

# ***SouthEast Telephone***

***Statement of***

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***U.S. Department of Agriculture***

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## ***SouthEast Telephone***

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Good afternoon. My name is Darrell Maynard and I am President of SouthEast Telephone, a small rural telecommunications company headquartered in the mountains of Eastern Kentucky. I would like to thank you for extending this opportunity to share my views with this prestigious panel.

After a brief description of our company and services, I would like to make mention of two issues that concern the future of Broadband Internet deployment for SouthEast Telephone.

In 1996, SouthEast Telephone was the first fully authorized CLEC in the Commonwealth of Kentucky. We now provide Local Service, Long Distance, Internet and other telecommunications services to the rural markets of Kentucky. Starting with two employees, a limited amount of working capital and a lot of hard work, a dream became a reality in the form of SouthEast Telephone. In only 6 short years, our number of employees has increased to over 50, with 46 working in Eastern Kentucky and 4 employees in Lexington. The growth and current success of SouthEast Telephone led to my recent selection as the SBA 2002 Kentucky Small Business Person of the Year.

Our primary mission as rural Kentucky employees of SouthEast Telephone is to provide other Rural Kentuckians with high quality everyday communications services that exceed their expectations. Our main sales distribution channel is managed through a hometown agent program serving 35 counties in eastern and central Kentucky. Currently, SouthEast Telephone has over 4,500 local telephone service subscribers and more than 13,000 Internet customers. Our high-speed Internet deployment consists of 110 DSL customers, 17 Fixed wireless customers and 3 satellite customers.

Of the 35 counties currently served by SouthEast Telephone, 20 of these counties are listed by the Appalachian Regional Commission as Distressed Counties. The overall average

percentage of Broadband Internet deployed in the Commonwealth of Kentucky is 6% lower than the national average. This 6% is a sum of the metropolitan and rural markets combined. In all likelihood, Rural Kentucky is more than 7% lower than the national average.

SouthEast Telephone, on a daily basis, receives requests from our rural customers for affordable high-speed Internet. We have spent the last two years looking for ways to deploy high-speed Broadband Internet to satisfy these demands, and to this date have not been able to settle in on any one technology.

Relying on BellSouth.net to provide resold DSL, we have provided this service to a few who live in communities where BellSouth has actually deployed the necessary equipment. As we have all heard about the current distance limitations on DSL, the customer has to live very close to a Central Office to qualify for this service. This impediment leaves a substantial number of rural customers without an opportunity for high-speed Broadband Internet. DSL is a good start, but it is not the “end all” solution for the sparsely populated areas of rural America.

For the past six months we have been experimenting with one-way satellite Internet. This requires a small satellite dish in combination with a 56 kb dial-up connection. The dial up connection is for the uplink portion and provides an upload speed of 56 kb while the down load speed is much faster at 400 kb.

The technology we have been working on the longest (two years), which seems to be the most promising in terms of speed and reliability, is the Unlicensed Fixed Wireless Internet. This is a point to multipoint product that produces speeds as high as 1 to 3 Mb of throughput.

At present our most popular product is DSL. Our pricing is \$49.95 per month and under \$295 of up-front cost. This seems to be the price point our residential customers tell us that they would be willing to pay for the additional speed. Two issues impede our deployment efforts: 1) Relying on the wholesale purchase of DSL from BellSouth (who is also our competitor) severely limits our profit margin, and 2) DSL passes only a small percentage of

our existing customers. These two points restrict our ability to deploy DSL with any great effectiveness.

Satellite Internet affords the most hope of providing ubiquitous coverage in our rural markets. Current pricing starts at \$295 for installation and \$49 per month for a residential restricted use product. Customer response is very low because of the slower upload speeds and the restricted use. The slower speeds and again our reliance on a wholesaler for bandwidth severely limits any meaningful deployment of this technology.

By far the best Broadband Internet technology we have deployed to date is our Unlicensed Fixed Wireless offering. Our customers who have this product love the speed and reliability. Unfortunately, our pricing limits this product to the few residential and commercial customers that can afford the up-front cost and the higher monthly fees. Fixed Wireless Internet requires \$800 of equipment and installation and a minimum of \$79 per month for the residential customer. This will provide the customer with a fast 400 kb speed both up and down.

SouthEast Telephone believes that achieving ubiquitous coverage of affordable Broadband Internet will require a mixture of product deployment.

SouthEast feels Unlicensed Fixed Wireless will provide the best overall solution for the residential consumer once two major issues are resolved. 1) Typical "backhaul" transport that is too costly for a reasonable business model. 2) The current cost for Customer Premises Equipment (the radio and antennae) and installation far exceeds a price point a residential consumer can afford.

For all three technologies, there are underlying obstacles that retard the ubiquitous rapid deployment of Broadband Internet, and RUS should help in finding and funding solutions. The first is to find a way to help lower the initial buy-in for the required Customer Premises Equipment. The second would be to find a way to overcome the cost constraints surrounding the transport of IP traffic out of the rural markets.

It is my first contention that the RUS should create the necessary policy to: 1) Permit the "buy down" of the initial Customer Premises Equipment for the consumer; 2) Encourage the deployment of additional fiber or microwave rings through financial assistance to minimize the distance-related cost of backhaul.

The environment of broadband today can be compared with the environment of voice 100 years ago. At that time, it was evident that telephony would not amount to much unless some way existed to provide coverage across all of America and to all consumers. The federal government and Congress found themselves at a crossroads when trying to decide how to accomplish this task. Federal legislation referred to as the Communications Act of 1934 was adopted as a cure. History has shown us, though, that much was left out of this policy, which then took the last 40 years to undo. Ubiquitous voice service was achieved, but the benefits of competition, including consumer choices, lower prices, more options and new innovations, were not realized in rural areas.

Today, "broadband" is a household word and the government is once again at a crossroads. Without coverage to all Americans, high-speed Internet access will not reach its full potential because the power of the Internet depends on the coverage that broadband achieves. The RUS has an opportunity to create policies that will not only speed the deployment of broadband to Rural America but also help foster the growth of Rural CLECs as they make an effort to bring a refreshing new approach to the delivery of technology to the rural consumer. While analyzing all of the differing viewpoints and suggestions presented today, it will be important to "stay the course" when developing policy that not only provides ubiquitous Broadband Internet coverage but manages to bring fairness to the access of monies for broadband deployment in rural markets.

The rapid deployment of broadband should not rely solely on the ILECs or on Wall Street. An incentive package should be created for the small companies that know and understand the markets of Rural America.

Everyone would like to see the rapid deployment of high-speed Broadband Internet in Rural America, yet we are finding many roadblocks at every corner when seeking the necessary help to accomplish the goal of bringing broadband to the under-served rural areas where we live and work in Eastern Kentucky.

My staff has spent countless hours researching grants and funding. We hear so much rhetoric about these available programs, yet most of the restrictions unwittingly prevent small rural companies such as SouthEast Telephone from obtaining any portion of these funds. SouthEast Telephone has had several meetings with the RUS concerning the possibility of funding, but has found that the current policy makes this almost impossible. If services already exist in an area, then RUS money is not available for the competition. We cannot assume these companies that have deployed only some networks will be interested in the necessary commitment needed to provide service to the low-profit rural areas. The charge of the RUS should be to create policies to not only promote rapid ubiquitous deployment of broadband Internet, but also to foster the economic growth of small companies that are competing with the Rural ILECs. If the RUS and others would revisit their policies and provide funding to the small rural companies that want to compete in the deployment of broadband, then a more rapid roll-out could take place.

To summarize, ubiquitous broadband deployment cannot be achieved with a "one-size-fits-all" solution. It will require monies to help lower the residential consumers' up-front cost of equipment. It will take monies to reduce the cost of transporting the IP backbone into the rural markets. And finally, it will call for fairness in the RUS policies that need to include the CLECs in a manner that will allow them the opportunity of assisting in the deployment of broadband.

Again, I appreciate this opportunity and the time you have given me, and I would love to invite everyone to visit our office in Pikeville, Kentucky. We will be glad to show you our working Unlicensed Fixed Wireless Broadband system in action. Thank you.