

Technology Council of Central Pennsylvania
Technology and Telecommunications Summit

June 7, 2007

Remarks of

David E. Freet
President
Pennsylvania Telephone Association

Thank You and Good Morning.

It is a pleasure to participate in another outstanding Tech Council event, and I want to applaud Kelly Lewis and his staff for continually raising the bar and keeping all of us apprised of the latest developments in the technology industry in Central Pennsylvania.

This morning I'd like to focus on broadband deployment and competition in what I will call "Good News, Conditional Good News" comments.

BROADBAND DEPLOYMENT

On the "good news" front is certainly broadband deployment in the state. Many of you have heard from previous speakers (including me) about the job that the Chapter 30 companies, PTA members, are doing in deploying broadband universally in Pennsylvania. I am here to tell you that the rapid deployment trend is continuing and that nearly a third of my membership is already 100% deployed as of today!

I can also share with you that the Bona Fide Retail Request (BFRR) program, as outlined in Act 183, is alive and working exceedingly well. Between all the BFRR companies, we are up to 70 BFRRs. And, in conversations I've been having with my members and interested parties, I would expect that number to continue growing.

Anecdotally, in recent e-mail communications with Jim Baker at SEDA-COG he informed me that their local development district (LDD) has started almost 30 BFRR processes and it has been interesting for him watching those individuals who are serving as aggregators drum up support for broadband services.

On another broadband deployment front, the Public Utility Commission (PUC) at its Public Meeting last Wednesday approved an assessment on the Verizon companies, Embarq and Windstream of almost \$5 million for deposit into the Broadband Outreach and Aggregation and Education Funds established by Act 183.

COMPETITION

Competition in the telecommunications industry is vibrant, growing dramatically, and I have absolutely no problem with this development. That may sound strange coming from the President of an association whose very members are losing tens of thousands of access lines to competitors every month, but the PTA has never opposed fair competition,

technological developments and has always emphasized letting the marketplace determine success of companies.

My member companies are keenly aware of the myriad competitive forces and are reshaping their organizations to face the continuing onslaught for the future. If only we can have our regulators evolve their perspectives consistent with the marketplace, as they address critical issues within the communications arena!

None of you in this room requires a primer on competition. Many of you are taking full advantage of emerging technology and a receptive legislative and regulatory environment that enables you to offer world class services.

Why this part of my remarks has the tag of “conditional” good news is that while on the surface all of this competition appears positive for consumers, there is a potentially negative consequence for landline telephone companies and consequently their customers the consumer.

At issue is what industry representatives have termed “access avoidance”, and it has become a significant, unwanted side effect of increasing competition and advancing technology, most notably but not limited to competitors offering Voice over Internet Protocol (VOIP) services.

Quite simply, my members need to be paid for calls which travel over their networks, just as all of you seek compensation for services and products you supply. And, there are a few VOIP providers out there who flatly refuse to pay, claiming that because their calls are IP-originated, they are exempt from paying for the portion of the call that uses the local phone company's network to terminate communications.

The obvious problem is that my members are losing tens of thousands of dollars every month in rightfully-billed access charges. The not-so-obvious problem is that access charge revenues are an integral component of the universal service support system, which keeps everyone's basic local landline service so affordable, particularly important in a very rural state like Pennsylvania, and to maintain/upgrade facilities needed to enable termination of communications.

As many of you know, federal regulators have been attempting for the better part of a decade to modernize the universal service support system and address inter-carrier compensation. It is no easy feat for certain, and unfortunately this challenge has some parallels to the local tax reform effort here in Pennsylvania in that there are going to be winners and losers.

Part of the universal service reform debate also focuses on rural broadband deployment, i.e. ensuring that rural telephone companies have the necessary resources to bridge the digital divide and deploy where it would not otherwise make economic sense to do so and

provider of last resort obligations no other provider has. Of course, with the universal broadband deployment requirements of Act 183 that is not an obstacle here.

CONCLUSION

In summary, the good news is that the PTA member companies continue to aggressively deploy broadband and, with the popularity of the BFRR program, are being directed to deploy where there is a demonstrated demand for service.

The conditional good news is that competition continues to flourish and, if we can figure out a way to ensure that local phone companies are fairly compensated for the use of their networks, we can drop the “conditional” tag and celebrate the benefits of true competition for everyone. Let me be clear. My comments are not an indictment or in opposition to technological innovation (in fact my members have a long and distinguished record of initiating leading edge technology into the market). My comments provide needed emphasis on critical requirements for regulators and regulations to enforce existing rules/orders and to ‘evolve’ needed change over reasonable time to avoid adverse impacts on consumers and providers of communications services, alike.

Thank you for your attention, and I am happy to respond to your questions.