

**Senate Business and Commerce Committee
Interim Hearing
October 9, 2012
Bob Digneo, Asst VP – AT&T Texas**

Good morning, Mr. Chairman and members.

Thank you for your time today.

High Cost Fund for Large Companies

I want to talk about the review by the PUC of the Large Company TUSF fund under Senate Bill 980 -- and what it has meant specifically for AT&T Texas.

First, let me offer some perspective -- a bit of history on where we have been with the TUSF as a company since it began.

The bar chart I have provided shows the TUSF support that AT&T has drawn from the fund for the high-cost areas of the state we serve.

The bar chart shows the dramatic change in AT&T's funding over time.

Initially, AT&T drew more than \$180 million from the fund to support low-priced service in our high cost areas – and we do serve some very high cost areas in Texas -- but that declined over time.

It is important to note that the amount of this initial funding was determined by the large reductions we were required to make to our access rates...the fees that phone companies pay to other carriers to connect long distance calls to and from local callers.

From 2009 through 2012, you can see that we reduced our draw a great deal each year. That was under the terms of a settlement agreement between the parties and the PUC that was reached in 2008.

That agreement allowed us to gradually raise our rates for local phone service in regulated areas to balance these annual reductions in TUSF funding.

You can see that our draw this year will be around \$30 million.

The final four years on this chart represent the new settlement agreement that was reached recently as the PUC has implemented SB 980.

Under that agreement, AT&T will be reducing its support from the Large Company high-cost fund down to zero in a few years, again balanced with the opportunity to raise rates at a reasonable level over the four-year period.

Bottom Line --- AT&T serves some extremely rural markets and they remain costly to serve, but we support the policy of carriers replacing high-cost funding with reasonable price adjustments over time. We feel that is the right policy for Texas.

Provider of Last Resort

Another key provision of SB 980 said that in a deregulated exchange – where competition is robust – no single company will be required to serve as the so-called “provider of last resort.” This only makes sense in a competitive marketplace.

Wrap Up

The new TUSF settlement that was reached as a result of the SB 980 review is a good one. It is fair. It is good policy.

We appreciate the work of the Commission and particularly its staff in bringing the various parties together to put in place a balanced plan for the large phone companies for the next four years.

Thank you.