

Written Testimony for Senate Committee on Business and Commerce

August 14, 2012

My name is Daniel Gibson. I am an attorney representing Texas Statewide Telephone Cooperative, Inc. ("TSTCI"). TSTCI is an association of 38 of the small and rural independent telephone companies and cooperatives which provide telecommunications services in the vast rural areas of the state. While TSTCI's members serve less than 5% of the customers in the state, their service territories combine to cover greater than 40% of the geographic area of the state.

TSTCI has been asked to provide testimony relating to the state of the Telecommunications Market, the Availability of Broadband and Telecommunications Service Discounts.,

I. State of the Telecommunications Market in Rural Areas

The rural telecommunications market is in state of uncertainty. While the services provided in TSTCI member company service areas are vital to the quality of life, economic development and infrastructure of the rural areas, the services and network necessary to provide those services cannot exist without some form of support mechanism. Support reforms on both the State and Federal level are creating some level of uncertainty with regard to this needed support, and this Committee will be discussing that on the State level in the near future. TSTCI will gladly provide further comment at that time.

The telecommunications markets in the rural areas of the state have evolved in much the same way that those in the urban areas have. While basic dial tone voice service was once the crux of telecommunications, rural customers and businesses are looking to receive not only landline voice services, but also wireless and broadband services. There is a real misconception that as the communications market transitions to wireless devices and broadband that the basic landline network becomes obsolete and is no longer needed. This could not be further from the truth.

There are not multiple networks in rural areas. Without the underlying network provided by the traditional landline company in a rural market, there is no voice service, there is no wireless service, and there is no broadband. As technology and the demand for advanced telecommunications services have grown, the rural telecommunications companies have evolved with the market. Over time, what was once a largely copper based network has changed. As maintenance, expansions and upgrades have occurred, that traditional "legacy" network (as it is sometimes referred to) has evolved into a largely fiber based network which is the backbone for all services in the rural areas.

Access line counts in general are in decline; however, there are still customers requesting voice services where there has not previously been service. While some

may question the value in extending the network to provide services in these high cost, low density areas, the TSTCI companies value their Provider of Last Resort ("POLR") obligations and strive to provide the rural consumer with the same high quality telecommunications service that would be available to them if they lived in an urban area. In many of the rural service territories there are still large pockets where there is little or no wireless service.

Wireless service in the rural areas is dependent on the network of the small companies. A wireless call is truly only wireless until it hits the nearest tower. Voice and data would not be possible for the wireless devices without the backhaul provided by the landline network. In expanding and upgrading their networks, the small company networks are able to provide the capacity to allow high quality wireless service to many rural customers. Regardless of the wireless provider, this service would not be possible without the rural landline companies. This is a bit of a double edged sword for the small companies. While the rural providers want their customers to have the best technology and same services that are available to consumers in more urban areas of the state, as rural customers abandon their landlines for wireless service, that migration decreases the revenue and support that allows the rural company to maintain and sustain the backbone network.

Non-facilities based voice services provided over broadband, which also is dependent upon the network of the rural companies, is also decreasing the traditional landline voice service. If the trend of migration away from land line based voice service continues, telecommunications services to rural consumers, whether landline, wireless, or broadband based could be in jeopardy unless changes are made. TSTCI could see the need for a fundamental question to be addressed as to whether the definition of basic local telecommunications service has changed and should a broadband service be included in this definition now or in the near future.

Another important question with regard to the telecommunications market is that of deregulation. As rate of return chapter 53 companies, TSTCI's members have not sought and do not seek full deregulation. TSTCI does not see this as a benefit to either its members or to the consumers of the rural areas served by the truly small companies. SB 980 addressed deregulation of certain markets served by non-rate-of-return companies. While population markers of 100,000 and 30,000 are discussed in the deregulation provisions, it is important to differentiate the TSTCI companies of which none serve a total of 20,000 customers, much less 20,000 in any one given exchange or market. While certain regulatory flexibility is important to the small companies, TSTCI's members would see total deregulation in their areas as a threat to the State's policy that certain telecommunications services be made available to all consumers, including those in the rural and high-cost areas of the State. Service cannot be provided by the truly small companies to consumers in these areas without support. If there is no POLR obligation to provide service, and support for services is reduced or eliminated, the rural consumer faces the threat of no availability of telecommunications services. TSTCI believes in the State's policy of universal service and a certain level of

regulation remains necessary in order to allow a rate regulated supported market to survive.

II. Availability of Broadband.

TSTCI's members provide a tremendous availability of broadband to the consumers in their rural high cost areas. This is due largely to the fact that as the rural telecommunications network has been expanded and upgraded, the support that has gone into these high cost areas has been utilized to create an advanced reliable network. This network is capable not only of providing high quality voice services, but avoids the need of overbuilding a duplicate network by supporting the broadband services that are now an essential service in the telecommunications market place.

While not all consumers request or take broadband services, TSTCI would estimate that broadband services are available to over 97% of the service area served by its members. As discussed in its previous testimony, if the viability or ability to maintain and sustain the network of the truly small companies is threatened, rural consumers face not only the threat of a loss of voice and wireless service, but the availability of broadband to the rural consumers would also be greatly reduced.

The rural consumer which uses broadband in the areas of the TSTCI members is also sometimes misconstrued. It is not just the rural farm residence or "mom and pop farmer" as is sometimes discussed. While those residences, the families and children who live there, and the businesses that are run out of those rural homes are important, TSTCI members provide broadband services to other entities as well. In addition to the schools, hospitals and libraries of the rural areas the economic development of the rural areas is enhanced by the broadband made available in the rural areas. There are several prominent examples of the importance of these services. In the area of Central Texas Telephone Cooperative, Inc., the Texas Parks and Wildlife training facility is provided broadband where no other service is available. In the area of XIT Telephone Cooperative in the northern panhandle, services are provided to a Coast Guard Station which monitors submarines. In the area of Brazos Telephone Cooperative, services are provided to a 2 mile long NASA antenna which monitors satellites over the U.S. In Poka Lambro's territory, broadband services are provided at numerous wind generators which allow communication and monitoring with Mitsubishi in Japan. These are just a few examples of what is made possible in the rural areas by the broadband made available by the rural network.

Federal support programs are moving away from supporting a network that is only voice capable. A network that makes broadband available and improves the quality of service to the rural consumer and economy is now the focus. In order to ensure the viability and sustainability of broadband in the high cost rural areas of the State, Texas may need to evolve its support mechanisms for the high cost areas to ensure that broadband is included as a basic service which qualifies for support.

III. Telecommunications Service Discounts and Industry Support

First, as a general policy, TSTCI supports the Legislature's extension of the HB 2128 discounts to schools, hospitals, and libraries as enacted in SB 773. TSTCI's members do not see a direct impact from the discounts as they receive reimbursement from the TUSF for these discounts in their service territories.

The general question has been asked of what can be done or needs to be done to encourage competition and make market and industry operations more efficient in the rural areas. The high cost rural areas served by TSTCI members can only be served by a supported network. With the high cost of service and low customer density, these areas are not attractive to facilities based competitors. Pure cost of service, recent regulatory changes at the FCC, and the regulatory oversight of the PUC have created an atmosphere in which the small companies are seeking every efficiency in order to provide high quality services to the rural consumers and businesses while maintaining a sustainable business.

Maintaining the essential policy of universal service in the rural areas by continuing POLR obligations and predictable sustainable support for rural regulated markets, modernizing what is considered a basic telecommunications service, and developing State policy to encourage the incentive to invest in the rural telecommunications network which is the backbone for rural voice, wireless and broadband services would be the key components of any action that TSTCI would see as Legislative support for the industry in the high cost rural telecommunications market.