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Before the Senate Committee on Business & Commerce

Tuesday, October 9, 2012

Mr. Chairman, committee members: Thank you for the opportunity to appear today and offer Windstream's perspective on the future direction of the Texas Universal Service Fund.

Windstream Areas Continue to Need Universal Service Support

The Windstream name has a short history in Texas, dating back to 2006, but our Texas operating companies have a long history serving the state and its citizens. Windstream employs hundreds of telecommunications professionals who have dedicated their careers to serving rural Texas. These men and women have worked for decades to provide reliable, high-quality voice communications to remote areas of the state.

Serving as the provider-of-last-resort in these areas is a daunting challenge. For one indicator of the challenges facing Windstream, look at households per square mile in our provider-of-last-resort areas addressed by the Large Company Fund. High density means more customers can be served per dollar of infrastructure investment. Low density means that costs very quickly swamp revenues when a network operator is contemplating any type of maintenance or investment project. Windstream's household density is not only the lowest in the Large Company Fund, it is also lower than many carriers in the Small Company Fund:

- Windstream's household density in its Texas Large Company operating areas is 6.7 per square mile;
- AT&T's household density in Texas is 107.2;
- CenturyLink and Verizon have 31.4 and 36.9, respectively; and
- Among the 48 smallest providers in the small company fund, the density of Windstream's Large Company operating areas would place Windstream in the middle, as the 28th most remote.

For example, Windstream proudly serves Mentone and rural Loving County, which a major eastern newspaper has called "America's Emptiest County." On the other side of the

Pecos River, to the south, is Orla, where Windstream serves about a dozen residences. Orla has been described as a “ghost town,” although it does have a Post Office – for now.

Those living in areas like these tend to be people of modest means. The median income in the communities served by Windstream’s Large Company operations is 23 percent lower than the statewide median – \$40,470 per household, versus \$52,670 statewide. About 60 percent of these Windstream customers subscribe to simple, no-frills phone service, separate from any bundle, and pay what is known as the R1 rate.

Their telephone service travels over a network that requires constant repair and maintenance. Service problems arise from normal wear and tear, from tornadoes and floods, or from road construction and repair. We have invested untold hours of labor and millions of dollars in capital over the years to build the network and keep it running smoothly and efficiently, but in all candor, the network would not exist if not for the ongoing financial support provided through the Texas High Cost Universal Service Plan.

Any company operating in this environment must confront the same challenges – outsized costs and limited revenue potential. It thus should come as no surprise that few companies have chosen to compete with Windstream in its high-cost areas.

Granted, in some areas, near the center of towns, wireless service is available. But if you unplug Texas universal service funding, many of the consumers in these areas might as well toss their cell phones in the garbage too. You see, cell phone towers typically are hard-wired into a landline network – so in rural Texas, wireline and wireless services usually all are part of the same network. Without Texas USF support, wireless service would be fine in cities and many towns, but large areas of rural Texas would lose wireless coverage if they had it in the first place. Most people don’t stop to think where their cell phone signal comes from, but if you see a few bars on your phone, it probably means you’re close to a tower connected to a landline network. The best wireless networks – the ones with excellent coverage and few dropped calls – are those with the most connections to landline infrastructure.

Mr. Chairman, I know you in particular have an appreciation for the Farm-to-Market road network and its importance for rural business and economic development. Like our roads, communications networks cannot be taken for granted. These are vital links that hold Texas together, economically, politically, and socially, and like roads they require vigilance and ongoing investment to keep traffic moving smoothly. Unfortunately, while we can see the potholes developing and take timely action before they swallow the whole road, the “potholes” that can bring down a communications network are invisible to most users and may go unnoticed until it is too late.

Windstream's Consumers Are Especially Hard Hit by Recent Reforms

As you likely know, the Large Company Fund will be seeing dramatic changes over the next four years. While some have raised concerns about a recent increase in the surcharge for the entire Texas Universal Service Fund, that cannot be attributed to the Large Company Fund; to the contrary, the Large Company Fund has been shrinking rapidly and will continue to do so.

The dramatic reductions in the Large Company Fund over the next four years come from two factors: (1) AT&T and Verizon will be exiting the Fund, and (2) Windstream and CenturyLink will see multi-million dollar decreases in their support, due to rate rebalancing.

Notably, AT&T and Verizon experience an offsetting benefit in return for exiting the Fund: At the end of the transition, the carriers will be fully deregulated and no longer subject to provider-of-last-resort obligations. As AT&T acknowledged in a filing earlier this year, “providers without the POLR obligation can and do cherry-pick, choosing to serve only the most lucrative areas and customers.”

The same is not true for Windstream. As it continues to receive universal service support, Windstream will continue to be required to serve as the provider of last resort for approximately 88 percent of the land mass covered by its 198 exchanges under the Large Company Fund. For these exchanges, Windstream will face significant reductions in support – on average, a 24 percent cut in residential line support within the exchange – but will be required to fulfill 100 percent of its provider of last resort obligations. Rather than be able to cherry-pick, this means Windstream will be required to continue paying for all the maintenance, operation, and replacement expenses needed to sustain telecommunications service across 35,728 square miles of rural Texas.

Windstream's Texas consumers are targeted to be hard hit by the recent reforms. To offset the recent cuts, Windstream has been authorized to increase rates by approximately \$100 per year for basic local service – a 52 percent increase over a 4-year period. Meanwhile, the impact of this reform on the state USF fee is minimal: the average state USF fee collected, assuming a \$30 intrastate retail telephone bill, only will be reduced by 5 cents per month. Stated another way, these reforms mean Windstream's consumers – who often have significantly lower incomes than others in the state – are slated to pay approximately \$100 more per year for barebones local telephone service so that their urban counterparts can save a mere 62 cents per year on their telephone bills.

Windstream sees a particularly large average customer impact because its Texas customer base is almost entirely rural and high-cost. The same is not true for other large-company providers. Because it has a large urban base, for example, AT&T's average per-line impact of rate reductions at the end of reform will be just 54 cents on a monthly bill. All told

the recent universal service reforms are premised on Windstream's rural Texas consumers paying some of the very highest local rates in the nation.

For many of these customers, this likely is an untenable proposition. With incomes 23 percent below the statewide median, rural consumers may be compelled to cut phone service altogether rather than pay approximately \$100 more per year for their basic telephone line.

In addition, Windstream and its rural customers now are facing financial pressure from sweeping changes to Federal telephone programs. As the Federal Communications Commission implements these reforms over the next few years, billions of dollars in rural assistance will be cut from the intercarrier compensation system. As with the Texas rate-rebalancing reforms, these changes will be most disruptive in remote rural areas but will play out much differently for the largest companies. In fact, the largest companies likely will see a financial windfall from the Federal reforms.

Texas Policymakers Should Proceed with Caution When Considering Further Reforms

Before major changes at the state and federal level are implemented, let alone assessed for their impact on consumers, some parties are urging the Texas PUC to take on significant additional reforms to cut back funding further. A more responsible course of action for the Legislature would be to direct the Commission first to evaluate the impact of large-scale reforms already underway before plunging ahead into new cuts. The new baseline needs to be identified and assessed.

But if the Commission decides to move forward with a needs test, Windstream is confident, in light of the facts above, that it can pass any such test, so long as that test is properly constructed. The Federal Communications Commission and Texas PUC both previously have realized that "doing it right" in this context means conducting a careful assessment of, among other factors, how much various components of an efficient network cost, how costs of these components should be allocated among various telecommunications services, and the terrain and population density of the area addressed.

What must be avoided is arbitrary tests chosen purposely to reduce support. Such tests are not true "needs tests," where support levels potentially could go up or down in response to needs. Instead, these tests are rigged to produce only failures, where the only change possible would be for support to be ratcheted down even further.

Policy shortcuts designed to achieve a cost-savings target could prove disastrous. For instance, there have been suggestions that exchanges with some type of wireless service may

be ineligible for Texas USF funding, on the ground that competition exists. It would be folly to rely on that as an eligibility test. All of us have the experience of driving in rural areas and having the signal drop. Allowing presence of a wireless competitor to preclude high-cost support everywhere in an exchange would lead to a system where voice service exists in towns but not along many rural highways or the surrounding areas. Think of the exchange as a doughnut – the center of the doughnut would have both wireless and landline voice, but the ring of the doughnut would go unserved.

Windstream Has Been Seeking Out Opportunities to Invest More in Rural Texas – But Texas USF Reductions Are Causing Windstream to Rethink Its Plans

Windstream envisions its rural Texas network as an integral and important part of the company. The nation's largest telecommunications providers – think Comcast or Verizon – have a strategic focus on urban areas, where high population densities, concentrations of business customers, and strong economic conditions create attractive profit potential. Windstream, by contrast, has an extensive fixed infrastructure all across rural Texas and skilled professionals with deep experience in rural operations. Texas customers represent a very significant market for Windstream – we have more customers in Texas than in 15 of the 18 states where we provide local telephone service.

Windstream has submitted multiple proposals to attain federal broadband funding that it would combine with millions of its private sector investment. As a result, Windstream currently is building out first-time broadband service in four counties, a \$2.2 million effort funded in part by the U.S. Department of Agriculture. In addition, the Federal Communications Commission now is reviewing a Windstream application to invest \$30.3 million in 36 counties to provide broadband to more than 18,000 Texans within a three-year period. Windstream is serious and committed to direct investment in rural Texas, and we understand how vital a strong communications network is for seeding and sustaining rural economic development.

But this investment in rural areas should not be taken for granted. Without support, Windstream likely could continue to offer service in the relatively low-cost areas at the center of communities. Windstream, however, cannot be expected to maintain its network on the outskirts of towns where the population density is low and the costs per line are very high.

Windstream's broadband investments in rural Texas are enhancements and add-ons to the same network used to provide telephone service. If Windstream cannot afford even to support the underlying voice network, there is no independent platform for broadband in these same areas. The costs challenges would be more severe for wireless broadband providers or cable companies, ruling out the possibility of alternate providers.

Without Windstream, Consumers in Many of Its Rural Areas Would Lack Access to Telecommunications Services

There are few companies that understand these economics of rural communications as well as Windstream – or that are willing to tackle them.

Comparable density data is not available for the cable industry, but the FCC has posted an online map of cable service areas across the state. Visually, it shows bright clumps of color around places like Amarillo, Midland, and Lubbock, but vast zones of emptiness across Windstream’s rural territories. If you’ve ever lived in a small town, you are familiar with this – you can’t get cable TV if you live outside the town center. In 2009, a Cox Cable executive testified to the Federal Communications Commission that the company can build line extensions and break even when there are a minimum of 40-50 homes per mile.

Similarly, wireless broadband providers have shown a willingness to deploy cell towers in the centers of towns and alongside major roads. But those towers’ signals typically do not reach the homes spread out along the edges of telephone exchanges. And to the extent that wireless service is offered to a portion of Windstream’s rural exchanges, that service often depends on cell phone towers being connected to Windstream’s wireline network.

If Windstream and CenturyLink did not serve the high-cost areas on the outskirts of town, consumers in these rural areas would be without service. This would be a serious deterrent to economic development in these areas, as there would be no voice and no broadband service. The consequences would be felt in Midland and San Antonio as well as out in the country, as people would lose the ability to check in on their friends and relatives who live on ranches, and businesses in every sector from agriculture to energy would lose the ability to readily communicate with remote regions of the state and vice versa.

This result would be contrary to the purposes of Chapter 51 of the Public Utility Regulatory Act, which says the policy of the state is “to ensure that customers in all regions . . . including low-income customers and customers in rural and high cost areas, have access to telecommunications and information services.” It is critical for Texas to maintain this commitment with universal service funding, and to insist on ensuring that any “needs test” is done right if it is to be done now. Developing an accurate understanding of the significant costs to serve rural areas is the only approach worthy of Texas’s reputation and high standing in the telecommunications policy arena.

In conclusion, Windstream urges the Legislature to proceed with caution, understand the impact of major changes already underway, and seek a careful and comprehensive

examination of rural telecom economics in the state before adopting further severe cuts. To this day, there is no company and no technology that can fill the shoes of the local exchange carrier, carrying out its duties as the provider of last resort. Furthermore, as the Internet becomes more vital to business, education, and health care, that same telephone network represents the only available foundation for the construction of broadband connections in these rural locations. This network is complex and requires constant labor and investment to operate. If it is pushed past its breaking point, its loss will be felt acutely and its replacement will not come cheaply. The customers in these areas are not affluent relative to the state overall, and they already will be expected to pay a steep price over the next four years for Texas USF reforms. It is critical that Texas continue to support universal service to ensure continuing telecommunications access for these rural Texas consumers – and for the urban and suburban consumers who also benefit from these connections.