

Broadband for All Echoes Universal Telephone Service

Many strategies used to promote universal telephone service are in use to expand broadband access today, but one needs a few tweaks.

By Trevor Jones / OTELCO

If you follow this column, you know I support community broadband, but I also encourage rural communities to work with existing providers. There are two central reasons for this. First, the structures that created local providers have been successful at delivering universal connectivity before. Second, leveraging infrastructure already in place is always more cost-effective than building from scratch.

U.S. telecommunications infrastructure delivered universal telephone service to 90 percent of the country's population by the 1960s, eventually exceeding 95 percent. Like broadband, telephone in the early 20th century had large gaps in coverage in rural areas. AT&T, commonly called "Ma Bell," couldn't justify the investment to serve these areas. To connect rural communities, several strategies were employed.

- In some communities, independent telephone companies formed. These private businesses filled in coverage gaps where they could make adequate returns, even if they weren't enough for the big companies.
- In the most rural areas, farmers formed cooperatives to construct telephone networks owned by the people who used them. Returns were not the goal of cooperatives. Keeping towns connected was.
- In the remaining areas, Ma Bell eventually was obligated to serve. Among the tools used to make this work was cost averaging. Profits from larger, denser populations were used to cover the high costs of rural service. Subsidies also were employed, including the Universal Service Fund (USF), a federal program administered by the FCC and funded by an assessment on interstate telephone calls.
- Last, telephone companies were granted protection from competition to ensure that they could earn returns on investment. These returns were limited by regulations from both the FCC and state utilities commissions controlling rates and business rules.

INDEPENDENTS, COOPERATIVES ENHANCE BROADBAND

If any of this sounds familiar, it's probably because many of these constructs are in use in the early-21st century push for broadband access.

- Small, independent, for-profit companies are springing up to build broadband networks in areas where incumbents have not. Some, such as OTELCO, are the same independent telephone companies that contributed to rural telephone service; others are completely new.
- Cooperatives once again are bringing their unique focus on member service to help connect the most rural areas.
- The FCC repurposed the USF's high-cost program to support universal broadband rather than telephone service, though it is still funded by an assessment on interstate telephone calls.

What the industry has not yet seen is a mandate for cost averaging or a requirement that large companies provide rural broadband service, nor the *formal* protection from competition that went along with that.

COMPETITIVE COST CHALLENGES

I'm not arguing for protection from competition, and the truth is that it probably isn't necessary. Over the past 25 years, telephone and cable TV service increasingly have become less regulated, and most protections from competition have been stripped away.

Why, then, have more competitors not risen up? Why are some rural towns still connected only by a telephone company or, if they're lucky, a telephone company and a cable company?

It all comes down to the cost of entry. These networks are not just expensive to build but also extremely expensive to operate. Once a network exists in a small town, it becomes very difficult to justify building a second or third. The returns

aren't adequate to support duplicating the investment, and, as a result, competition in rural markets will probably always be limited.

Some communities have tried to introduce competition with open-access networks: A town or its utility owns the fiber cables and leases access on that network to ISPs that wish to compete for service. It's a noble attempt to introduce competition to the market to provide internet service, but there is still limited competition for the lines into homes. The owner of the lines still bears most of the costs for internet service and ultimately will have the biggest impact on the quality, reliability and price of service.

IMPROVING POLICIES TO GET MORE FROM HIGH-COST SUPPORT

Given that the structures already exist to get broadband everywhere, why has more progress not been made?

The answer is simply that the policies used to administer CAF – and, in the future, RDOF – are poorly designed. With some modifications, they can be better. Here are a few examples.

- **Define broadband in a way that triggers meaningful change.**

This one should be obvious. If you want next-generation networks to be built, set a hurdle that cannot be met with DSL. 100 Mbps symmetrical would be my preference, but even 50 Mbps upload speeds would put DSL out of the running and be a struggle for cable.

- **Change the funding source.**

CAF and RDOF, like earlier high-cost support programs, are funded by interstate phone calls. The problem is that charges for interstate phone calls have been declining for many years, and increasing the USF surcharge rate to stabilize the fund only accelerates that process. A broadband subsidy should be funded by surcharges on broadband service, not on phone calls. This would provide a growing revenue stream that would give the FCC more money to make more progress.

- **Get rid of the 10-year term.**

There seems to be a belief that the need for subsidy is tied exclusively to construction, but in reality the operating cost per mile is as big a concern in rural areas as the construction cost. When the subsidy goes away in 10 years, most rural telcos will lose money, so why should they make a commitment to invest in an uncertain future? To ensure that a future-proof network is built, don't put a time limit on the subsidy, but be very clear that the definition of broadband will increase over time, and tie continued receipt of funds to adherence to the future broadband definition. That will incentivize carriers to build future-proof networks now and get more speed to customers faster.

When combined, the 25/3 Mbps broadband definition and the 10-year limit create a disincentive for

rural providers to invest too deeply in infrastructure. Given that providers won't make money in rural markets without the subsidy, if they want to continue receiving those funds beyond the 10-year term, the best fiscal decision is to make the minimum investment now, and wait for the FCC to change the definition and give providers a fresh 10-year clock.

Rural providers can get broadband to all of their subscribers, just as they did with telephone service. All it takes is a support system that makes sense and is designed correctly to achieve the long-term goal.❖

Trevor Jones is vice president of marketing, sales and customer service for OTELCO, which owns independent telephone companies in seven states and partners with several community networks in Massachusetts. Contact him at trevor.jones@otelco.com.

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