Written Testimony for Senate Committee on Business and Commerce

October 9, 2012

My name is David McEndree. I am the General Manager and CEO of Poka Lambro Telephone Cooperative, Inc. (Poka Lambro).

Poka Lambro is a small rural telephone cooperative that provides telecommunication services to parts of nine counties. The Poka Lambro service territory is located south of Lubbock and north of Midland/Odessa. Poka Lambro does not serve the more populated cities of Lamesa, Brownfield and Tahoka, but rather serves the rural areas outside of these communities.

The Poka Lambro service area is comprised of approximately 4,500 square miles utilizing about 4,100 miles of cable facilities. This equates to about one subscriber for every 2 miles of cable or 2 square miles of land mass. Local loops, the distance from the central office to the end user, are frequently 20 miles long and can be as long as 29 miles.

While areas that serve 100 lines or more per square mile are often considered "rural", Poka Lambro contends that it is extremely rural by this definition.

I am providing Testimony on matters related to the Texas Universal Service Fund (TUSF).

Texas Universal Service Fund

First, Poka Lambro would like to convey to the state legislature, and this committee in particular, its appreciation for the efforts in the passage of HB 2603, which, at least temporarily, helped right the ship of TUSF for small rural companies. I believe HB 2603 took an important step by removing the access line as the key component in determining the level of support received.

For a period of more than 10 years, TUSF was based on a fixed amount received per access line. While this worked well initially, as ILECS began to enhance their networks to support the demand for high speed internet connections, these high speed connections resulted in a reduced need for dial up access lines and e-mail largely replaced fax lines. While the access line support methodology would discourage improvement, Poka Lambro continues to enhance its network to meet customer need as well as the state policy promulgated in PURA 51.001(g):

> "It is the policy of the state to ensure that customers in all regions of the state, including low-income customers and customers in rural and high cost areas, **have access to telecommunications and information services**, including interexchange service, cable services, wireless services and **advanced telecommunications services,** that are reasonably comparable to those services

provided in urban areas and that are available at prices charged for similar urban areas."

These network enhancements have resulted in loss of access lines due to broadband replacement of second lines. TUSF support, which was strictly tied to the access lines, has consequently been significantly reduced. In effect, Poka Lambro was penalized under the access line driven TUSF methodology for improving the availability of advanced services. It should be noted that the current PUC proposal returns to the access line driven methodology.

Since broadband is becoming an ever increasing part of daily life, efforts should be made to support this service as a basic telecommunications service for all Texans in the future.

The loss of access lines under the pre-HB 2603 rules (where support is solely based on access lines) not only results in the loss of TUSF support, but also the loss of the basic local charge, the subscriber line charge and possible revenues for EAS, ELC, features, toll etc. Thus, the loss of the line results in a significant loss of revenue, but not a significant reduction in expenses since the entire network must be maintained even if lines are lost. As is shown later, the network maintenance is needed not only to support the remaining lines, but other services as well. This network maintenance and enhancement cannot be done with a significant decline in TUSF support.

The loss of access lines, and related TUSF support over the preceding decade, resulted in Poka Lambro achieving a significant negative intrastate return. Since the law allows for the opportunity to earn a reasonable return, and the decline in support and revenue achieved a return insufficient to maintain the network and provide the required services to its customers, Poka Lambro initiated a proceeding before the Public Utility Commission in order to restore some of its lost TUSF support. The PUC eventually denied this request under rule 26.406 but did not deny that Poka Lambro has a need. The commission said an avenue of relief would be to make application under substantive rule 26.408 – Additional Financial Assistance. Rule 26.408 is lacking in specificity, thus Poka Lambro does not know what is required to make such a filing. It is suggested that this rule be fleshed out so that it may be properly evaluated by parties considering such a filing.

The PUC ruling came as the 2011 legislative session was beginning, as was discussion regarding what eventually became HB 2603. Poka Lambro decided to delay evaluating the filing under 26.408 until after the legislative session.

Since HB 2603 properly restored lost TUSF that was needed to support the network, Poka Lambro took no additional action regarding 26.408.

It should be noted that the loss of an access line is not directly related to expenses required to maintain or upgrade the network. Poka Lambro's entire 4,100 miles of cable needs to be maintained for the other lines and services provided using the cable. The loss of an access line does not remove the requirement to maintain the entire network nor does it remove a significant level of expense related to the maintenance.

While all customers and connections are important, it is noteworthy that the telephone network also supports unique users. For instance, Poka Lambro provides fiber connectivity to wind farms (electrical generation windmills) and broadband connectivity to all schools within the cooperative area. These are small schools utilize high bandwidth connectivity to support distance learning projects, and so that students can enhance their education beyond the typical boundaries. Some even obtaining college credits while in high school.

An evolving use of broadband relates to rural healthcare via telemedicine, e-healthcare. E-healthcare allows residents in rural areas to receive quality healthcare via broadband usage. Technologies include cameras and voice capabilities for evaluation and consultation, and transmitting large files such as MRIs and x-rays to specialists for additional evaluation. There are also devices for monitoring healthcare such as glucose levels, blood pressure etc. While still in a relative infancy state, this should prove to be a vital use for the network

Poka Lambro, as well as many other small ILECs, also serves various cell sites that provide service for wireless phones. While much literature has been devoted to discussing how wireless phones are a replacement for traditional wired home phones, it must be noted that the cell sites require connectivity to other network points. This is increasingly done via fiber connections without which the cell tower would not be able to support the making or completion of calls, or the provision of broadband etc.

As noted on the attached diagrams, the wireless portion of a "wireless" call is typically limited to the distance from the mobile device to the nearest tower. The call is then handed to the terrestrial network. This handoff often occurs at the base of the tower.

It is also important to note that networks are often described as a wireless network, a broadband network, or the traditional telephone network. In reality, these three networks are all typically supported by an evolved and evolving "traditional" telephone network. The "traditional" network was originally copper based but is evolving to include more and more fiber in order to support the increasing bandwidth needs of both the retail (end user) and wholesale (wind farm, cell sites) customers.

TUSF is used to support this single network which not only provides the basic local telecommunications needs of the traditional access line customer but backbone for the

evolving technologies such as wireless and broadband. Therefore, while in some cases, the cell phone may be a replacement for the traditional home phone, the wireless phone does not function without the network provided by the "traditional" phone company.

Another argument against wireless as a replacement to the home phone is that not all areas receive adequate cell coverage, and in many places, including areas within Poka Lambro's service territory, there is no service at all. As has happened to most cell phone users, there are instances when one is driving down a highway where there are areas with inadequate signal to support a call. If this occurs on a major roadway, imagine the lack of signal experienced by those that live and work several miles off that road.

It is also argued that customers that decide to live in a rural area, make that decision and should understand that costs will be higher. Often, living in the most remote areas may not be a choice, but a need. This argument that rural Texans should pay a higher price is also contrary to basic universal service principles and could be countered by the argument that urban Texans require certain industries such as oil fields, wind farms, agriculture production, dairy farms and nuclear waste facilities which cannot be located in urban areas. Each of these operations requires employees that live in a close proximity, rural Texans. These industries support urban residents and needs but cannot be located in an urban area supporting the contention that living in the most remote areas is not always a choice, but often a requirement of employment. Urban customers do not pay a higher price for food, clothing, gas or electricity because they choose to live in an urban area. We are one Texas.

As with many small ILECS, Poka Lambro attempts to manage its expenses in a prudent manner. For instance, when large business customers need special or unique capacity requirements, such as wind farms or cell sites, Poka Lambro typically requires a level of aid to construction in order to justify the construction of facilities.

It is acknowledged that ILECS must be willing to make changes as well.

For a number of years, Poka Lambro has been making changes to continue and improve efficiency while maintaining a quality and evolving network. As examples, the Poka Lambro ILEC operation has reduced its staffing level from 47 to 37 over the past 10 years. The vehicle fleet used to maintain the network has also been reduced accordingly. The company is utilizing technology such as software innovations to reduce staff while simultaneously enhancing abilities. A recent software change allowed the company to reduce companywide staff by 3, and to reduce monthly software support charges by over 50 percent.

Network enhancements are also being made with the concept of efficiency playing a role in decision making. As an example, Poka Lambro continues to add fiber to its network at a

moderate, but deliberate pace. The company evaluates the need, both now and in the future, as well as the reason for the replacement and the quality of the surrounding network.

In some instances, Poka Lambro has replaced virtually all of the copper in an exchange with fiber. In those cases, much of the copper was 40 to 50 years old and had been cut and spliced many times, thus degrading the network to an unusable point. Replacing part of the network, while leaving damaged outdated copper for part, would have resulted in the network not receiving the full benefit of the inclusion of fiber in only part of the network.

In another instance, the company was able to replace main leads to the node but the copper from the node to the home was of sufficient quality to support the required services.

Currently, the company is burying fiber to replace copper where the state is widening a roadway which requires relocation of Poka Lambro facilities. It would be costly and short sighted to bury copper with its technical limitations instead of making the decision to go with fiber. While it is often said that small companies are burying fiber without consideration of cost, this simply is not correct.

In addition to the obvious technical benefits of fiber, experience, as well as projections, indicate that making a capital investment in fiber will result in near and long term reductions in operating and maintenance costs .

In summary of this issue, Poka Lambro and other ILECs are not deploying fiber just to be expending capital. These are reasoned and thought out decisions intended to enhance the network for all of its users as well as reduce future operating costs.

Poka Lambro is currently exploring the use of wireless to reduce build costs to its more remote areas. This analysis like others involve the capital costs, projected operating costs versus the level of service provided and the number of customers effected as well as other considerations.

Affordable access

It is argued that local rates have been maintained at artificially low rates, especially as compared to wireless. This is not necessarily an apples to apples comparison since the local line subscriber must also pay SLC charges, and, in many cases, other mandatory fees such as EAS, ELC and now ARC charges which in effect raise the basic charge a customer must pay (not optional)

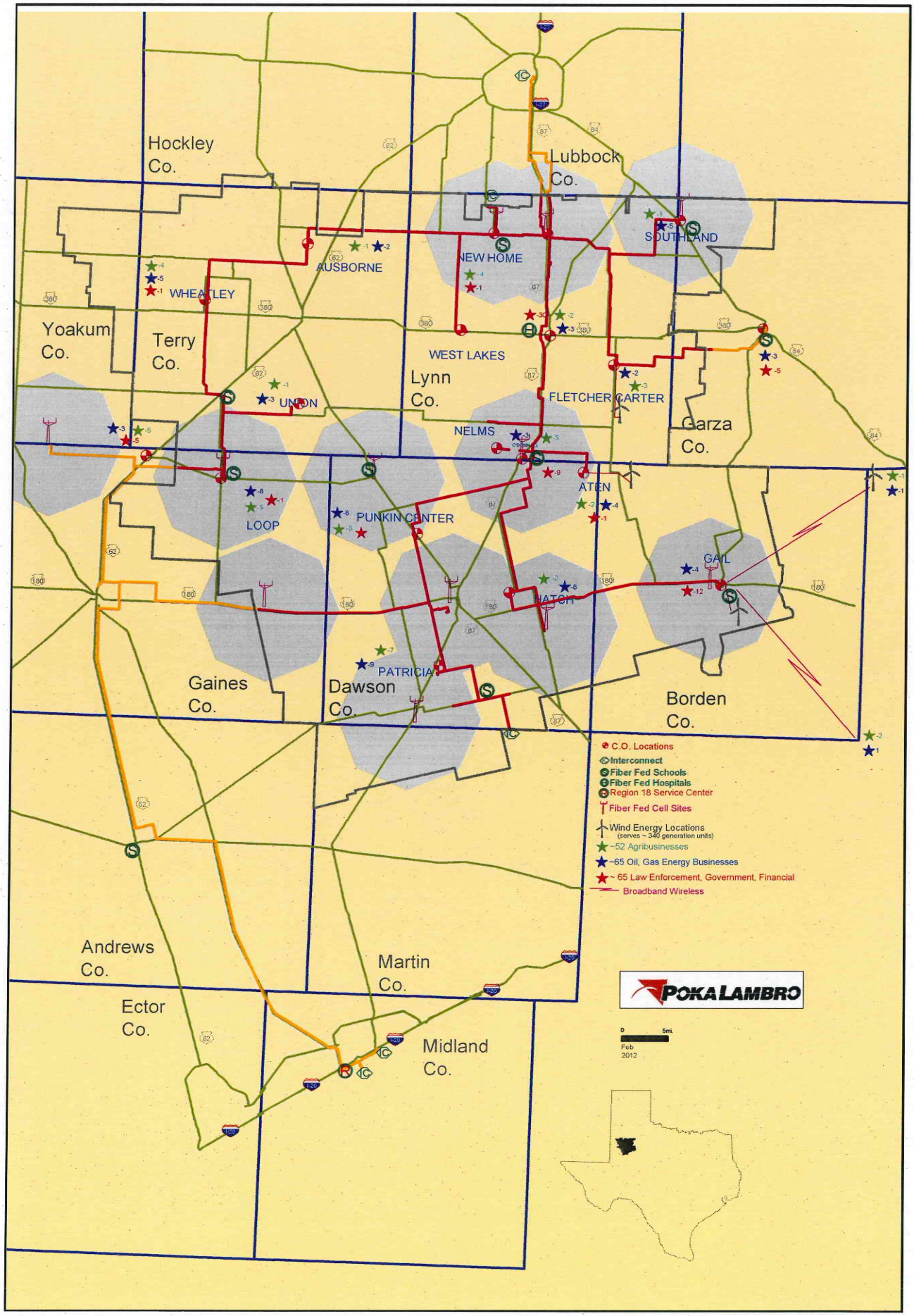
Wireless on the other hand can be a convenient tool, but the rate often includes built in charges for features such as voice mail, toll and calling scope. The customer does not have an option but to pay these built in charges. It should be remembered that in the early days

of wireless, these were separate optional charges, but as marketing improved and regulations changed they are no longer an option, but are built into the required service fee.

Proposals that local rates should be increased to levels approaching wireless are not well founded because if ILECs could provide and mandate the inclusion of features and a toll base, the charge would approach the wireless rate.

Since ILECs cannot mandate the inclusion of toll etc it is more feasible to analyze the wireless rate components and back into the effective "local rate component" within the wireless rate. Such a cursory analysis indicates the wireless local component approaches the wire line basic local rate and thus is a comparable economic decision between wired and wireless at FCC mandated local rates or below.

I would like to thank you for the opportunity to provide this testimony on behalf of Poka Lambro, and would be happy to answer any questions you may have.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Martin Co.
Ector Co.
Midland Co.
AUSBORNE
NEW HOME
SOUTHLAND
WHEATLEY
WEST LAKES
UNION
FLETCHER
CARTER
NELMS
ATEN
LOOP
PUNKIN CENTER
GAIL
HATCH
PATRICIA
C.O. Locations
Interconnect
Fiber Fed Schools
Fiber Fed Hospitals
Region 18 Service Center
Fiber Fed Cell Sites
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(serves ~ 340 generation units)
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~65 Oil, Gas Energy Businesses
~ 65 Law Enforcement, Government, Financial
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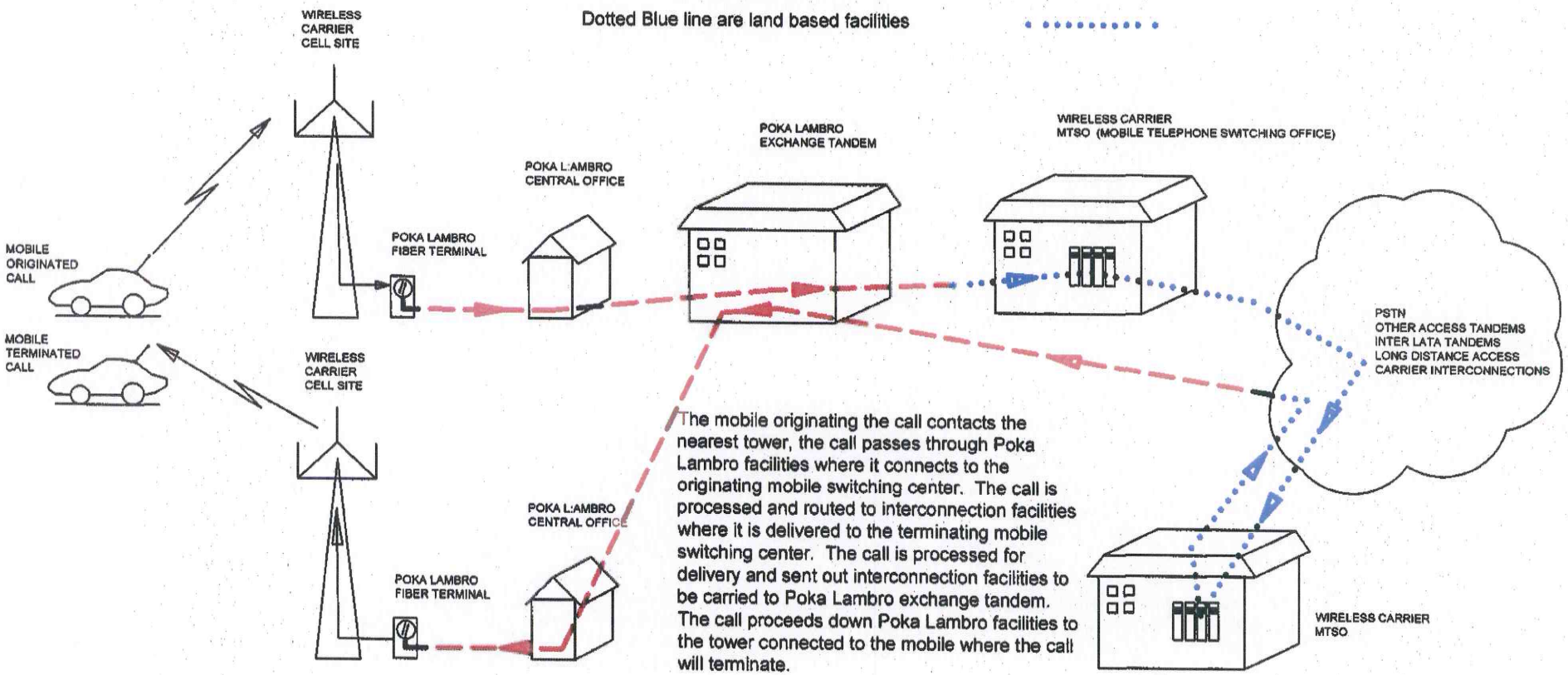
MOBILE CALL FROM TWO MOBILES IN POKA LAMBRO AREA WHERE MOBILES BELONG TO DIFFERENT WIRELESS CARRIERS

Dotted Red line are facilities owned by Poka Lambro and are land based facilities

Dotted Blue line are land based facilities

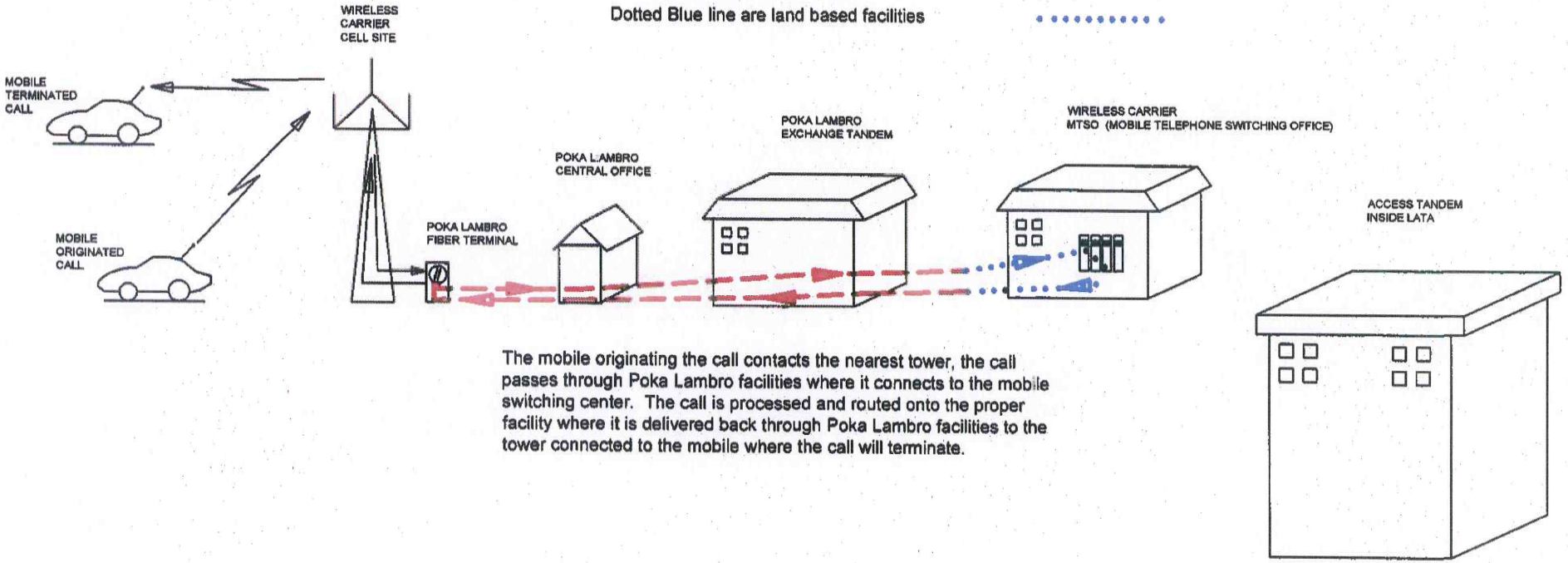


The mobile originating the call contacts the nearest tower, the call passes through Poka Lambro facilities where it connects to the originating mobile switching center. The call is processed and routed to interconnection facilities where it is delivered to the terminating mobile switching center. The call is processed for delivery and sent out interconnection facilities to be carried to Poka Lambro exchange tandem. The call proceeds down Poka Lambro facilities to the tower connected to the mobile where the call will terminate.

MOBILE CALL FROM TWO MOBILES IN POKA LAMBRO AREA WHERE BOTH MOBILES BELONG TO THE SAME WIRELESS CARRIER

Dotted Red line are facilities owned by Poka Lambro and are land based facilities

Dotted Blue line are land based facilities

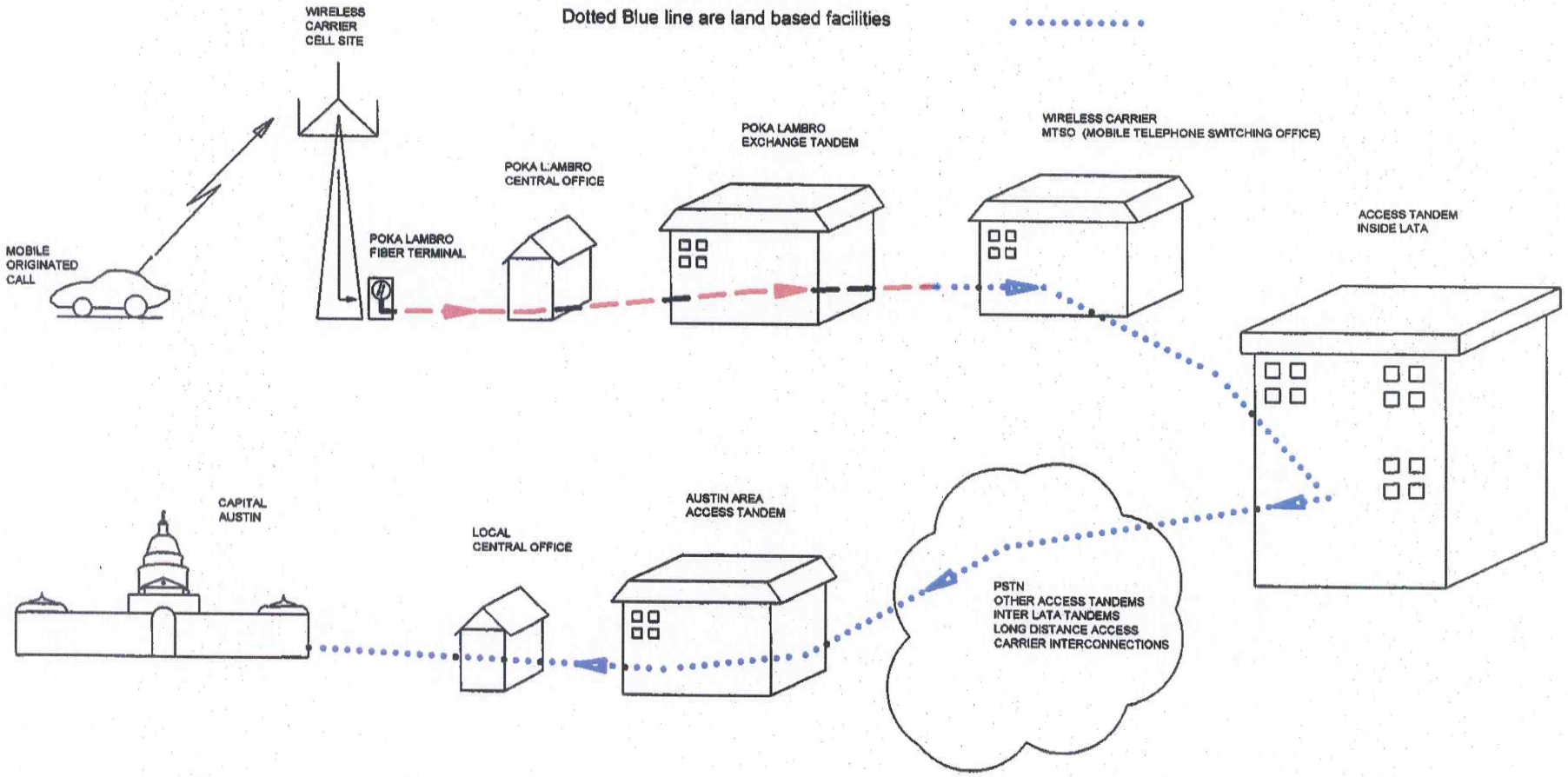


The mobile originating the call contacts the nearest tower, the call passes through Poka Lambro facilities where it connects to the mobile switching center. The call is processed and routed onto the proper facility where it is delivered back through Poka Lambro facilities to the tower connected to the mobile where the call will terminate.

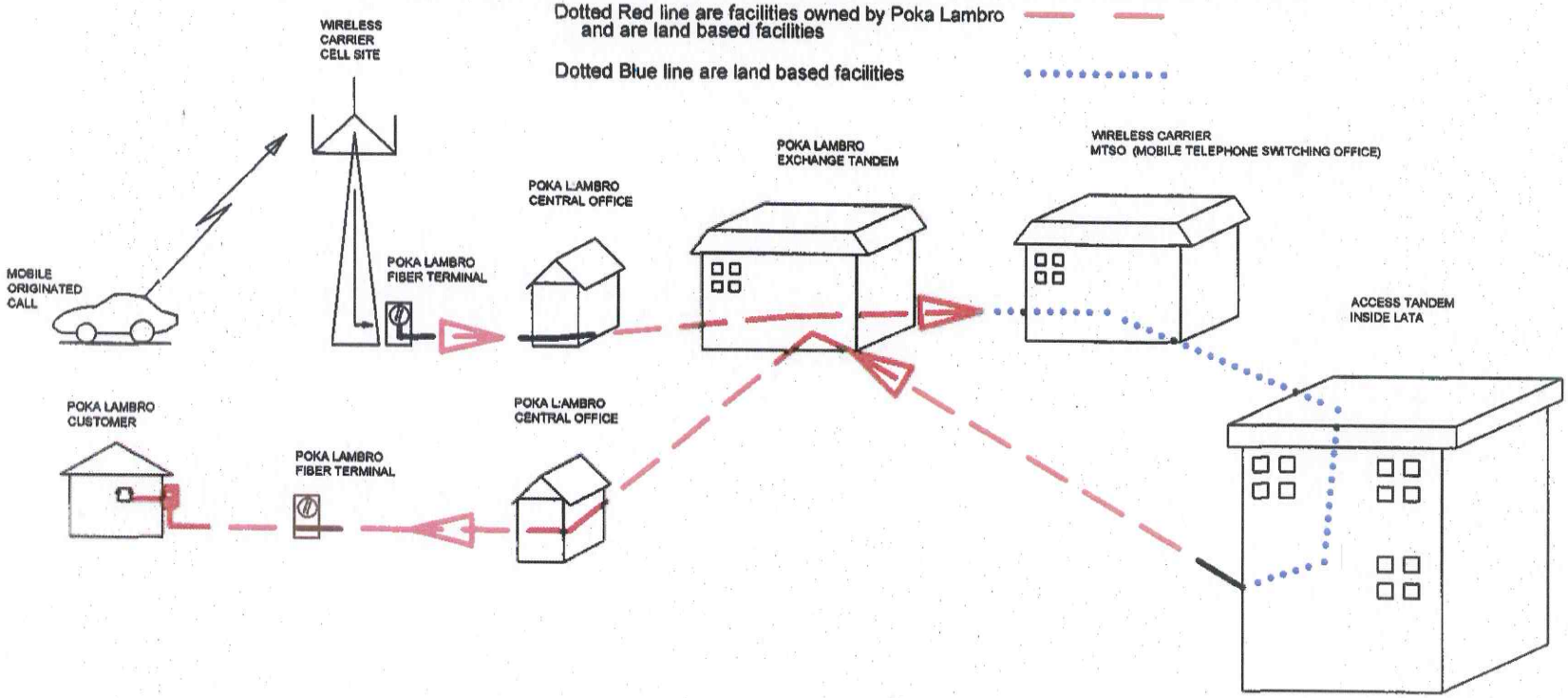
MOBILE CALL FROM POKA LAMBRO AREA TO CAPITAL IN AUSTIN

Dotted Red line are facilities owned by Poka Lambro and are land based facilities

Dotted Blue line are land based facilities



MOBILE CALL FROM POKA LAMBRO AREA TO POKA LAMBRO CUSTOMER



MOBILE CALL FROM POKA LAMBRO AREA TO MOBILE IN AUSTIN