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Jennie B. Chandra
Vice President - Strategy and External Affairs
Windstream Communications, Inc.
1101 17th Street, N.W., Suite 802
Washington, DC 20036

(617) 467-5670
jennie.b.chandra@windstream.com

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FAXED
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Committee

The Honorable John Carona
Chairman - Senate Business and Commerce Committee
P.O. Box 12068
Austin, TX 78711-2068

Dear Chairman Carona:

Thank you for the recent opportunity to offer Windstream's perspective on the Texas Universal Service Fund in the October 9, 2012 hearing. As you may know from our testimony, Windstream operates the most rural service area addressed by the Texas Large Company Fund. Windstream's average density is just 6.7 households per square mile. So while a larger company, Windstream has a service area that looks like the service areas of the small, rate-of-return companies addressed by the Small Company Fund.

Based on testimony and written comments submitted to the Senate Business & Commerce Committee, Windstream believes there are several misconceptions about the Texas Universal Service Fund that need to be addressed. I am writing this letter today to offer a response to those misconceptions, and elaborate on why Windstream is concerned about some of the universal service policy reforms being advanced by other companies.

First, there seems to be a belief that the existing telephone network is fully paid for -- so the primary role of Texas USF now is simply to help cover line extensions. But in reality, providers of last resort continue to require ongoing support to cover the costs of building, maintaining, and operating existing high-cost connections.

For example, after a hurricane, Windstream spent more than \$500,000 in Smith Point and Winnie to repair wire and replace portions of three switches. This effort benefitted only 375 customers, meaning repair costs were more than \$1,300 per customer. This is not an investment a company would make without high-cost support.

Second, some suggest that there has never been an assessment of the need for Large Company Fund support. Reading some of the testimonies, one might think that Windstream simply can submit a bill to the state for any expenses -- say, why not have network operations personnel drive Porsches so that they can arrive at repair jobs faster?

In fact, Windstream's and other Large Carriers' support is based upon an extensive Texas PUC cost analysis that determined the amount an efficient carrier should be paid to offer telecom service in a high-cost area. This approach – which mirrors the approach adopted at the federal level – recognizes that companies only should be paid for reasonable costs of an efficient carrier. Windstream would not oppose an update to this “efficient carrier” analysis, so long as it is conducted in a thorough and fair manner. Consistent with recent findings at the federal level, we think an update will show that price cap carriers require even more USF support than what they receive today.

Third, some suggest that the presence of an unsubsidized competitor in the low-cost portion of an exchange is a good basis for presuming support is no longer needed anywhere in an exchange. Windstream, too, can readily serve the lowest-cost portions of an exchange absent support, but that fact doesn't tell you about what it takes to serve the granular, highest-cost portions.

The better question is: Will a company offer affordable service to the highest-cost portions of an exchange without support? You need look no further than wireless and cable service territories for an answer: Both avoid serving the low-density areas on the outskirts of exchanges, and stick to high-density areas where costs are manageable.

In light of these facts, Texas policymakers should proceed with caution when considering further reforms. Significant state USF reforms are already underway. The recent rate-rebalancing will have severe consequences for rural consumers: To enable a slight reduction in the surcharge (that is, just one nickel per month on a \$30 bill for intrastate services), the resulting Texas Public Utility Commission actions mean that Windstream's rural customers are slated to pay about \$100 more per year for basic local telephone service. This reform means rural Texas consumers now will pay some of the highest rates in the nation.

It is not clear whether these consumers can afford to pay significantly more to offset decreased universal service support. The median income of affected Windstream customers is 25 percent lower than the state overall, and 60 percent of our customers in Large Company Fund areas subscribe just to simple, no-frills basic local telephone service.

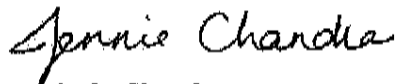
Piling on with more universal service funding cuts now could have serious consequences for rural economic development. Reforms jeopardizing the viability of the telephone network may mean no wireless service, and also no broadband. The landline network not only enables high-quality voice service to each and every rural home, but also supports connectivity to most wireless cell towers and broadband.

To this day, there is no company and no technology that can or will fill the shoes of the local exchange carrier, carrying out its provider of last resort duties in the highest-cost portions of the state. Windstream, therefore, respectfully 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 Texas before adopting further reforms.

Thank you and the committee for your interest. It is our sincere hope that the committee will recommend practical solutions for ensuring efficient operation of the Texas Universal Service Fund. Windstream stands ready to assist the committee in providing any additional responses to questions you may have regarding state universal service support and Windstream's involvement as a recipient of those funds.

Sincerely,



Jennie B. Chandra
Vice President - Strategy and External Affairs

Cc: Honorable Members of the Senate Business and Commerce Committee