

Pennsylvania Telephone Association



HOUSE CONSUMER AFFAIRS COMMITTEE

INFORMATION HEARING ON THE TELECOMMUNICATIONS INDUSTRY

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TESTIMONY OF STEVEN J. SAMARA

PRESIDENT

PENNSYLVANIA TELEPHONE ASSOCIATION

Good Morning Chairman Godshall, Chairman Caltagirone, returning and new members of the House Consumer Affairs Committee.

My name is Steve Samara, and I am President of the Pennsylvania Telephone Association (PTA), an organization which represents the interests of the state's rural local telephone companies, or rural local exchange carriers (RLECs) as they are commonly known.

The Industry

The PTA is comprised of RLECs ranging in size from several hundred access lines to those who serve several hundred thousand lines, but all are providing the kind of advanced services that today's consumers often demand; including voice, video, and broadband services.

But as similar as Pennsylvania's RLECs may look to the other telecommunications providers, there are several key characteristics that distinguish my members, and they are crucial from a public policy perspective.

First, RLECs are carriers of last resort (COLR). What that means is that they are required to provide voice service to anyone who requests it within their service territories, regardless of population density. Simply put, we do not get to pick and choose where we will provide service. It is not a business model designed to maximize profitability, rather to ensure that Pennsylvanians in all corners of this Commonwealth have access to affordable voice service and, as we will talk about momentarily, have the ability to access broadband services.

As a COLR provider, my members are fully regulated by the Pennsylvania Public Utility Commission (PUC). We file a variety of reports with the PUC, pay annual assessments to help fund the operation of the PUC, and respond to customer/constituent complaints to the Commission ranging from service issues, to billing disputes etc.

Another key characteristic of PTA Member Companies may be self-evident in the RLEC designation itself. We serve rural Pennsylvanians. I mentioned that my member companies range rather dramatically in size, but what they have in common is that they are serving sparsely populated areas of Pennsylvania; my larger companies just serve more square miles of these rural areas.

It is not easy serving rural Pennsylvania, nor is it inexpensive. But Pennsylvania's RLECs are good at it, with some having served the Commonwealth for a century or more.

We are proud to be a resource for any committee member who has questions regarding the RLEC industry in general or any specific PTA Member Company, and encourage any of you to avail yourselves of the various meetings/events we have scheduled throughout the year to learn more about rural telecommunications.

Broadband Deployment Questions

How is Chapter 30 Compliance Evaluated?

Chapter 30 companies were required to file Network Modernization Plans with the Public Utility Commission which provided very detailed information on the deployment of broadband within the RLECs service territory. Much of what is contained in these NMPs is so competitively sensitive that it is filed as proprietary.

Also, Act 183 included a provision which addressed non-compliance with the universal broadband deployment mandate. This provision is deliberately punitive, and requires customer refunds if the PUC determines that 100 percent availability

is not met. In addition, the PUC accepts customer complaints regarding broadband service.

What Funding do RLECs Receive to Deploy Broadband?

While there is no state-specific fund solely devoted to support broadband deployment, the Pennsylvania Universal Service Fund indirectly supports the traditional landline network which is necessary for all of the “bells and whistles” of broadband services. This point was referenced by several testifiers at this committee’s public hearing in Waynesburg last year, including Acting Consumer Advocate Tanya McCloskey who offered that “The support that the Pennsylvania Universal Service Fund provides to maintain and upgrade the physical wireline networks in rural Pennsylvania will ensure that these wireline networks are capable of supporting the advanced broadband services in rural areas.” PUC Vice Chairman Andrew Place said that “By providing funds to support physical networks, the Pa. USF and federal USF/CAF indirectly support the services provided over the networks, including broadband.”

On the federal level, a great deal of attention has been focused on the Connect America Fund (CAF) which has provided support for several Pennsylvania RLECs

and will be helpful in driving increased broadband speeds into rural Pennsylvania. Unfortunately, the notion that CAF revenues are the answer to everyone's broadband prayers is simply not true and here's why.

For larger RLECs, many locations are not eligible for CAF Phase II support, including unserved locations in a partially served, high-cost census block, locations in high-cost census blocks where an unsubsidized competitor provides only 4/1 Mbps service, and census blocks that are classified by the cost model as "low cost", but in fact are uneconomic to serve. In addition, support is not provided for census blocks that are considered "extremely high cost" by the FCC's cost model.

For smaller RLECs, they had to make a decision by November 1, 2016 as to whether they would accept A-CAM (Alternative Connect America Model) and receive a set amount of monthly support to deploy 10/1 Mbps, or choose legacy rate-of-return support which is distributed, in part, based upon the deployment of broadband service.

It bears mentioning that CAF support is not “found” money added to traditional federal USF support. The FCC has made a conscious and significant paradigm-changing decision to move revenue out from the traditional high cost portion of the fund and into broadband support. In addition, the CAF Phase II requirement is to provide 10 /1 Mbps service, a speed which not all customers want. Take rates for some of my member companies at the 10/1Mbps level are much lower than they would like.

In addition to CAF, support for RLECs has traditionally come in the form of grants and loans from the U.S. Department of Agriculture Rural Utilities Service (RUS). Several PTA Member Companies have availed themselves of RUS funding over the years and we have scheduled a presentation from RUS on its Rural Broadband Access Loan and Loan Guarantee Program for an upcoming Small Company Committee meeting.

Challenges to Continued Broadband Deployment

With all of the changes made by the FCC since 2011 and its CAF/ICC Order, RLECs are receiving dramatically less support to keep basic service affordable and maintain the traditional landline network.

As mentioned, we are COLR providers for traditional service, and adhered to the statutory mandate under Act 183 to deliver broadband service universally in Pennsylvania.

The “doing more with less” characterization certainly applies to this state’s RLECs. This unenviable position was the genesis for legislation introduced last session to keep the PA USF in its current form for a limited time and direct the PUC to conduct an investigation as to what the fund should look like going forward. That legislation also included a provision directing the PUC to examine whether the PA USF should be expanded to include support for increased broadband speeds as required by the FCC.

We continue to explore alternatives to increase broadband deployment in Pennsylvania and look forward to working with this committee in that endeavor going forward.

Thank you for the opportunity to offer the perspectives of Pennsylvania’s RLECs and I am happy to answer any questions you may have.