Statement of Michael Rhoda

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to the

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Chairman Boucher, Ranking Member Stearns, members of the subcommittee: Thank you for this opportunity to discuss rural communications and, specifically, our views on the draft text of the "Universal Service Reform Act of 2009."

My name is Mike Rhoda, senior vice president for government affairs at Windstream, which provides voice, broadband, and satellite television services to consumers in 16 states. We provide wireline communications and entertainment services to residential and business consumers in rural areas and small towns. Windstream is a publicly traded, S&P 500 company with about 3 million voice customers and more than 1 million high-speed Internet customers. Windstream provides affordable broadband service at speeds of at least 3 Mbps and up to 12 Mbps to virtually every community in our service territory and has deployed broadband to almost 90% of our voice customers.

Before going into detail, Mr. Chairman, let me say that I have great respect for your and Mr. Terry's work on this legislation. You are careful students of telecommunications and clearly have taken the time to understand the challenges of serving high-cost rural areas. Thanks to

your bipartisan leadership, we have a draft that fairly balances the many conflicting interests in this complex area. Windstream supports passage of the bill.

Windstream is well versed in the many reasons for comprehensive universal service reform. Per square mile, Windstream serves approximately 19 voice customers per square mile, compared to more than 100 customers per square mile for the largest, nationwide carriers. Unlike some other carriers, Windstream receives relatively little high-cost support on a per-line basis. Instead, Windstream is left to implicitly subsidize service for customers in remote areas with revenues from its customers in larger, more densely populated towns. More than a decade ago, Congress recognized in Section 254 of the Communications Act that such implicit subsidies would be unsustainable in a competitive telecommunications marketplace. Unfortunately, while competition has raced through one market after another, universal service regulations remain virtually unchanged.

All consumers have a stake in this program, whether they live in Chairman's Waxman's district in Los Angeles or in Buffalo, Texas – a Windstream community in Mr. Barton's district. But few Americans realize how their dollars are being spent. They surely would be unhappy to hear the 2007 assessment of Ray Baum, the State Chair of the Federal-State Joint Board on Universal Service: Universal service has produced "a vast misallocation of public dollars, to the benefit of only a small portion of rural consumers, and to the detriment of the rest." In 2008, Congress received another negative report, this time from the Government Accountability Office (GAO), which said: "The high cost program's structure has contributed to inconsistent distribution of support and availability of services across rural America." The bottom line is,

public funds are not being well utilized and millions of consumers in high-cost rural areas are being left behind as a result.

We have seen the program's failures up close. A good example would be when one of our customers residing in Nebraska – he lives in "the country" – recently contacted Windstream to ask why he cannot purchase access to the Internet at speeds and rates comparable to his neighbors down the road. His neighbors are served by a smaller company whose facilities have been extensively modernized, thanks in no small part to universal service funds. His frustration is certainly understandable. Windstream's commitment to deploying affordable broadband is undeniable. But existing universal service mechanisms have created drastic imbalances in rural Nebraska and rural America at large. Three neighboring companies around us in Nebraska receive a) $200 per customer in annual USF support, b) $600 per customer in annual support, and c) $1,700 per customer in annual support. At the other end of the spectrum is Windstream-Nebraska, which receives about $10 per customer in annual universal service support. This makes little sense. The farms and small towns served by Windstream have similar needs, similar geography, and similar cost profiles. Granted, Windstream-Nebraska can achieve economies of scale that the smaller companies cannot. But our costs are not 20 times, 60 times, or 170 times more efficient! Such disparities in support matter to our customers because they make a real difference in the services we can offer.

The new Boucher-Terry bill would take a large step towards phasing out disparities in high-cost rural areas, by narrowly targeting support to those areas that need it most. Universal service would be targeted on a far more granular basis than at present, and areas with similar,

higher-cost characteristics would be more likely to receive similar levels of support. The bill would make all high-cost areas eligible for forward-looking support – eliminating rules that now limit eligibility to just 10 states. Over time, a more equitable distribution of support across high-cost areas would stimulate further investment in advanced communications networks. We think the draft legislation is prudent to implement this change over a reasonable number of years, to allow companies to modify their business plans.

The bill's use of targeting would eliminate two significant shortcomings of the current universal service system. First, under the "rural" mechanism, mid-size price-cap carriers' costs are averaged across study areas, which can cover vast areas. Consider, for example, a single Windstream study area in Texas. It stretches the full width of Texas, a distance of 717 miles, from the Red River in Texarkana to the Rio Grande River in Fabens. To put this into perspective for non-Texans, that's farther than the trip from this hearing room to Jacksonville, Florida. This single study area contains nearly 200 exchanges, ranging in size from 44,000 voice customers to 47. With competitive pressures mounting in lower-cost areas, severe strains are placed on price-cap carrier operations, because low-cost wire centers can no longer generate revenues that can be shifted to offset costs in remote, high-cost areas. The second serious problem lies with the "non-rural" mechanism's classification of entire states as either eligible or non-eligible, based on statewide average costs. For example, this limitation disqualifies all of California from receiving support, no matter how small, remote, or costly a community is to serve.

Although Windstream has been skeptical of past efforts to include broadband as a supported service within USF, we believe the Boucher-Terry draft has laid out a sensible

transition path. There are many problems with a flash cut to a 100% broadband program, not the least of which is cost. As noted in a recent presentation by the staff of the FCC's Omnibus Broadband Initiative, the incremental cost of making broadband universally available is estimated at $20 billion to $350 billion, depending on the speeds sought. That's the cost for one network – not the overlapping networks associated with current policy. The strength of the Boucher-Terry draft is that it sets the nation on the path to universal broadband, but with recognition of the costs involved and an opportunity for the fund to amortize the most severe costs over time.

Windstream also appreciates the Boucher-Terry bill's recognition of the important role that revenues from the existing intercarrier compensation mechanisms play in offsetting high costs of providing service in rural areas. Intercarrier compensation is a multi-billion dollar payment system, with regulated rates that are paid when one carrier cannot carry a voice call from start to finish and must hand off the traffic to another company to transport and/or complete the call. Many on this subcommittee remember that one year ago, the FCC considered a proposal to eliminate most intercarrier compensation revenues. That proposal, if enacted would have been disastrous for consumers living and/or doing business in high-cost areas and fortuantely rational minds prevailed. Nonetheless, Windstream has long recognized that the current rates and arcane rules of intercarrier compensation are unsustainable, and the company has presented practical alternatives to the FCC that would not hobble the ability of mid-sized carriers like Windstream to serve rural consumers. We are encouraged that the Boucher-Terry bill takes reasonable steps to address much needed intercarrier compensation reform and, in particular, explicitly authorizes the FCC to establish an alternate recovery

mechanism above the existing fund cap. Access revenues in some fashion are vital to sustaining existing service and enabling broadband in high cost areas. We all must recognize that reducing the intercarrier compensation revenues of carriers serving rural consumers in high-cost areas beyond a reasonable level will hinder – not enable – carriers' ability to provide quality voice and broadband service to rural customers.

In closing, Mr. Chairman, I would like to assure all members of this subcommittee that there is broad agreement within the telecom industry on the need for significant universal service reform. There is widespread recognition that reform is long overdue. You and Mr. Terry have crafted a reasonable compromise, and compromises usually leave everyone a little unhappy. And reform does carry risks. But the larger risk is to stand by and watch well documented problems pull down communities and consumers across rural America. Changing universal service is difficult, but significant change is the only way to save this program and fulfill its mission. Thank you.