

# TSTCI 2013 Annual Membership Conference

## *A View from Washington*

Mike Romano

Senior Vice President – Policy







# The Rural Telecom Challenge(s) in DC

- **We face two simultaneous policy debates that present very different issues but demand equal levels of attention**
  - Uncertainty and harm from the 2011 Order and FNPRM
  - Uncertainty and harm from what was broken and hasn't been fixed
- **The former has gotten much focus, and understandably so**
- **The latter hasn't gotten nearly enough attention, but it's key to making rural telecom viable for decades to come**
- ***We lose if our fight is about “preservation” – even if we win!***
  - Legacy systems are not built for current and future challenges
  - We must show telcos embrace innovation, change, and an IP-enabled future

# In Short, We Need to Look Both Ways



# Categories of Harm and Uncertainty

- **Four Types of Concern Cause Every Telco to be Affected in Some Way, and They Require Us to Look Both Ways for Fixes**
  - *Near-term Harm* – flash-cut losses of support grievous for some
    - Loss of SNA support; \$250 and QRA caps
  - *Long-term Harm* – Transitions may be OK, but destination bad
    - Effect of bill-and-keep on cash flows; unsubsidized competition
  - *Near-term Uncertainty* – ever-shifting caps; implementation chaos
    - Who is next to fall to QRA? What reports are due when?
  - *Long-term Uncertainty* – FNPRM as “other shoe to drop;” retroactivity; IP evolution
    - Extend QRA? RoR prescription? ICC and interconnection?
    - When will FCC get to things that were already broken and NOT fixed?

# Effects of Harm and Uncertainty

- **Iowa Survey (Sept. 2012)**
  - Nearly 80% of Iowa telcos delayed or canceled plans for fiber deployment due to FCC reforms
- **Wisconsin Survey (Oct. 2012)**
  - 50% of Wisconsin telcos delayed or canceled plans for fiber deployment due to FCC reforms
- **NTCA Survey (Jan. 2013)**
  - Nearly 70% of responding NTCA members (over 100 companies) postponed or canceled network upgrades due to uncertainty from FCC reforms
  - Aggregate impact of affected projects = \$492.7M

## Effects of Harm and Uncertainty (cont.)

- **Rural Utilities Service (Feb. 2013)**
  - Loan demand dropped to 37% of total appropriated amount in FY2012
  - Specifically cited regulatory uncertainty as rationale
- **CoBank (per Balhoff & Williams – June 2013)**
  - Reported no 2012 loans for telecom network improvements
- **RTFC (Aug. 2011)**
  - Indicated ability to lend “challenged” by FCC proposals (some since adopted)
- **Hudson Institute Study (Oct. 2011)**
  - Estimated rural telcos contribute \$14.5B to state economies, but that anticipated reforms would lead to increased prices and/or reduced investment
- **Wichita State Kansas Study (July 2011)**
  - Estimated \$143M in USF cuts = \$51M in lost jobs/wages + reduced investment
- **Wichita State Iowa Study (June 2013)**
  - \$47M in USF cuts = \$25.8M in lost jobs/wages + reduced investment

# Looking “Backward” – Fixing the FCC’s 2011 Order and FNPRM

***A successful man is one who can lay a firm  
foundation with the bricks others have thrown  
at him.***

*-- David Brinkley*



# Looking “Backward” (cont.)

- **Building Block Approach to Fixing Things Broken in 2011**
- **2012 Caps Order Delayed - but Sustained - Harms**
  - From net \$55M to net \$10M shortfall; 280 to 110 carriers harmed
- **Multiple Orders on Reconsideration from 2011 to 2013**
  - First Recon: Delayed bill-and-keep for CMRS
  - Third Recon: Delayed reporting requirements; more flexibility on rate floor
  - Fifth Recon: Rationalized financial reporting obligations; modified waiver standard; relaxed waiver process (somewhat)
  - Sixth Recon: Combined QRA caps; extended phase-in and backstop; required staff to address predictability; contained helpful language re: FNPRM
  - “Sixth and a Half” Recon: Extended phase-in and backstop again; gets FCC to admit maps/data are a roadblock to rationalizing QRA caps

# Looking “Backward” (cont.)

- **Political Oversight and Activity – “Surround Sound”**
  - Congressional letters to FCC regarding caps and waivers; Hearing questions; Hill Briefings; Testimony of Shirley Bloomfield and John Strode (Ritter) at wireline hearings
- **Court Appeals**
  - Retroactive caps; Bill and Keep; Unrecoverable costs/unfunded mandates
- **Reconsideration of multiple issues**
  - Safety Net; Unfunded mandates; Reporting requirements; Phantom traffic and VoIP traffic clarifications; Rate Floors; More Fixes (or Better?) to Come on QRA
- **Sort out compliance, reporting, and implementation issues**
  - Study Area Maps; 5-Year Plans; Remote Areas; Unsubsidized Competition
- **GAO Study and FCC Staff Report – “Settling the Dust”**
  - Restore some sanity to evaluation of further cuts through FNPRM?

## Looking “Backward” (cont.)

- **So Why Only a Building Block Approach? Why Only a Step at a Time in Face of Near-Term Harm and Uncertainty?**

– NCTA	\$24.2M
– AT&T	\$23.6M
– Comcast	\$22M
– Verizon	\$18.7M
– CTIA	\$14.1M
– USTA	\$7.1M
– CompTel	\$775,000
– <b>NTCA</b>	<b>\$710,000</b>
– <b>OPASTCO</b>	<b>\$180,000</b>
– <b>WTA</b>	<b>\$150,000</b>

\*2012 Reported Lobbying Expenditures

# Looking Forward – Focus on What Needs to Come Next

- **“Preservation” is a Fruitless Message – It Falls on Deaf Ears, and Wouldn’t Do Us Any Good Even if We “Won.”**
  - Telephone vs. Broadband
  - Rural “Growth” Factor
  - Competitive Pressures
- **Take Stock of Trends: Retail Switched Access Lines / Mobile Subscriptions / Interconnected VoIP Subscriptions, 2008-2011**
  - 141M / 261M / 22M (Dec. 2008)
  - 127M / 274M / 26M (Dec. 2009)
  - 118M / 285M / 32M (Dec. 2010)
  - 106M / 298M / 37M (Dec. 2011)
- **Fix the System to Support What Customers Want!**



# Looking Forward (cont.)

- **A New World of Political Realities Too**

- *1990 - first time more than 50% of Americans live in metro areas > 1 million*
- *1994 - first time suburban representatives occupy top 5 positions in U.S. House*
- *1996 - only 76 of 435 Congressional Districts are rural*
- *2001 - Census reveals . . . we are a suburban nation*

- **Today**

- *Metropolitan Los Angeles alone has the same congressional representation as KS, MT, MN, NE, ND, SD, and WY combined*
- *Closer to home, urban and rural differences can manifest as well*
  - *Houston, Dallas, San Antonio, Austin - Approx. 16 to 20+ districts depending on how one wants to slice things*

# Looking Forward (cont.)

## We Must Recognize the Interests of Our Audience and Adapt

### •Tom Wheeler, Nominee for FCC Chairman

- *“As the number of subscribers on the PSTN falls, the cost per remaining customer increases and the overall burden of maintaining the PSTN becomes untenable. A fast transition can generate significant economic activity and at the same time lower the total cost.”*
- *“The Communications Act and its enforcer the FCC are analog legacies in a digital world. Of course, there will remain jurisdiction in areas such as the Universal Service Fund, . . . but . . . the regulation of marketplace behavior that has characterized telecom regulation for almost a century is headed towards the same fate as the dial tone – another fatality of digital zeroes and ones.”*

### • Mignon Clyburn, FCC Commissioner

- *“[T]he unanimously approved bipartisan effort determined that certain reforms were needed to ensure that carriers were not only incentivized to invest in broadband networks, but to do so efficiently and effectively.”*

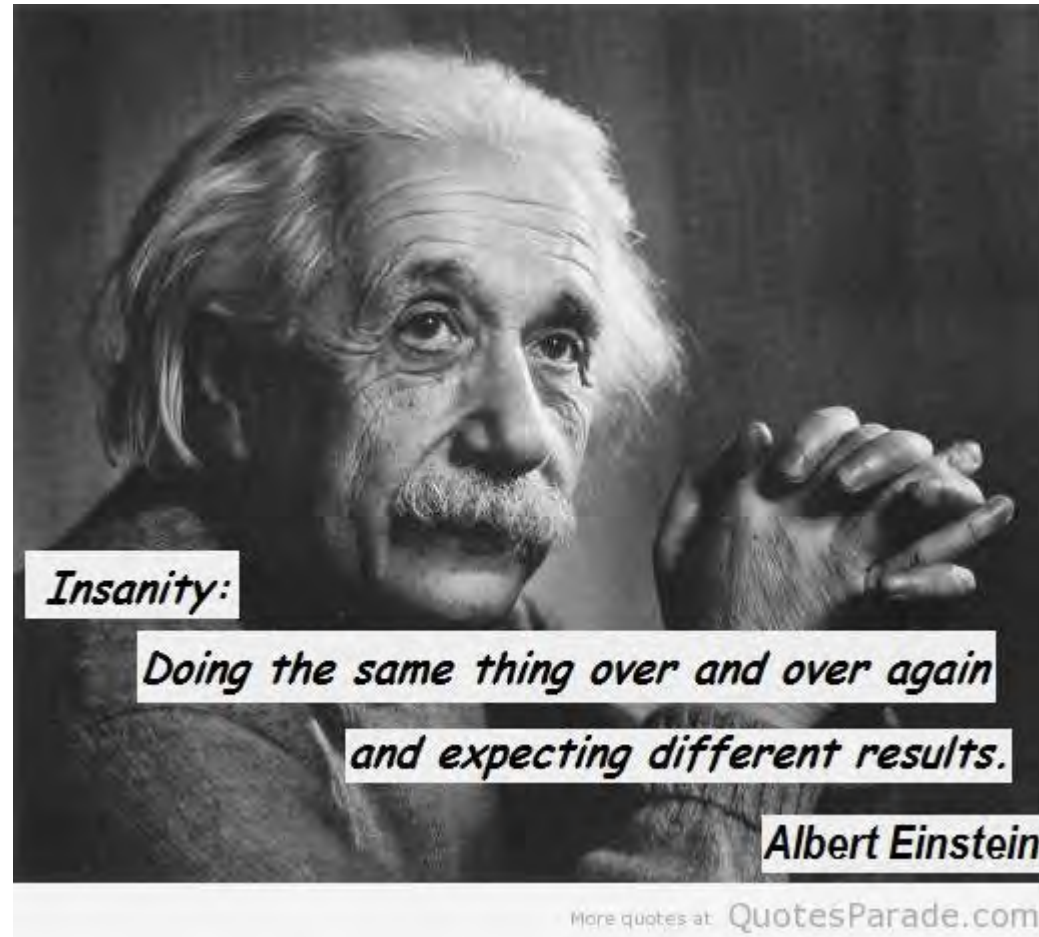
### •Ajit Pai, FCC Commissioner

- *“It’s time for the Commission to start moving forward with a Connect America Fund for rate-of-return carriers. This step would recognize that . . . direct support for broadband-capable facilities, within the budget established by the USF Transformation Order, is critical.”*

### • Jessica Rosenworcel, FCC Commissioner

- *“A little over a year ago, the [FCC] took historic efforts to update its high-cost [USF/ICC] system. I commend my colleagues for this effort. They refocused the fund from last century’s technology . . .; they put it on a budget; they increased accountability throughout.”*

## Looking Forward (cont.)



## Looking Forward (cont.)

- **We cannot ignore lobbying power, market dynamics, or policymakers' predispositions in considering what happens next**
  - These factors must inform the focus, structure, and tactics of the industry's action plan, even if our core objectives of course remain the same
- **The Rural Telecom industry *is* making strides toward its goals**
  - Many challenges remain, so we need to keep looking both ways
  - Recent recon orders reflect some progress of looking “backward” – value of continuing dialogue and staying at the table – even as court case continues
  - But looking forward is key too
  - As with looking backward, we need to think of building blocks – plan “several plays ahead” to where industry needs to be years from now



## Looking Forward (cont.)

*Looking Forward, We Need to Aim for This!*



## Looking Forward (cont.)

- **We Must Develop a Targeted Connect America Fund (CAF) and Build a Broadband Future for Telco Consumers**
  - Broadband-Based Support
  - Middle Mile Support
  - Interconnection in an IP World
- **We can't just tinker around with legacy mechanisms - and on the other hand, we need to keep changes simple and straightforward**
  - Pros and Cons of "RLEC Plan"
  - Targeting is key – focus on cutting to the chase and setting up options
  - NTCA's IP Evolution Petition teed this up; FCC is now digging deeper and expressing real interest in Public Notices and meetings

# Looking Forward (cont.)

- **Broadband-Based Support**
  - Solve for access line loss and Rural Growth Factor problems
  - Break tether to last century’s services; meet shifting consumer preferences
  - Simple/straightforward rule changes enabling recovery of actual costs
  - But options are key – not “one-size-fits-all” – Model-Based?
- **Middle Mile Support**
  - Solve for shifts in network demands and ICC declines
  - Meet consumer demands for greater bandwidth
- **Interconnection in an IP World**
  - Promote universal service/connectivity as technologies evolve
  - Address Quality-of-Service concerns/needs
  - Provide certainty through “rules of the road,” even if somewhat different from what came before

# Looking Forward (cont.)

- **Contribution Reform**

- Another “forward-looking item” that is necessary for sustainability of universal service
- Should have been the first FCC action as it would have avoided the need for such drastic grasps on the distribution side
- All providers of interstate communications should contribute, including those that provide the following:
  - Text messaging
  - One-way VoIP (e.g., Skype)
  - Any retail broadband Internet access service
- Unfortunately, the FCC “blinked” and we’re still trying to get the engines restarted . . .



# Looking Forward (cont.)

- **Rural Call Completion**
  - Another element of sustainability in an IP-evolved era
    - The “canary in the coal mine”
  - NTCA first teed this issue up to FCC staff in January 2011 and has kept at it since then *every month*
  - FCC has NPRM pending to collect data; enforcement has occurred, but slow-going and insufficient
  - Order may not be answer, but could be key to the solution – if done right . . .

# How Do I Help Look Both Ways?

- **Some things might change, although maybe not the way everyone would like . . .**
- **Nothing in Washington, DC Happens in “One Fell Swoop” – Stalemate is the Rule, Incremental Progress is the Exception**
  - Need for sustained “Surround Sound”
  - Unified Front – the compelling value proposition of the NTCA/OPASTCO unification is the ability to get more attention in more places and to apply more resources (strategic and financial) to finding solutions
  - Building Blocks – e.g., Price Cap Model? Years in making; years in delivering
- **The 3 Key Takeaways:**
  - We need to focus not just on what happened, but what comes next – putting things “back the way they were” doesn’t position you for the long-run
  - Don’t expect to change things overnight – take a step at a time getting there
  - You need to be engaged as the messengers of your own story

# How Do I Help Look Both Ways? (Cont.)

- **“Surround Sound” Advocacy**
  - Congress
  - USDA and RUS
  - White House Rural Council
  - White House Ofc. of Science & Technology Policy
  - NTIA
  - Office of Management and Budget
  - Third Party Outreach
  - States/NARUC
  - Local and national press outlets
- **Rural stakeholders must stay engaged in all respects!**
  - Grassroots efforts – fly-ins; at-home visits
  - Economic studies and white papers – make the business case

# Conclusion

- **Times have changed, and our tactics must adapt too.**
  - This is not the Congress of 1996 in political tone or rural demographics.
- **We need to look both ways – stabilize the ground, but don't just fight the last battle.**
  - The IP Evolution Outcome will define the next 20-30 years of rural telecom
  - It's not a fight that will be won overnight or all at once
- **You need to help with “Surround Sound” – we need you to make clear you are small business innovators who can contribute to the country's success if given the right tools and platform.**
- **At every turn, we need to underscore fundamental importance of affordable, reliable, robust connectivity – whether in IP-evolved environments or on TDM-based long distance calls.**
  - Make the Business Case for Rural Telecom!

# Conclusion

***Even if you're on the right track, you'll get run over if you just sit there.***

*-- Will Rogers*