to incur the costs of complying with the requirements that accompany the support.

- *Do not place special, undue burdens on entities deploying broadband in high-cost areas*. Throughout the stimulus process, grant applicants have been asked to accept a different, tougher net neutrality standard than what is under consideration for the rest of the industry at the FCC. Windstream cannot adopt traffic management rules selectively on its network, so this has the potential to put us at a competitive disadvantage, for instance, to cable companies that are not interested in serving the highest-cost areas. In the many towns where we compete, the result would be that we would have requirements and costs that our competition would not.

- *Be willing to accept some redistribution of universal service support*. Absent direct Congressional authorization, the FCC seems likely to keep the Fund at approximately its current size. This approach has the virtue of keeping prices affordable for consumers, who pay fees that support the program, but it also means universal service funds are limited and must be allocated with care. To generate additional program outcomes, i.e., universal broadband deployment, the program will need to be reshaped, and resources will need to be preserved and redirected. For instance, the National Broadband Plan notes that rate-of-return regulation does not create incentives for recipients to become more efficient or pursue streamlining initiatives. It is likely that such entities, if pressed, can deliver the same or better service at lower costs, as larger carriers have already had to do. Ensuring all carriers are delivering voice and broadband services in the most efficient manner could alleviate pressures on the fund and allow redistribution where support is needed most.

- *Fund broadband adoption initiatives*. Rural customers tend to have lower incomes and include a higher proportion of older individuals than the nation as a whole. In examining why consumers choose not to take broadband, the GAO has identified three key determinants, all of which are particularly challenging in rural markets: income level, education, and computer ownership. Windstream is an industry-leader in broadband adoption, yet only about half of our residential voice customers subscribe to our broadband service. Ultimately, the success of a broadband initiative depends not only on whether broadband facilities are built, but also on whether people use them.

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In closing, the National Broadband Plan has helped describe and quantify one of the most striking digital divides in the United States today – the gap in broadband capabilities between one rural area and another. As the Plan says, "[w]hile the High-Cost program has made a material difference in enabling households in many high-cost areas of America to have access to affordable voice service, it will not do the same for broadband without reform of the current system." Rather than preserve a flawed program, universal service must be reformed to direct funds more equitably and rationally across <u>all</u> of rural America. As senior members of this committee know well, changing universal service is difficult. Yet, today we have reached the point where significant change is the only way to fulfill the mission called for in the National Broadband Plan. Thank you.