

**Testimony of  
David Cohen  
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before the  
United States House of Representatives  
Subcommittee on Livestock, Rural Development and Credit  
of the  
House Committee on Agriculture  
Coordinating Future Investments in Broadband  
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Chairman Crawford, Ranking Member Costa, Members of the Committee, thank you for giving me the opportunity to appear before you today to present the progress being made by our member companies in bringing ubiquitous high-speed broadband service to rural Americans. Immense benefits accrue to rural areas where broadband service is present, including enabling rural development, distance learning and remote health care. It is timely and appropriate that the Subcommittee take time to review how the Rural Utilities Service (RUS) and the Federal Communications Commission (FCC) are coordinating to extend and improve broadband availability in difficult to serve low-density rural areas.

My name is David Cohen and I serve as Vice President of Policy at USTelecom. Our association represents innovative broadband companies ranging from some of the largest companies in the U.S. economy to some of the smallest cooperatives and family-owned telecom providers in rural America. Our members offer a wide range of communications services on both a fixed and mobile basis, and the overwhelming majority of them offer advanced broadband services including voice, video and data. Rural America relies on our members' wireline networks for service to consumers and to make the connections to cell towers to enable wireless communications. The customers who rely on our networks include residential consumers,

businesses large and small, and government entities at the local, state and federal levels. What unites our diverse membership is our shared determination to deliver broadband services to all Americans – regardless of their location.

Investment in broadband network infrastructure has created jobs, spurred innovation, and revolutionized the way Americans learn, work, communicate, and shop. That investment is particularly important in rural America because broadband can overcome barriers such as distance and remoteness that can impede development. Our members have spent enormous sums and made great progress in bringing broadband to rural America. Today, according to a report by the Commerce Department’s National Telecommunications and Information Administration reflecting mid-2013 data, 78 percent of Americans living in rural areas have access to wired broadband. But we are not here to rest on our laurels; more can and should be done to increase the availability and performance of broadband in rural areas.

### **The FCC and RUS Should Continue to Coordinate Efforts to Bring Broadband to Unserved Areas**

The High-Cost Universal Service Fund (USF) administered by the Federal Communications Commission (FCC) and the Broadband and Infrastructure Loan Programs of the Rural Utilities Service (RUS) are key complementary elements in deploying cutting edge communications services to rural America. As the FCC modernizes the USF program to conform to developments in technology and in the marketplace, coordination between it and RUS is necessary to continue the progress that has been made to build out broadband facilities in rural areas. The FCC should remain cognizant that RUS has a sizeable portfolio of loans to borrowers that derive a significant portion of their revenues from USF. Future USF mechanisms must

ensure reasonable predictability as to the level of future support so that carriers can confidently plan, borrow and make long-term investments in building out fixed cost facilities designed to last for decades.

### **USF for Areas Served by Price Cap Companies**

In 2011 the FCC adopted its landmark USF/ICC Transformation Order, designed to evolve its high-cost universal service regime from supporting voice service to supporting broadband. In that Order, the FCC created a two-phase Connect America Fund (CAF) for the larger, price cap companies such as AT&T, CenturyLink, Windstream and Frontier, and reformed but did not replace the legacy USF mechanism for smaller, rate-of-return companies such as Smithville in Chairman Crawford's district and Kerman in the district of Ranking Member Costa. The FCC noted that at the time it adopted its Order, more than 83 percent of the approximately 18 million Americans lacking access at or above the FCC's broadband speed benchmark lived in areas served by price cap carriers. The FCC's National Broadband Plan explained that while the old system of funding for such carriers supported phone service to lines served by price cap carriers, the amounts did not provide an incentive for the costly upgrades necessary to deliver broadband to these customers.

CAF Phase I and CAF Phase II are essential vehicles for providing necessary support to price cap service areas that historically have been under-funded because of inadequate USF support. By targeting funding to the locations served by price cap carriers, CAF Phase I incremental support and CAF Phase II are instrumental to achieving the Commission's broadband deployment goals.

To spur immediate build out in price cap company areas, the FCC offered additional funding under its CAF Phase I program to price cap carriers that elected to take on the obligations associated with the funding. Not only did price cap companies accept over \$500 million in CAF Phase I funds, they kicked in hundreds of millions of dollars of their own capital to bring broadband to rural areas. Construction is well underway pursuant to that funding and, according to the FCC, almost a million more rural Americans are already or soon will be receiving broadband service.

The FCC has not yet implemented CAF Phase II, the permanent CAF mechanism for areas served by price cap companies. Implementation is expected early in 2015. The FCC has consistently and wisely rejected calls by some to jump in front of the line and overturn the FCC's considered decision to make the most efficient and cost-effective use of the limited funds available in order to accelerate the availability of broadband to rural Americans. The FCC has done this by providing price cap carriers with an initial opportunity to expand and upgrade service by accepting CAF Phase I and CAF Phase II funds.

CAF Phase II will offer price cap companies a fixed amount of money, determined for each state by a cost model, to meet vigorous broadband service obligations. Under the current CAF Phase II structure, a company electing to participate in a particular state would receive 5 years of CAF support (for an investment amortized for up to 25 years) and be obligated to provide broadband speeds at 4 Mbps downstream and 1 Mbps upstream. The FCC is considering increasing the speed requirement to 10 Mbps downstream which, because of the additional costs involved in

providing faster service, should be accompanied by a longer funding term and greater program flexibility. USTelecom supports the adoption of the higher speed requirement if accompanied by modifications to the terms of support including the provision of funding for 10 years. The FCC has committed to making this determination soon and price cap carriers will be electing whether to accept the state-level obligation and funding by the end of this year. In states in which price cap companies do not elect funding, the FCC will conduct a competitive bidding process open to all those willing and able to undertake the broadband obligations. Winners in the competitive bidding process will receive support for 10 years.

### **The FCC's Rural Broadband Experiments**

It is important to distinguish between the CAF Phase II mechanism and the Rural Broadband Experiments program recently adopted by the FCC. That program is budgeted at a one-time amount of \$100 million and will be used by the FCC to explore how to structure the CAF Phase II competitive bidding process in price cap areas and to gather valuable information about interest in deploying next generation networks in high-cost areas. USTelecom shares the Commission's goal of ensuring cost-effective and universal broadband connectivity in rural America. The FCC's Rural Broadband Experiments program drew more than a thousand "expressions of interest" from potential participants. Those participants will now be able to submit formal applications for funding. USTelecom reviewed a random sample of 690 of the more than 1000 expressions of interest filed for the Rural Broadband Experiments. The results of USTelecom's review suggest that most of the substantive expressions of interest sought levels of funding substantially greater than the CAF Phase II model-based support for the proposed service area. The results show that 78 percent of the sampled expressions of interest asked for

more than the CAF II support available and that on average the requested amount for this group was almost 10 times more than the available support. Overall, the 227 expressions of interest reviewed under USTelecom’s streamlined approach sought almost 4 times the CAF Phase II support available, asking for \$2.4 billion in support for census tracts identified as having \$620 million in available support. So while many would-be providers may make facile representations about being able to provide broadband service in rural areas, even under the very informal “expressions of interest” process, almost 4 out of 5 proposed to do so at funding levels above the reserve prices set by the FCC.

### **USF for Rate-of-Return Companies**

In contrast to the CAF program to provide support in areas served by price cap carriers, the FCC has made less progress in establishing a high-cost universal service program to provide support to smaller rate-of-return carriers serving rural areas. The current program does not provide support to rural lines where the customer subscribes to broadband service from the rural local exchange carrier but obtains voice service from another carrier, usually a mobile provider. Also, the amount of funding provided to rate-of-return companies is based on legacy mechanisms developed to support voice services. In order to plan, borrow and invest in long-term broadband facilities, rate-of-return companies need a high-cost USF mechanism that is designed for the new broadband world, supports broadband-only lines and incorporates a reasonable amount of certainty as to future revenues. While the FCC’s recent repeal of its Quantile Regression Analysis (QRA) limitation on support that could be provided to individual carriers was a major step in the right direction, the FCC is still developing a plan that small rural carriers, and RUS, can quantify and evaluate to determine which future loans and investments are feasible and

whether past loans and investments can be repaid. The rural telecom industry has proposed a plan that would carefully transition from the current mechanisms to new broadband mechanisms and operate within the established budgetary limitations. The FCC should give this plan serious consideration.

USTelecom members appreciate the strong support the Agriculture Committee has provided for RUS telecommunications programs since their inception in 1949. RUS endures because it is a public-private partnership in which the borrowers are the conduits for the federal benefits that flow to rural telecom customers – the true program beneficiaries. The targeted assistance offered by the RUS broadband and telecommunications loan programs – thoughtfully coordinated with the FCC’s high-cost programs – remain essential to a healthy and growing rural economy and contribute to the provision of universal communications services comparable to those found in urban areas.

In closing, let me again thank the Subcommittee for holding this timely hearing. We share the Subcommittee’s commitment to accelerating rural development by making broadband services available to rural American homes, businesses, schools, libraries and healthcare institutions and we look forward to our continued work together to address this constantly evolving challenge.