

Senate Utilities Committee
Catherine Moyer, GM and CEO, Pioneer Communications
January 22, 2015

Mr. Chairman, members of the committee, thank you for the invitation to present today. My name is Catherine Moyer and I am the General Manager and CEO for Pioneer Communications. Like Wilson and Nex-Tech, Pioneer Communications is one of the small telecommunications providers that serves rural Kansas. Pioneer is headquartered in Ulysses, and we serve towns like Johnson, Hugoton, Lakin, Richfield, Rolla and Satanta. We, too, serve an extremely sparsely populated part of the state with broadband, telephone and video services—a part of the state that was unserved until a small group of people formed a cooperative 65 years ago to bring service to our part of southwest Kansas. Like the other small Kansas companies, Pioneer is providing wired service to a market that is too high-cost to grab the attention of one of the larger providers—we are too sparsely populated, too far from larger cities and towns, too challenging in terms of topography or terrain, or because the larger providers did not see sufficient profit in serving these areas. We took the challenge of serving these high-cost areas, with the assurances by the federal and Kansas governments that there would be adequate resources for cost recovery of the dollars that were spent to provide service.

My colleagues did a fantastic job in highlighting the modern services the small companies bring to our communities—services that foster economic development and growth, while also giving rural industries such as farming and ranching the tools to modernize, providing their goods and services to the rest of the world in a more efficient manner. I am going to highlight some brief history on how we got here, and provide you with some information about the regulatory world in which we operate, to help paint the bigger picture of how we got to 2015, and how we can continue to move forward to strengthen rural Kansas, and Kansas as a whole.

In 1996, the state of Kansas joined the Federal government in recognizing universal service as the defining public policy for telecommunications. Universal service is the foundation of a universal economy and a connected nation. The Kansas Legislature created the Kansas Universal Service Fund (KUSF) that would join the Federal Universal Service Fund (USF) as the adequate resources for cost recovery. In order to access KUSF and USF dollars, a rural independent company must first spend money and invest in its network and then “prove” the investment to regulatory entities before access to KUSF and USF dollars is allowed. The independent companies do not simply just receive an amount of money every year and go out and spend it. An independent company examines their service area and population, studies new technology and its demand, and makes a business decision about where to invest in their network. This business decision takes into account cost of the project, the projected revenue from customers, and the projected cost recovery from KUSF and USF. Then, the company invests money in a project—money that may be internally generated, or may be borrowed from a lender. Only then is a company eligible for cost recovery from KUSF and USF. Independent companies make the investment in a robust wired network in areas of rural Kansas where other carriers are unwilling to serve, and only after that investment is made is a company eligible for KUSF and USF dollars.

It is only with access to KUSF and USF dollars that the independents have been able to build the robust rural network, but also maintain it, and provide affordable rates to rural customers. There is not a “real world” business plan that can meld together the expansive network necessary to serve the sparsely populated parts of Kansas at affordable rates without some access to outside dollars. The KUSF program has not only been a terrific success story for Kansas rural areas and the nation as a whole, but also for the entire network and all that access it. And it is not only rural businesses and rural consumers that access the rural network. Other carriers heavily utilize our rural networks—those who want to reach rural businesses and consumers; carriers like long distance companies and wireless companies. The robust rural network interconnects with these other networks and provides the connectivity in the rural areas we serve.

Not only do the independents look to build and maintain robust networks in our service areas, but we look to buy poorly-served exchanges owned by some of the larger companies and provide those customers with wired networks that will spur economic development in those areas. For example, a Kansas independent bought thirteen such exchanges there were formerly served by one of the larger companies. The purchase might have been thirteen exchanges, but only 200 customers were broadband customers. Following the purchase, the independent company invested in the rural network in those thirteen exchanges. After the first four months of the project, the company had 700 customers. And by the end of the project, the company has more than 4,000 broadband customers in these exchanges, or more than an 80% take rate in these exchanges. The independent company made the investment with borrowed funds, a loan that was secured with state and Federal assurances that KUSF and USF were there to help recover some of the costs of the project. If it were not for the independent company buying these exchanges, the rural businesses and consumers in those exchanges would not have had access to the robust wired network and the economic development that follows the availability of these services would not have followed.

But, in order to continue to be considered a success story, the KUSF program does need to be modernized. Common sense measures must be used to modernize it and adapt it to a broadband world. We are actively participating in a similar conversation regarding USF at the Federal level. There continues to be high demand for wired broadband access, with high speeds and no limit on the amount of data that can be accessed during an arbitrary billing period. The independents are willing and eager to deliver this access to rural businesses and consumers. And the demand for these services is not limited to rural businesses and consumers—again, other carriers, including long distance carriers and wireless carriers, as well as Internet based companies such as Amazon and Netflix, continue to request, and expect, connectivity to this advanced network.

I referenced the conversation occurring at the Federal level regarding USF. Over the past several years, Congress and the FCC have been engaged with the stakeholders in the telecommunications industry. Unfortunately, the reforms put into place by the FCC in 2011 and in subsequent years have caused a significant amount of regulatory uncertainty, and have frustrated access to capital for network deployment resulting in a slowdown of broadband deployment. Pair this with recent Kansas legislation, and you will find the uncertain environment throughout the United States exacerbated in Kansas. Many Kansas companies are citing uncertainty arising out of the FCC’s reforms and Kansas legislation in declining to move

forward with planned construction efforts. Additionally, some Kansas companies are having problems accessing the necessary capital to fund these construction efforts. USDA/RUS has explicitly cited FCC reform as an issue in lending its telecom infrastructure financing. CoBank has made many FCC filings explaining how regulatory uncertainty surrounding the USF program was challenging its ability to advance capital in support of rural telecom investment. Major FCC reform and state legislation does not happen in a vacuum—it has far reaching implications, that often cascade far beyond what was considered during the original reform and legislation conversations.

You have heard from my colleagues about very fast broadband offerings and why fiber to the premise makes the most sense for buildouts. But, FCC reform and Kansas legislation has generally slowed broadband investment. My company, Pioneer Communications, has chosen a slow and steady approach to the installation of fiber to the premise. Our large population centers have access to fiber to the premise. And we have fiber very deep in our network, including our rural areas outside our population centers. That means we can provide pretty good speeds to our entire service area. But, we cannot provide 100 megabits speeds easily. We are now in the process of pushing fiber to the premises. That is expensive to build. We are very lowly levered, and have been using internally generated funds to complete builds, but this means that some of our most expensive places to build, the place where there is not a free market solution that assures affordable service, have only pretty good speeds. Consumers in these areas cannot bear the cost of advanced broadband speeds alone. Without a reliable KUSF, they may never have access to advanced broadband speeds, and may lose entirely their access to service.

What does all of this mean? There is no free market solution that assures reliable and affordable service for all consumers. A reliable KUSF helps solve this problem (along with a reliable USF). Without this, all Kansans lose. All companies that receive KUSF are highly regulated by the state, as well as at the Federal level and are subjected to audits of all kinds at both levels. We do not have an issue with taking part in these audits, but do want those audits fairly performed.

When Governor Brownback took office, he released his Roadmap for Kansas. Several of the points in his roadmap pointed to a strong rural Kansas and a first class broadband network. Both of those things will be accomplished by continuing to use KUSF to promote investment in Kansas by rural independent companies to allow rural businesses and residents to compete worldwide for business and services. We want to continue to move Kansas forward.

Thank you again for your invitation to speak and your time today. I will now be happy to stand for questions.