Statement of Jeff Gardner
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on behalf of the
United State Telecom Association
before the
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Chairman Pryor, Ranking Member Wicker, members of the subcommittee: Thank you for the invitation to testify today on the state of wired communications.

I am Jeff Gardner, President and CEO of Windstream, a FORTUNE 500 telecom provider with an innovative hybrid business model. Windstream is a major rural ILEC and one of the nation's top competitive carriers as well. My testimony today is in my capacity as Chairman of the Board of Directors of the United States Telecom Association (USTelecom).

USTelecom is the nation's oldest and largest association for owners of wired communications infrastructure – first, telephone companies and, today, broadband providers. The association represents some of the largest companies in the U.S., as well as some of the smallest cooperatives and family-owned telecom providers in rural America. We use a variety of technologies and platforms to provide voice, video, and data to residential customers, small businesses, large corporations, and governments at all levels.

This is a dynamic time for wired communications. Technology and business models are transforming rapidly. I would like to make three points, in particular, about where this industry stands and what lies ahead:

1) Wireline technologies comprise the most robust, secure, and relied upon communications infrastructure in the nation. Our members provide service to wireline end-user customers of all sizes, and also supply the veins and arteries of wireless communications;
2) The FCC is in the process of dramatically reshaping the financial underpinnings of universal rural networks and while this transition must succeed, many details remain unresolved;
3) Communications technology is advancing at a rapid pace. This puts pressure on the regulatory structure to keep up. It is essential that we work together to update rules to a pro-consumer, pro-competition framework for the information age.

The wireline network is the linchpin of the information age

I started my career in 1986 in the wireless industry and have extensive experience in both wireless and wireline. I have witnessed dramatic changes in wired telecommunications. Wires are less visible to the consumer than they were 30 years ago, but in many ways they are even more important. As a recent filing by the Department of Defense noted, the wireline industry provides vital communications links for military installations, the nation's air traffic control system, and storefront offices of the Social Security Administration.

Broadband, Wi-Fi, LTE, 4G, Ethernet, and so on all rely on robust wired networks, and each day the demand for those networks grows. Last year, wireline networks handled nearly 99% of U.S. video traffic and 98.4% of total US data traffic. The share of traffic handled on mobile networks is increasing rapidly, but will only represent about 5% of overall traffic in five years.

USTelecom's members are leading the way and investing billions each year to advance this technological revolution. The wireline telecom sector has invested $645 billion over the past decade to transform our industry from one focused primarily on voice services to one leading the way on data services. Every year is a race to keep pace with astounding trends in data consumption -- over the past 15 years, total data traffic has grown at a compound annual rate of 81%.

We also are essential partners in the wireless revolution, connecting cell towers to the rest of the network – most often with robust fiber optic cable – as well as offering Internet backbone and middle mile connections. In addition, for all wireless networks and technologies, one of the most important traffic management tools is offloading traffic onto landline networks as quickly as possible. Often, this means handing off traffic to Wi-Fi networks supported by wireline providers. One recent analysis found that Wi-Fi already handles more than two-thirds of the data for LTE subscribers and that its share is expanding. When consumers use tablets and smart phones at home, at a hotel, or in a shop, chances are they are connecting through a wired Wi-Fi connection.

Some reporters and analysts have speculated about the extinction of wireline companies. But as Mark Twain might have said, "rumors of our death have been greatly exaggerated." In fact, for Windstream, our wireline operations are growing, not contracting. Our employee count in Arkansas has grown 17% since 2010, and the company entered the FORTUNE 500 list for the first time this year. As a whole, the wireline industry has been investing on a massive scale to keep pace with changes in technology and consumer demand. For several years in a row, even through the toughest recessionary times in generations, our industry has invested more than $65 billion annually in broadband and other communications infrastructure. Wireline remains a major employer of high-skill workers. Excluding cable, the wireline industry employs about 400,000 American workers and pays wages approximately 45% above the national average.

Future investment in rural broadband networks is at critical point

In rural America, as in the rest of the country, wired networks remain essential to all communications – arguably more essential than ever. When you're speeding along a rural interstate, it takes more than air and a smartphone to make a call or send an email. Your device links to a tower or antenna that is tied immediately into a wired network – maybe the same overhead cable strung down the side of your highway. And, of course, many rural consumers live far from the Interstate highways, in places where wireless service is not so prevalent or reliable. The wired network – increasingly via broadband – remains the tether for the Nation's rural citizens to family, friends, and business interests around the state, country and world.

In short, wired networks remain essential infrastructure for ensuring that communication services for rural consumers are comparable to those in urban areas in quality and affordability — words that are not mere slogans but rather statutory touchstones and directives to the FCC. Thus, you can appreciate the stakes around universal service and intercarrier compensation reform.

The inherent and long-standing challenge in rural America has been to deploy, operate, and maintain expensive assets in areas with low population density. As a general principle, network costs are lower per subscriber in more densely populated areas but higher in rural areas, while total revenue potential decreases with lower density. That's why we have universal service programs and intercarrier compensation systems.

"USF/ICC reform" has become shorthand for a top-to-bottom overhaul of rural communications programs, starting with the Universal Service Fund itself, and also including the Federal and state components of intercarrier compensation, as well as state USF programs. The FCC's reform order in 2011 mandated specific and sizable reductions in intercarrier compensation and proposed a fundamental overhaul of universal service for high-cost areas. Nobody has attempted to score these changes in terms of their overall dollar impact, but at a high-level the math is simple and challenging. On one side of the ledger, intercarrier compensation has been slashed by billions of dollars, while federal universal service funding remains at roughly the same level as before. On the other side of the ledger, the FCC's goals now are to sustain ubiquitous voice service while also, simultaneously, substantially increasing broadband access in rural America.

We understand the need for reform and helped get the comprehensive reform order across the finish line in 2011, but the job is far from complete. We were pleased by the FCC's decision in May to invest $485 million in rural broadband expansion via phase 1 of the Connect America Fund. Mr. Chairman, you and several others on the committee played important roles in that decision, and we thank you. Still, unresolved aspects of reform, coupled with slashing of intercarrier compensation, have created troublesome uncertainty for "price cap" carriers and the consumers they serve. For the future, there are plans to estimate the price cap carriers' costs of providing service to certain rural areas, then offer funding above a high cost threshold, along with a set of performance requirements, to serve the area. There has been an unspoken assumption that the proffered funding will be reasonable to the provider, but also attractive to policymakers who are trying to cover the nation with ubiquitous voice and broadband on a constrained budget. We are hopeful that these dual objectives soon will be fulfilled, and that the strain from existing uncertainty will be lessened. But we need the FCC to continue in a transparent and deliberate fashion as it moves forward with the next phase of reform, and ask the Committee to keep a watchful eye in its oversight role.

Likewise, the reforms for smaller "rate-of-return" companies have created uncertainty for those providers.

One way to understand the situation for rate-of-return companies and cooperatives is to look at the broadband loan programs run by the Rural Utilities Service at the Department of Agriculture. Borrowing from RUS has dropped to 37% of the money appropriated by Congress in the last fiscal year. Meanwhile, private lenders have withdrawn from the market altogether. Rob West of CoBank, a major lender to small carriers, estimates that "many small rural wireline providers have [lost] or will lose 50 to 100 percent of their capacity to access borrowed capital." The bottom line is reduced capital investment for broadband service in rate-of-return areas at the very time policymakers – from the President to members of the Senate and House to key federal agency appointees to state commissioners – are calling for bringing broadband to unserved communities.

There are concerns that the reform order's "Quantile Regression Analysis" (QRA) approach to determining universal service support to rural rate-of-return companies is not performing as intended. To better assess the impact of the QRA on rate-of-return companies, USTelecom believes the Commission should expeditiously examine and understand the real world effects of USF reform on rate-of-return companies and determine how to ensure that, in operation, it meets the Communications Act's requirement that rural Americans have communications services comparable in quality and affordability to those in urban areas.

A pro-consumer, pro-competitive framework for the information age

Finally, let us consider the state of regulation for wireline communications. The regulatory structure for legacy telephone companies is the oldest, most comprehensive, and least flexible in all of communications.

The biggest mismatch between regulatory approach and current market realities is in the retail residential market. Recent data from the FCC, as well as from the Centers for Disease Control, indicate that by year's end, about 25% of U.S. households will have traditional voice service from incumbent local exchange carriers (ILECs). ILECs are no longer the dominant providers of retail residential voice service, and federal and state regulators must respond accordingly.

In fact, ILECs are in a dogfight for residential voice customers, and legacy regulations are unfairly inflating costs and limiting flexibility for consumers. Google recently announced that in Kansas City, where it has deployed a new fiber-to-the-home network, it will not offer voice service because of the regulatory burden. These regulations are holding back competition in the entire residential voice market.

USTelecom has attempted to address these concerns in several ways. Recently, USTelecom petitioned the FCC for regulatory forbearance. The association sought the elimination of 17 categories of rules and reporting requirements that no longer have relevance in today's marketplace. Some of these rules dated back to the telegraph era, and others are rooted in presumptions that ILECs remain monopoly providers of residential voice service. For instance, Windstream was required to offer long distance through a separate corporate entity from our local exchange services. This and other requirements were dropped in the FCC's decision, released in May. But many other archaic and unnecessary regulations remain on the books, imposing costly burdens on our member companies and forcing us to fight with one hand tied behind our backs to retain old customers or to gain new ones in the face of obvious market evidence demonstrating that competition in the residential voice market is thriving.

Closely related is the question of how the ongoing shift to IP-based services should affect regulation. All companies are deploying IP in their networks and appreciate the importance of this conversation, which is enhanced by the creation of an FCC task force on the issue. But this transition is a process, and will unfold in different ways and at different times for each provider.

As I noted at the beginning of my testimony, technological changes and the demands of consumers and businesses for new solutions to their communications needs have brought real pressure to bear on our regulatory structures. This is a challenge for regulators, but also for us, as an industry. Increasingly, there is no "one size fits all" approach. My company serves both urban and rural markets, it serves both residential consumers and business customers. In some areas it operates as an ILEC, in some as a CLEC -- indeed, as one of the nation's largest and most successful CLECs. Likewise, the association that I lead is comprised of companies offering a variety of services -- utilizing copper, fiber, coaxial and wireless platforms -- in widely diverse business environments. So, when it comes to issues such as interconnection, competitive access, transport, privacy, and public safety, we are keenly aware of the need for public policy to balance regulatory treatment among competing platforms, to avoid disincenting wireline investment, and, at the same time, avoid competitive harm, especially during this transition period that we are in, a transition that is technology-driven. Therefore, the goal of our association, and my goal as Chairman, is one that I would hope is shared by this Committee: It is to forge a consensus on how we can restructure regulatory approaches in a way that provides consumers and businesses with all the benefits of the Information Age. In areas where the competitive or economic dynamics are not fully understood or where there are gaps in our knowledge, we will need to gather and analyze the right data to understand the specifics of the situation. Modernizing our regulatory structure and planning for a smooth transition to an IP world are essential to the health of the wireline industry and all the benefits that it brings our nation, and it is critical that reforms be judicious and grounded in fact-based assessment of the modern communications marketplace.

In closing, my view is that the state of wireline is robust and dynamic. After decades of change, the wireline infrastructure remains the durable and essential core for all communications. Cloud computing promises real benefits for businesses and consumers, but only if a robust wireline industry can supply the broadband connections on which cloud computing depends. Similarly, advanced healthcare applications, gigabit connections linking research universities and gigabit communities all will depend on robust wireline infrastructure. If we are to reach the goals established by President Obama in his ConnectEd initiative to connect our nation’s schools to the Internet at gigabit speeds and the FCC’s goals for a reformed E-Rate program, our country absolutely needs a healthy and robust wireline industry continuing to invest billions in broadband infrastructure.

USTelecom member companies believe the future is bright and are investing accordingly, but we will require your attention and oversight to protect the public interest in strong communication links for all Americans, including in rural areas, and to foster a vibrant and innovative market for communications services.