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SUBCOMMITTEE ON RURAL DEVELOPMENT,
BIOTECHNOLOGY, SPECIALTY CROPS AND
FOREIGN AGRICULTURE
HOUSE AGRICULTURE COMMITTEE

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Chairman McIntyre, Ranking Member Conaway, members of the Subcommittee, I would like to thank you for the opportunity to be here today to discuss rural broadband programs. I am here on behalf of Hill Country Telephone Cooperative of Ingram, Texas and the National Telecommunications Cooperative Association (NTCA), which represents more than 580 small, rural, community-based communications service providers throughout the nation.

Hill Country, where I serve as the General Manager, provides telecommunication services in 15 exchanges located in 14 counties spread over 2900 square miles in rugged terrain – equivalent to the combined size of Rhode Island and Maryland. Organized as a cooperative, Hill Country's top priority has always been to provide every one of our consumers, who are also our owners, with the very best communications and customer service possible – an entrepreneurial spirit that is representative of our 1,100-plus rural counterparts that together serve 50% of the nation's land mass but only 10% of the population.

Hill Country came into being, like many other telecommunications systems, soon after the 1949 passage of the Telephone Amendment to the Rural Electrification Act (REA), which made Rural Utilities Service (RUS) loan funds available to finance rural telecommunications systems. At that time, the Bell companies and other large telecommunications companies were already well established in the nation's cities and growing suburban areas. However, they were not interested in providing telephone service, much as they are not interested today in providing broadband service, to sparsely populated rural areas without imposing expensive line-extension charges. Therefore, in large part due to support from the RUS, the unfulfilled need for telephone service was met by the men and women of rural communities who joined together to develop, finance, and build their own community based telecommunications systems. If it were not for RUS, and other crucial federal cost recovery mechanisms like the universal service program and the intercarrier compensation regime, many rural areas of our nation would still be without adequate telecommunications service.

Now, the focus and the need have appropriately shifted to more advanced communications services. Working in tandem with the aforementioned cost recovery mechanisms, and private investment, the RUS's broadband loan and grant programs are helping rural communications service providers replicate the success of their telephone service build-out by steadily deploying broadband infrastructure and related services to an increasing percentage of their subscribers.

Listening to the needs of rural consumers and understanding the ever-growing importance of broadband in everyday life, Hill Country is actively engaged in a major outside plant modernization project. This \$57 million initiative involves the deployment of 560 miles of fiber optic cable, 280 digital loop carriers and state-of-the-art soft switches throughout a substantial portion of our market area. Why are we doing this? Quite simply, in an effort to provide the broadband infrastructure that is necessary to support the growing bandwidth needs of our members.

However, even in spite of all our efforts tied to this modernization project, including the maximization of our debt load, 543 households - approximately 5 percent of our market area - will remain unserved from a broadband perspective, because the costs of providing service in these remote, economically challenging areas are simply overwhelming. These 543 households are in outlying areas that are beyond the 18,000 kilofeet standard where DSL will typically operate effectively. According to a recent study conducted by Hill Country, 522 miles of fiber optic cable would need to be installed to provide broadband service to the 5 percent of our market that remains unserved. This effort would cost \$20 million at an average cost of \$37,000 per subscriber – about four times the average cost per subscriber of the other 95 percent of our market.

A typical business plan that would sustain itself simply cannot be constructed for this segment of our market. It is in these unserved areas that support from the RUS and National Telecommunications and Information Administration (NTIA) broadband funding incentives, which are associated with the American Recovery and Reinvestment Act of 2009 (Stimulus Bill), will be critical in enabling our system to overcome the economic challenges of providing broadband to 100% of our customers. Clearly, there is a real and true need for these dollars and undoubtedly they will have an immediately stimulating effect during the construction stage and thereafter during the consumer usage stage.

Rural areas throughout our nation are low density and even higher cost. Some refer to these unserved areas as “market failures,” where competition and existing federal programs have failed to help provide consumer choice. I like to refer to these areas as “economic realities.” Serving our nation’s rural citizens with telephone service has always been challenging and bringing broadband to these sparsely populated areas is even more challenging. It is these “economic realities” that lead to our discussion today about the potential impact of the broadband stimulus plan.

Broadband is not only the great equalizer between rural and suburban/urban areas of our nation, but also with the United States in relation to the rest of the world. Broadband infrastructure deployment is critical to the economic development and national security of our nation. As applications evolve over broadband, all Americans connected will experience untold opportunities for employment, health care, education, as well as entertainment. As the world is getting increasingly competitive, it is essential that the United States have a ubiquitous national broadband network where all Americans, whether urban, suburban, or rural have access. Although our rural areas are sparse in population, these people are critical in our nation’s economy and security - providing food, fiber, and energy for a growing nation.

As you know, last week’s Notice of Funding Availability (NOFA) announced the policy and application procedures for the Stimulus Bill’s broadband initiatives. To ensure the funding provided by the Stimulus Bill does not yield unintended consequences and to achieve the bill’s objectives of increasing access to broadband and inciting economic development, we would like to highlight a couple areas of concern:

- First, we believe it is important to ensure support is directed toward areas with significant need, i.e. unserved areas first. Therefore, we are pleased that the Broadband Initiatives Program (BIP) will make grants available for remote, unserved, rural projects. However, given the extremely high cost of building out the “last mile” to remote areas, the \$400 million in grants provided by the BIP for “last mile” projects may not be sufficient to meet the needs of the rural market. While \$400 million sounds like a lot of money, remember, we have estimated that it will cost about \$20 million to reach just the 543 homes in Hill Country’s outlining areas.
- Second, rural providers must retain their right to effectively manage their networks. The rural sector of the communications industry has a long history of adopting new technologies to meet the evolving economic and security interests of their consumers. Therefore, policymakers must ensure any net neutrality or “non-discrimination” actions do not unwittingly stymie this entrepreneurial spirit. At first glance, the regulations appear to mostly meet this objective. However, we are concerned that the requirements are uniformly applied to NTIA and RUS when in fact the law didn’t impose application of the interconnection and nondiscrimination provisions to the RUS. In addition, we are also concerned that these interconnection and “non-discrimination” requirements may supersede the exemptions set-forth by the Communications Act of 1934 that recognize the unique circumstances confronting rural telecommunications providers.
- As our members prepare their applications and further review the NOFA’s regulations, we will provide the agencies and this Subcommittee with further input regarding any additional concerns or comments we may have. Like the agencies, we reserve our right to provide further evaluation of these proposals as the process moves forward.
- Finally, while not directly related to the Stimulus Bill, we believe it is important that the cap on the Universal Service Program’s High Cost Fund be removed if we truly want ubiquitous broadband. The cap has reduced cost recovery support for Hill Country by about \$2 million annually - resources that remain unavailable to help expand our broadband network.

As for the RUS Broadband Loan and Loan Guarantee Program (RUS Broadband Loan Program), it has been instrumental in helping accelerate broadband deployment in rural communities throughout Texas and the rest of the country. However, there remains room for improvement to ensure its funding is utilized to the maximum extent possible. We recommend the following changes to the RUS Broadband Loan Program:

- Require a 20 percent credit support of the requested loan amount. The 2008 Food, Conservation, and Energy Act (Farm Bill) eliminated the 20 percent credit support requirement for some entities. Broadband providers who cannot meet the 20 percent threshold will not likely have sufficient financial stability to maintain service to their broadband customers.
- Increase the deadline for completion of a project from three years to five years. The three-year build-out time frame is too short for many Program applicants

- given telecommunications planning horizons, changes in technology, and regulatory environments.
- Lengthen the 30 working day notice period for incumbents to 60 or 90 days to give incumbents more time to see and respond to new applications to ensure these scarce resources are not wasted by funding duplicative systems in markets that cannot even effectively sustain one provider.
 - Require all applicants to submit a market survey. The painstaking process of a RUS loan is intended to protect the American taxpayer. Therefore, the market survey requirement, which was eliminated by the Farm Bill for those proposing to have a subscriber projection of less than 20 percent, should be reinstated.

Finally, RUS perceived a need, and responded accordingly, when it developed the Community Connect Grant program several years ago to provide financial assistance in the form of grants to establish community-oriented broadband points of presence in areas of great need – those that are extremely rural, lower income in nature and currently unserved. This approach has brought broadband within the reach of thousands of rural citizens that otherwise would not have been able to enjoy such access due to the economic circumstance of themselves as well as the community as a whole. We encourage the Committee to continue to support this important program.

Many have asked what role this program should play in light of the emergence of the broadband stimulus funds. We believe the stimulus funds change nothing with regard to the need for this critical program. The Community Connect Grant Program brings broadband services and equipment to community oriented locales such as community centers, libraries and the like so that citizens that cannot afford to maintain their own individual services at home still have the ability to come to such centers and conduct business or entertainment on the community-managed system. It is a wonderful program that has and will continue to make a difference in numerous communities.

I believe that the funding provided by the Stimulus Bill, in combination with other programs, such as the RUS Broadband Loan and Loan Guarantee Program, the Community Connect Program, Universal Service, and the intercarrier compensation regime will help enable America's rural, community-based telecommunication system providers to meet the broadband needs of our nation's rural citizens.

We emerged in these markets where no one else was willing to go. We understand these markets and what their needs are. We are committed to these markets because our systems are locally owned and operated. And we understand the programs, like these, and how to utilize them to achieve your goal of ubiquitous broadband deployment that will reclaim our international leadership in the communications sphere.

Thank you again for inviting me to testify. I look forward to answering any questions you may have.