



Statement by

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On behalf of

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INTRODUCTION

The Rural Telecommunications Industry

Thank you for the invitation to participate in today's discussion on coordinating future investment in broadband. For the past 29 years I have served as Vice President of Yelcot Telephone Company, which is headquartered in Mountain Home, AR. My remarks today are on behalf of Yelcot Telephone Company, as well as NTCA–The Rural Broadband Association and their several hundred small community-based members that provide a variety of communications services throughout the rural far reaches of the nation.

We believe our industry is uniquely qualified to participate in today's discussion because we are small businesses leading the way in deploying high-speed, sustainable broadband to rural America. Yelcot, similar to about half of the nation's small, community-based rural providers, is a commercial company. Family or commercially-owned rural providers are consumer-centric because they are locally owned and operated. Likewise, in the cooperative structure that makes up the other half of small rural providers, the consumers are also the owners, so every choice is viewed from both an owner and a consumer perspective – the two are truly one and the same.

Yelcot is a carrier-of-last-resort and has always operated under the premise that if someone wants service in our service area, then we do whatever it takes to provide the would-be customer with that service. Ever since Yelcot began operating in 1957, we've been proud to serve as the only provider to some of the most rural areas of Arkansas, while other carriers avoided investments in such areas and chose to serve only the most profitable and densely populated towns. Because of this commitment, and with the aid of key rural development programs and universal service support, rural Americans throughout Yelcot's service area, and indeed throughout the markets of NTCA members, are enjoying universal voice service, access to mobile, video, and broadband Internet services, and enhanced emergency preparedness.

Small, rural telecom providers connect rural Americans to the world. Moreover, these rural network operators have been at the forefront of the broadband and Internet Protocol ("IP") evolution for years, making every innovative effort to deploy advanced networks that respond to consumer and business demands for cutting-edge services. In rural America, that translates into economic development that produces jobs, not only in agriculture, energy and other industries with a strong rural presence, but in the healthcare sector, and just about any other retail industry that requires broadband to operate in this day and age. Broadband has become essential to delivering healthcare and securing the public safety. And much of the business world is already demanding higher broadband speeds to help it interact with and sell to customers near and far. Broadband and other services provided by the rural telecom industry serve as an incubator for small business ideas in rural America to be implemented and to flourish.

Fixed and mobile broadband, fixed and mobile voice, video, and Internet Service Provision are among the numerous telecom services that rural Americans can access thanks to the rural industry commitment to serving sparsely populated areas. Broadband-capable networks facilitate greater interconnection of the community's resources and can enable citizens' participation in the global economy, blue-ribbon education, first-rate healthcare, cutting-edge government services, robust security and more efficient energy distribution and use.

The rural telecom industry has always been at the forefront of technological innovation, being the first segment of the industry to completely convert to digital switched systems, provide wireless options to their hardest to reach customers, offer distance learning and tele-health applications, provide cable-based

video, then satellite video, and now IP video to their markets, and it was a member of the RLEC community that first deployed an all-fiber system. The rural industry continues to lead in the deployment of broadband capable infrastructure.

Yelcot Telephone Profile

Yelcot's top priority has always been to provide every one of our consumers with the very best communications and customer service possible at affordable rates that stimulate adoption. Yelcot has several lines of business, including ILEC, CLEC, ISP and Cable TV. While our headquarters are in Mountain Home, we in fact serve over 7,946 customer lines across our 826 square mile rural service area that is spread across northern Arkansas. This constitutes about 9.6 customers per square mile. We employ a total of 52 people and in 2013 our annual operating revenue was about \$13.8 million dollars. Our service area is rural and sparsely populated, requiring great effort to get advanced services to our customers.

The entrepreneurial spirit of Yelcot is representative of our approximately 1,000 small rural counterparts in the industry, who together serve 5% percent of the U.S. population across approximately 40% of the nation's geographic land mass. Like the vast majority of our rural colleagues, Yelcot has been an early adopter of new technologies and services. In 2006, Yelcot upgraded its network to ADSL2+ (Fiber-to-the-node). Yelcot currently has 10 Megabit broadband service available to 60% of our ILEC service area and 1.5 Megabit broadband available to 98% of our service area. We can provide gigabit service where our fiber-to-the-premises facilities are located. This fiber connection allows for nearly limitless amounts of bandwidth. We know our customers will require more and more bandwidth and have built a network that will supply it.

RasorNET

Yelcot's reach extends beyond our service area to an exciting partnership with Ritter Communications, South Arkansas Telephone, and New Wave Communications to build RasorNET, a fiber backbone that delivers 10 gigabit Ethernet transport, enhanced wireless backhaul, and connections to other fiber backbones around the country. RasorNET greatly enhances the online experience for all of Arkansas by providing robust connectivity between major metropolitan areas and rural communities in Arkansas. Only fiber connections will meet the astronomical wired and wireless broadband demands of the near future, and we're thrilled to help meet those consumer needs through RasorNET and the fiber connections Yelcot delivers to the end user.

RURAL BROADBAND BENEFITS THE ENTIRE U.S. ECONOMY

A series of recent studies confirms that significant benefits flow from rural broadband investment to broader urban and statewide populations. The rural telecommunications industry supported \$14.4 billion of economic impact in 2009, with \$9.5 billion occurring in urban areas, and more than 70,000 jobs, 45% of which were placed in urban areas.¹ In Colorado, rural telecom helped create 428 jobs, adding over \$21 million per year to state payrolls.² North Dakota saw an additional \$18 million in Federal tax

¹ Kuttner, Hanns, *The Economic Impact of Rural Telecommunications: The Greater Gains*, HUDSON INSTITUTE, at 6, 8 (2011).

² Shields, Martin, Cutler, Harvey, and Marturana, Michael, *The Impacts of Colorado Telecommunications Association Members on the Colorado Economy*, REGIONAL ECONOMICS INSTITUTE, COLORADO STATE UNIVERSITY, at 9 (Oct. 26, 2011).

revenue and \$31 million in state tax revenue arising out 1,100 direct jobs and 800 secondary jobs generated by rural telecommunications activity.³ The converse holds true, however, from adverse changes – “reforms” that cut investment in rural broadband hurt state economies. In Kansas, for example, potential cuts in Federal rural telecom programs led to projections of \$1.4 million in personal income tax and \$1.3 million in retail sales tax losses.⁴ A personal income loss of \$14.1 million was projected for 2012 alone in New Mexico from the same proposed cuts.⁵ Studies examining the impact of rural communications activity – including purchasing, employment figures, and projected tax revenues – confirm rural communications to be a powerful generator of urban economic growth and federal and state tax revenue. In short, rural broadband is an investment with real benefit and returns for the nation as a whole.

To not have access to high-speed Internet in this day and age is unimaginable to most people, yet millions of Americans live in areas – mostly in rural territory served by carriers other than small, rate-of-return providers – where there is no robust broadband that enables meaningful access to the countless economic and educational opportunities available through the Internet. These people have small business ideas that need broadband to succeed and they need jobs that small businesses can provide. Yet, as important as it is to deliver broadband to the unserved, it’s just as vital that those already receiving broadband remain served – the benefits that flow from broadband are ongoing. If a network is built but then becomes unsustainable or the services over it unaffordable or of poor quality, such developments deny the benefits of broadband for small businesses and all consumers.

RURAL UTILITIES SERVICE FINANCING

RUS Role in Rural Telecom Deployment

USDA’s Rural Utilities Service (RUS) plays a crucial role in rural broadband deployment through its telecom loan portfolio that finances networks upgrades and deployments in rural areas. RUS has been lending for broadband capable plant since the early 1990s. RUS lending and Universal Service Fund (USF) support are inextricably linked as 99.2% of RUS Telecommunications Infrastructure borrowers receive high cost USF support. The presence of high cost recovery is crucial to the RUS telecom and broadband loan calculus. RUS programs have helped rural providers deploy modern networks in many rural areas where the market would otherwise not support investment. Reliable access to capital helps rural carriers meet the broadband needs of rural consumers at affordable rates.

Unfortunately, the success, momentum, and economic development achieved from the RUS’s telecommunication programs were put at risk as a result of the regulatory uncertainty arising out of USF reforms that are discussed in greater detail below. It will be all the more important to continue providing RUS with the resources it needs to lend to the rural telecom industry as demand for financing will

³ McKee, Gregory, The Effect of Changes in Universal Service Funding on the Economic Contribution of Rural Local Exchange Carriers to the North Dakota State Economy, DEPARTMENT OF AGRIBUSINESS AND APPLIED ECONOMICS, AGRICULTURAL EXPERIMENT STATION, NORTH DAKOTA STATE UNIVERSITY, at 16-19 (Dec. 2011) (“Like other RLECs, North Dakota RLECs buy many specialized products and services not available in state economies. National and international markets typically provide these products and services.”).

⁴ Kansas Rural Local Exchange Carriers: Assessing the Impact of the National Broadband Plan, W. FRANK BARTON SCHOOL OF BUSINESS, CENTER FOR ECONOMIC DEVELOPMENT AND BUSINESS RESEARCH, WICHITA STATE UNIVERSITY, at 11, 12 (2011).

⁵ Peach, James, Popp, Anthony V., and Delgado, Leo, The Potential Economic Impact of the National Broadband Plan on the New Mexico Exchange Carriers Group, OFFICE OF POLICY ANALYSIS, ARROWHEAD CENTER, NEW MEXICO STATE UNIVERSITY, at 18 (2011).

inevitably increase when reforms are improved and small carriers are given certainty, hopefully through a program like the Connect America Fund that is designed to promote broadband investment. As Congress continues to grapple with where to best direct scarce resources, it's important to note that the RUS Broadband Loan Program and the traditional Telecommunication Infrastructure Loan programs are funded with loans that must be paid back with interest – creating a win/win situation for rural broadband consumers and taxpayers. Rural providers look forward to building on an already successful partnership with RUS.

Yelcot has first-hand experience working with RUS and I can testify to the benefit of knowing that an experienced lender is available to finance projects at a fair rate. Yelcot and our rural consumers continue to benefit from the RUS Telecommunications Infrastructure Loan program, which has financed upgrades of our network to the fiber era. In the past few years, with the help of RUS, Yelcot companies have added over 130 miles of buried fiber cable, replaced ten Central Offices with four soft switches and added or replaced over 50 remotes.

Originally, a large Tier 1 provider was the only upstream transport provider in one of our service areas, charging \$220.00 per Mb. The Tier 1 provider would not upgrade their equipment, effectively capping the upstream transport in that service area at 145 Mb. In another Yelcot service area, there were few upstream transport options, and those were costly at \$150.00 per Mb. In 2009 Yelcot began an extensive fiber project that took four years to complete. This project allowed us the opportunity to connect with other upstream providers, as well as providing a redundant upstream route. Yelcot now pays \$8.12 per Mb, and has over 30 times the original capacity.

Thanks to these lower costs and increased capacity, Yelcot has recently doubled almost all of our subscribers' bandwidth with no price increase whatsoever.

The Farm Bill Reauthorization

During the most recent Farm Bill Reauthorization process, we appreciated this Committee's efforts to make sensible changes to the RUS Broadband Loan Program to ensure transparency, while avoiding program performance delays and additional burdensome requirements on borrowers. It is essential that small, rural providers are able to access the RUS program without delay. Efforts to dramatically rewrite the program, such as those proposed by the bill that the Senate initially passed, would have resulted only in keeping broadband investment on the sidelines and denying rural areas much-needed access to broadband.

The multi-year rule implementation delay that resulted from the 2008 Farm Bill and the regulatory uncertainty arising out of the FCC's efforts to reform universal service initiatives have left the Broadband Loan Program and subsequent investment at a standstill. We hope the most recent Farm Bill changes to the program do not result in another multi-year implementation delay. Thankfully, it appears that the final Farm Bill left RUS with discretion in administering the program that grants sufficient leeway to make it function more smoothly than the initial Senate Farm Bill would've allowed. Further, it is important that Congress not tie RUS's hands by putting limited funds toward projects that would offer a few people more bandwidth than they need while others still lack reasonable broadband speeds. It is time to get the Broadband Loan Program back to work for rural consumers.

THE IP EVOLUTION AND UNIVERSAL SERVICE

The FCC's Universal Service Fund Reforms

Applications for RUS telecom loans are down dramatically at a time when everyone is clamoring for faster broadband. According to a May 2014 GAO report, RUS received 29 applications for loans in fiscal years 2011-2013, compared to 130 in the first three full years of the program.⁶ Why would an experienced lender such as RUS want for customers when demand for networks is high? Look no further than the state of rural telecom regulation.

For some rural areas, FCC rules still require customers to purchase landline voice service in order for their line to receive USF support. The customer is effectively denied the option of cutting the landline-voice cord and purchasing only broadband. All the while, the FCC continues to design new caps for the legacy USF that was intended to support voice telephony. The last attempt to cap USF was thrown out after pressure from Congress highlighted the regulatory uncertainty and lost investment produced by the FCC's opaque, unpredictable mechanism. Scarce resources are being put toward developing new caps, while small, rate-of-return providers await a broadband-oriented mechanism such as the Connect America Fund (CAF) that larger price cap carriers already have access to. The price cap providers' CAF is in year four of development – a good indication that greater emphasis should be placed on finishing a similar fund for small carriers as soon as possible.

The situation grew more desperate on March 20, 2014, when the FCC announced that the “local rate floor,” to which small, rural carriers must increase their local voice telephone rates by July 1, 2014 to avoid losing certain universal service support, would increase from \$14 to \$20.46. The agency later agreed to push the compliance date back to 2015 and phase in the increase, but the underlying methodology that produces the rate floor remains flawed. The rate floor is meant to guarantee compliance with a statutory directive to ensure “reasonable comparability” in rural and urban rates. “Reasonable comparability” does not mean the rates should be exactly the same, but does allow the FCC to work with state stakeholders on a methodology that reflects inherent differences in the deployment and operation of rural and urban networks, as well as the simple fact that the rural customer can call much fewer people through local service than the urban customer. If not addressed promptly, the rate hike will likely lead some consumers to “cut the cord” on voice service, which would drastically increase their broadband rates due to the aforementioned lack of a CAF for small providers that supports broadband-capable networks.

Such outdated rules that undermine consumer freedom and inhibit technological evolution present an obstacle to the technology transition that consumers and industry are making and the FCC is working to expedite and facilitate in other contexts. Universal Service support should not be tied to a limited service, but available instead to advanced networks that provide consumers with access to a variety of essential, high-quality services from which each consumer may choose. The FCC should move forward immediately to adopt and implement a carefully tailored update of USF that will provide sufficient and predictable support for broadband-capable networks in areas served by smaller rural carriers. Over 130 members of Congress – including Chairman Crawford and other Agriculture Committee leaders – along

⁶ U.S. Government Accountability Office. (2014). *Telecommunications: USDA Should Evaluate the Performance of the Rural Broadband Loan Program*. (GAO Publication No. GAO-14-471). Retrieved from <http://www.gao.gov/assets/670/663578.pdf>

with dozens of organizations that serve rural America encouraged the FCC to act through a series of letters earlier this year.⁷

The broadband revolution presents major opportunities for small businesses to innovate and grow, but the business (or entrepreneur with an idea) must have broadband access to take full advantage. Markets will ensure many consumers realize the full benefits of innovation at the lowest possible prices, but in rural areas there are often no such markets to speak of. Though small, rural providers have been leaders in broadband investment even under the current statutory and regulatory regime, further law and policy changes will be necessary to ensure high cost rural areas remain served while providers edge out into unserved areas.

The Role of the Communications Act and Potential Reforms

The delivery of voice and nearly every other telecom service is undergoing transformative change through the IP Evolution – that is, telecom and information services are increasingly converging as IP applications that run over broadband. This phenomenon has rendered the current legal regime outdated, as it regulates the same service differently based on the technology platform the service rides on.

IP, wireless, and other technological advances are changing the marketplace in ways unimagined even a few years ago, but technology alone will not miraculously solve the high costs of rural broadband deployment. Indeed, the IP Evolution that is already occurring under existing regulatory frameworks will be promoted and sustained only through careful, focused statutory and policy updates that are guided by the Communications Act's core principles of consumer protection, competition, universal service, and public safety. Similarly, NTCA's IP evolution petition filed with the FCC in late 2012 called for a careful regulatory approach to the transition that considers what rules make sense in this broadband age if we're to remain true to those same core principles. Given the challenges to serving rural areas, the answer won't be the legal and regulatory status quo, nor will it be complete deregulation.

The Communications Act's timeless goal of making advanced nationwide and worldwide wired and wireless networks available and affordable for all Americans⁸ is as important as ever in an increasingly interconnected and competitive broadband-based economy. This universal service mandate, which builds upon decades of national policy, has been – and remains – essential in enabling small rural providers to deploy and upgrade cutting-edge networks over time where no other carrier or entity could find a business case to do so.

A faithful and disciplined approach to the core Communications Act principle of universal service must ensure that, even in the event of any statutory or regulatory update, those areas served through support from federal and state USF mechanisms not only “become” served in the first instance, but that they “remain” served, and that consumers and businesses everywhere can make full use of advanced communications services at affordable rates. Further, Congress should ensure that specific, predictable and sufficient support will continue to be provided to help ensure reasonably comparable services at reasonably comparable rates in rural, high-cost areas, as mandated by current law.

⁷ See US House letter led by Representative Gardner and US Senate letter led by Senators Thune and Klobuchar, both sent to FCC Chairman Wheeler on May 6, 2014. See also rural organizations letter sent to Chairman Wheeler on March 5, 2014.

⁸ 47 U.S. Code § 254(b)

Congress should also consider an express directive to the FCC to ensure that all who use our nation's networks – by whatever service or technology – are responsible to contribute to the universal well-being and availability of those networks on an equitable basis. USF is still funded by assessing interstate and international long distance telephone service. The pool of assessable telecommunications service revenues is shrinking even as overall communications-related revenues grow. As a result, the USF program effectively has an artificial funding ceiling that lowers a bit each day due to the failure to broaden the contribution base and to stem the incentives (and abilities) that are in place today which encourage or allow entities to avoid contributing. This de facto cap on the USF program will handicap severely our nation's ability to fulfill the statutory core principles of universal service, competition, and public safety, unless changes are made. Indeed, broadening the contribution base to include the information services that USF already supports has previously received bipartisan backing in the US House.⁹

Rural Broadband Experiments

The FCC recently adopted a report, order and further notice of proposed rulemaking for rural broadband experiments. The order implements a \$100 million budget funded by unused Connect America Fund support. Hundreds of NTCA member companies – including Yelcot Telephone – and other entities have already expressed initial interest in participating in these rural broadband experiments, consistent with their decades-long commitment to solving the communications needs of rural communities. This small, rate-of-return carrier commitment to service was highlighted by the FCC's decision to only accept applications to deploy networks in locations served by price cap carriers. We are interested in seeing the precise rules that will govern these experiments, and we are hopeful that they will help further the mission of universal service consistent with applicable law.

CONCLUSION

Entrepreneurial small rural carriers have leveraged private capital, universal service support, intercarrier compensation, and public-private partnerships to lead the ongoing IP Evolution. These small businesses play an essential role in deploying broadband to rural areas, and the services enabled by broadband are essential to the startup, operation, and growth of other rural small businesses. Rural America has a bright future powered by smart technologies that promote affordability, sustainability, and efficiency in the operation of rural industry and the delivery of essential services such as healthcare, education, and public safety – all key to rural population growth. The benefits that some rural communities are already experiencing will only be possible for all if robust broadband is available and affordable. Rural telecom providers and lenders such as RUS must have regulatory certainty before they can make greater investments in the networks of the future. The key to regulatory certainty is a broadband-oriented support mechanism for small, rate-of-return carriers that gives rural consumers options in selecting the services that best fit their needs.

⁹ See H.R. 5828 § 102(a), 111th Cong., 2d Sess. (2010).