

Testimony of

DELBERT WILSON

**Before the Texas Senate
Business and Commerce Committee**

October 9, 2012

My name is Delbert Wilson, and I appear before the Committee in two capacities today. First, I am the general manager of Hill Country Telephone Cooperative, Inc, headquartered in Ingram, Texas. Second, I serve as the current president of Texas Statewide Telephone Cooperative, Inc., commonly known as "TSTCI", which is the statewide organization of small and rural telecommunications companies that serve the vast rural areas of the state of Texas.

Hill Country Telephone Cooperative:

Hill Country Telephone Cooperative, Inc., or HCTC, is truly a "rural" telephone company, serving a large rural portion of the state in and around north of Kerrville, west toward Junction and south toward Uvalde, Texas. As a cooperative, organized under the Texas Telephone Cooperative Act, HCTC is owned by the customers we serve. Our business focus is not on profits, but on providing high-quality, basic and advanced telecommunications services to rural Texans at rates comparable with those individuals and businesses in urban areas.

Our cooperative serves an area that covers 14 counties in the hill country of Texas which offers a challenge in both population density and difficult terrain. We serve approximately 10,280 members of the cooperative, over 14,000 access lines, approximately 2,900 square miles, and 3610 miles of lines, which averages to about 3.9 customers per route/mile.

Our customer base includes many rural residential customers, but we also serve a number of rural towns and communities, and the businesses located in those areas. HCTC is an important link in rural economic development because we are the provider of last resort in these areas, and the provider of broadband and other advanced services to the businesses in our portion of rural Texas. HCTC has used its resources, including the Texas Universal Service Fund (TUSF) very wisely and efficiently over the years to upgrade its local network with modern switching equipment and fiber optic cable in order to offer high-speed broadband services to rural businesses and customers.

Texas Statewide Telephone Cooperative, Inc.

TSTCI represents approximately 35 of the telephone cooperatives and small, independent telephone companies that serve the rural areas across the state, from East Texas to far West Texas, and from the Panhandle to the Valley. TSTCI was organized to allow the small rural companies to combine their limited resources in an efficient manner in order to provide representation for our rural customers and businesses at the Texas Legislature and the Public Utility Commission. We thus are able to do collectively what we would not be able to afford to do individually.

Nature of the rural companies

All 46 rural telephone companies that receive support funding from the Small Company TUSF Plan remain subject to the full regulatory jurisdiction of the Public Utility Commission. In Section 53 of the Public Utility Regulatory Act this Legislature, with our concurrence and cooperation, has insured that universal serving funding to the small and rural companies continues to have the full oversight of the Commission. We have never sought to be deregulated. We understand the importance to you of insuring that the USF funds are well spent and that oversight remains.

That is why we come to you with confidence and conviction in seeking to maintain support for the small companies from the universal service mechanisms you have enacted. We will be seeking to maintain those programs, but streamline them to work more efficiently, provide an appropriate and sufficient level of support, all while maintaining full regulatory oversight.

Texas Universal Service Fund:

The Texas Universal Fund initially was proposed and supported by TSTCI in order to provide a stable transition mechanism to support rural telecommunications during the aftermath of the 1984 breakup of AT&T. While the USF was proposed by, and for, small companies, we now are the smallest aggregated recipient from the fund. The 46 rural companies (coops and independents under 31,000 lines) that receive support from the Small Company USF plan collectively receive less than \$70 million. That amount is less than is paid collectively to support the five social programs funded by the TUSF. I have attached to my testimony a chart, made up from Commission reports, showing the ongoing phase-down status of the TUSF. In addition, recent actions taken at the Commission have ensured that the amount of TUSF received by the larger companies will continue to decline. This reduction of the portion of the fund received by the larger companies should allow for a stable fund that is able to provide a sufficient level of support to the small companies without raising the assessments that every Texas telecommunications customer pays.

Texas needs a strong, stable and consistent USF plan for rural service to insure our major businesses, and our rural residents, have quality advanced telecommunications and information services. That's what we intend to propose and support in the upcoming legislative session.

Last session, this Legislature approved H.B. 2603 which literally saved many rural companies by providing them a sufficient level of funding from the Small Company USF plan. While H.B. 2603 was a huge boost to the rural companies, collectively it was still an insignificant amount in comparison to the total universal service program.

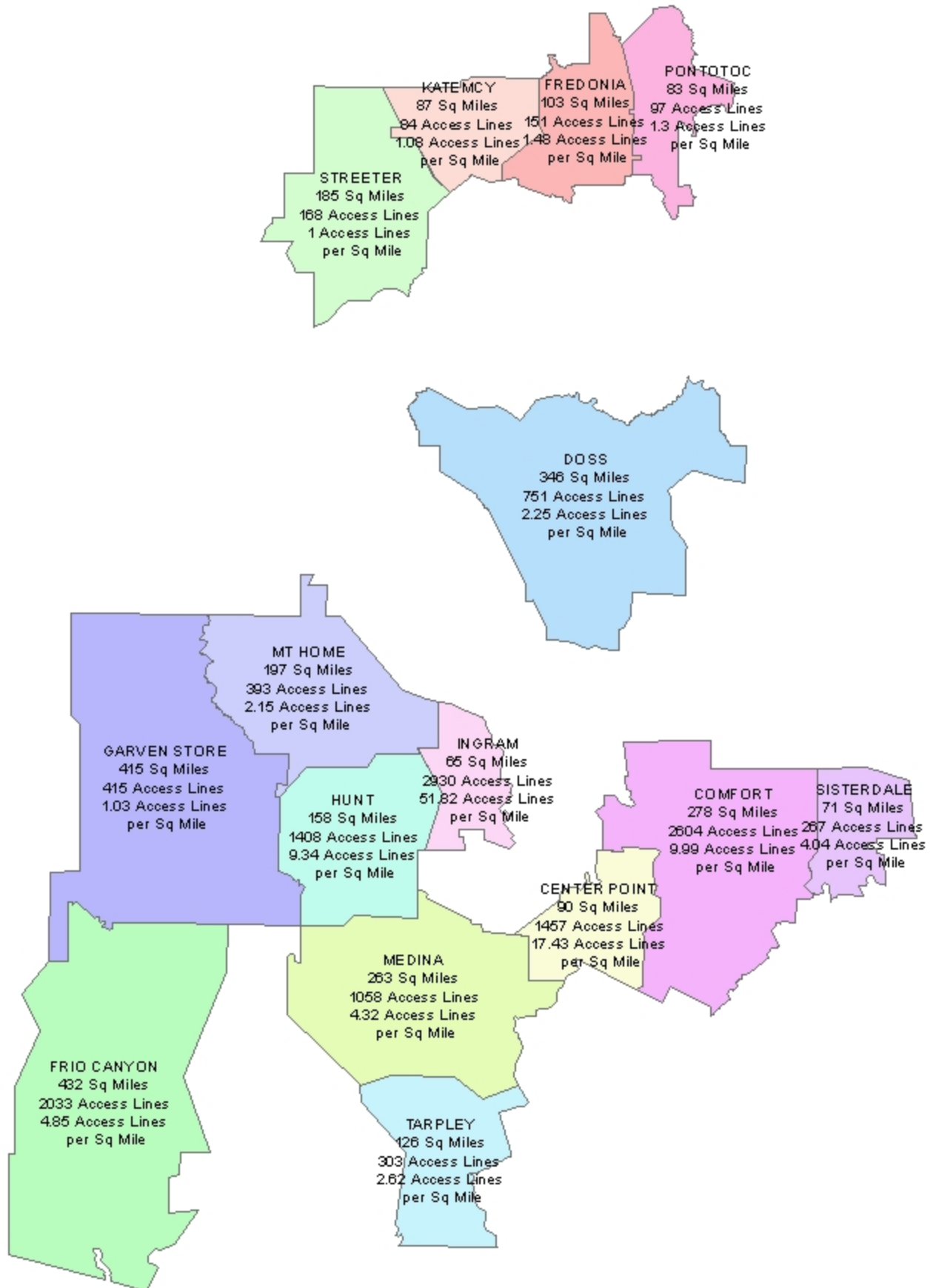
In fact, to put in perspective the relatively small increase to the size of the TUSF as a result of H.B. 2603, the much needed boost to the 46 small companies in the small company plan equated to less than the simple price of one piece of bubble gum on customers' phone bills. This increase was also less than the reductions to the large company plan that have been and are being implemented.

This much needed boost to the small companies expires at the end of 2013. The current rule proposals on the table at the Commission would take support back to a pre-HB 2603 level at its expiration, and then seek further reductions to support to small companies. It is TSTCI's position that this would provide an inadequate level of TUSF support to its members and force many companies to seek additional support at great cost.

Conclusion

I thank you for your time and in allowing me to speak to this issue of most importance to the rural economic development by the provision of high-quality advanced telecommunications services in the vast rural areas of Texas.

Hill Country Telephone Cooperative Serving Areas



**Financial Review of Disbursements
From the Universal Service Fund**

(Annually in millions)

| <u>Plan</u> | <u>2004</u> | <u>2007</u> | <u>2010</u> |
|----------------------------------|-------------------|-------------------|------------------|
| Big Company Plan ¹ | \$440.6 | \$420.2 | \$302.1 |
| Small Company Plan ^{**} | \$ 99.5 | \$ 93.1 | \$ 82.6 |
| Social Plans ² | \$ 38.1 | \$ 41.6 | \$ 68.5 |
| Administration | \$.8 | \$ 2.0 | \$ 2.9 |
| Total USF | ----- \$ 586.3 | ----- \$ 562.6 | ----- \$461.5 |

**** Of the original 54 ILECs in the Small Company Plan, 46 are cooperatives and/or small ILECs (with under 31,000 access lines). These 46 companies collectively drew less than \$50 million prior to the 2011 Legislature’s “CPI Adjustment”. After the CPI adjustment, these 46 companies still collectively draw less than the total of the five “Social Plans”.**

Thus, other than administration costs, the 46 rural companies serving the high-cost rural areas of Texas collectively remain the smallest draw of the Texas USF.

Docket 34723: 2007-8 Settlement Agreement for the Big Company Plan:

Annual Disbursements

| | <u>2008</u> | <u>4-year phase down</u> | <u>2013</u> |
|------------|-------------|--------------------------|------------------|
| AT&T | \$155 | – \$111 | \$ 44 |
| Verizon | \$ 97 | – \$ 28 | \$ 69 |
| Embarq | \$ 41.5 | – \$ 4. | \$ 37.4 |
| Windstream | \$ 91.7 | – \$ 5.6 | \$ 86.1 |
| | | ----- – \$144 | ----- \$236.5 |

¹ The Four Large ILECs: AT&T, Verizon, Embarq, Windstream

² Social Plans:
(1) Texas Relay, (2) Lifeline, (3) Specialized Tele. Asst.,
(4) Schools/Libraries/Hospitals, (5) Tele-Assistance and (6) TCDHH