

WTS CONNECTION/Friona/Bovina

ISSUE 7 VOLUME 4 DECEMBER 2015



Vital rural rural telcos too small to fail

By Bernie Arnason and [Joan Engebretson](#)

We're all familiar with the term "too big to fail," which generally came into wide usage during the 2008 near-meltdown of the economy following fast and loose play with mortgages etc. by financial institutions. The term refers to large corporations or organizations that are so large and intertwined within an industry, their failure would

be catastrophic to that industry and/or the overall economy. The economic downturn of 2008 featured many too big to fail financial institutions, hence government bailouts were common for banks and some other businesses, despite apparent mismanagement. But what about companies that are closely managed and too small to fail?

That interesting concept was introduced by [Steve Gleave](#), SVP for marketing at [Metaswitch](#), on a panel at the [Pivot Group](#) annual client conference, Pivot Forward. The panel focused on the ongoing evolution of telcos, that is currently underway in the telecom industry, and an issue that Gleave follows closely. His [Telco Americana website](#) highlights the rural telecom industry.

Gleave made the point that we hear so much about firms that are too big to fail, but the opposite may be true for many rural telcos in the U.S. Are some rural telcos too small to fail?

The point is, many rural telcos serve sparsely populated markets. This is the 'real' rural America, where often times, there is 1 home or less than 1 home per square mile. Competitive

dynamics so desired by regulators don't apply in many of these territories – there simply aren't enough people to economically support competing service providers. The one service provider that is there, wouldn't be there either, if not for universal service support.

But if that one carrier fails, there will be rural Americans without phone, Internet, or wireless service. And in a country as large and as vast as the U.S., that's potentially millions of citizens.

There's an ongoing, passionate debate within the telecom industry on how best to support these 'service providers of last resort.' The Universal Service Fund (USF) system that has prevented many of these rural providers from failing is in transition.

The FCC is transitioning the program into a broadband-focused Connect America Fund. The emergence of (CAF) has implications for the rural industry. USF was once the exclusive domain of rural telcos, but in a CAF environment, that may be changing. Non-telco service providers are now in the mix to serve rural America (See **TOO SMALL**, Page 2)

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RURAL TELCOS
TOO VITAL TO FAIL

PAGE 2
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as well, with CAF support. It's creating an interesting competitive dynamic. Not in the market for rural customers, but for funding support through CAF to serve those rural customers.

It's a complex issue, and the concept of too small to fail is a viable argument.

Reforming how the Universal Service program is funded is critical at a time when a wide range of reforms have been made to how Universal Service funding is spent.

"Congress and the FCC must address the contribution mechanism of the Universal Service Fund," wrote the ITTA, representing mid-size communications companies.

Since 2006 the FCC has expanded permissible uses of universal service funds to include support of broad-

band Internet access service, but such services were exempt from contribution to the Universal Service Fund. As a result, the entire burden of subsidizing both telecommunications and information services falls on voice customers. That inequity has to be addressed. Those interstate services are assessed at the rate of 16%. Proponents of change say the FCC must broaden the contribution base to include all of the services and technologies that people in the 21st century use to communicate.

NTCA – the Rural Broadband Association also advocates expanding the USF contribution base to include broadband services. "Consider, for example, a consumer's purchase of private line or special access services as compared to dedicated Internet access

(DIA). Both offer capacity to connect to the provider's network and ultimately to other networks, albeit through different protocols... Yet the arbitrary and artificial classification of these functional equivalents skews regulatory outcomes and marketplace behavior in ways that should be deemed unacceptable in an efficient and effective market. Specifically, the customer buying a private line pays contributions in excess of 15% to USF simply because the capacity being procured has been classified as a 'telecommunications service,' while another customer buying precisely the same amount of capacity as DIA pays no USF contribution. Fixing such disparities... should be seen as a priority of any legislative review and update.



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