



Testimony before the Subcommittee on Communications and Technology Hearing,

“Is Broadband Stimulus Working?”

House Committee on Energy and Commerce

Rayburn House Office Building

Wednesday, February 27, 2013, 10 a.m.

Good morning. I want to thank the subcommittee, Chairman Walden and Rep. Eshoo for the invitation to testify today. I want to also thank the honorable Representative Peter Welch, of my home state of Vermont, for his continuing dedication and attention to the needs of Vermonters who are still unserved and waiting for reliable, high-speed broadband connections where they live and work. He has also been a great partner in our efforts to thwart the efforts of scammers who prey on our elderly.

My name is Michael Smith and I am the Vermont State President for FairPoint Communications. I have more than 30 years of experience in executive leadership positions in both the public and private sector, most recently as Secretary of Administration under Governor Jim Douglas and now with FairPoint Communications. I hold both masters and bachelor degrees from the University of Vermont and served in the U.S. Navy as a member of SEAL Team Two.

FairPoint is a leading provider of advanced communications services to business, wholesale and residential customers within its service territories. FairPoint offers its customers a suite of advanced data services such as Ethernet, high-capacity data transport and other IP-based services over a ubiquitous, next-generation fiber network with more than 15,000 route miles.

FairPoint is the incumbent communications provider in the markets it serves, primarily rural communities and small urban markets. Many of its local exchange carriers have served their respective communities for more than 80 years. Our service territory spans 17 states, including Ohio, Illinois, Colorado, Kansas, Missouri and Pennsylvania. With headquarters in Charlotte, North Carolina, FairPoint serves approximately 1.3 million access line equivalents, including approximately 326 thousand broadband subscribers. We have more than 3,300 employees. FairPoint recently was ranked as the sixth largest telecommunications company in the country.

Since April 2008, throughout northern New England we have invested more than \$196 million to build a sophisticated and ubiquitous IP-based fiber network that serves not only our residential customers but an extensive base of retail customers, such as financial institutions, medical facilities, and governmental and educational institutions.

My testimony will concentrate on providing some specific examples of how well-intentioned public policies can go off track when put into implementation, opening the possibility of wasting millions of dollars of taxpayers' money and potentially leaving people without the promise of reliable broadband access.

As the State President in Vermont, I have been very vocal that public money used to overbuild existing networks is duplicative of private sector efforts, and in many respects, undercuts those efforts.

By way of background, it is very important to highlight that FairPoint, through our Washington trade association, ITTA, filed comments before NTIA, RUS, and Congress in support of the broadband stimulus efforts. In fact, FairPoint and many other telecommunication providers saw the broadband stimulus program as an opportunity to bring broadband services to those areas which are rural and

geographically challenging, where the business model makes it difficult to bring broadband to those consumers.

In 2009, FairPoint applied for stimulus grants in the first round of funding. Although each of our seven applications in NNE achieved the highest level of endorsement in their respective states, we did not win any of the funding in the first round. We also applied for funding in Florida and Missouri and were not awarded funding.

Given the experiences of the first round, we questioned internally whether to apply again, especially when Vermont indicated that the state was only endorsing its own application. As the deadline approach we decided to apply, but were only able to submit an application for Maine. It was turned down again. Never, did we expect the federal government to fund programs that overbuilt existing networks. We thought the emphasis would be on providing broadband to those residents and businesses that have no access to Internet services, those customers we know as “unserved”. In fact, we appealed BTOP grants in both Vermont and New Hampshire specifically on the overbuild issue. Nonetheless, NTIA awarded the grants and duplicative networks are being built with taxpayer funds.

The key term that I ask you to focus on is “overbuild.” This practice is wasteful, and does not provide broadband to those who are now unserved. Let me give you some specific examples: Vermont was awarded a stimulus award of \$33 million that went to the Vermont Telecommunications Authority (“VTA”) on behalf of its private partner, Sovernet.

As an aside, I can tell you that when I was Secretary of Administration and helped created the VTA, it was not to create a publicly financed competitor aimed at putting FairPoint and other private providers at a competitive disadvantage.

The VTA/Sovernet project that is underway is a middle-mile project. Vermont is a state that has plenty of existing middle-mile networks -- built and maintained by FairPoint as well as other private sector providers.

In my opinion, stimulus funding should be directed to the last mile where the need is the greatest. The Vermont Telecommunications Authority stimulus-funded project simply overbuilds existing privately funded, middle-mile networks. It is a waste of taxpayers' money and duplicates existing networks and does not bring meaningful last-mile broadband to Vermonters. In fact, it actually undercuts the private investment that has already been made in Vermont.

There are other examples of stimulus money being used to overbuild existing networks. In New Hampshire, the University of New Hampshire received \$65.8 million to overbuild the existing private sector-funded networks. What is worse, the federal government permitted UNH to essentially give away most of this network to a private, for-profit company named Waveguide. When this network is complete, not a single residential or business customer in New Hampshire will have the ability to call UNH or Waveguide and request Internet access service.

In Maine there is a similar example of where \$25 million in stimulus money was used to overbuild existing private-sector funded networks.

In Vermont, the other major recipient of federal stimulus money was VTel, or the Vermont Telephone Company, which received a total of \$129 million, including a BTOP grant of \$12 million to build middle-mile networks and another \$117 million in grants and loans that include more than \$81 million to build its wireless network to deliver broadband-like services outside its territory, and build a CATV system and fiber inside its territory.

Between the VTA and VTel, a large portion of the stimulus money is being spent on overbuilding existing middle-mile networks.

Compare all of this to FairPoint, which has invested more than \$196 million so far of its own money in Maine, New Hampshire and Vermont over the past 4 years to expand broadband and continues to invest.

With that in mind, I asked our engineers to do a very quick estimate to find out if we had been awarded all of the stimulus grant funds that are being used for middle-mile overbuilds in Vermont, could we have built broadband to every last unserved location in the state. Their answer, yes! And in the case of New Hampshire, the benefit to residents and businesses would be that they can actually call and order service.

You asked me to provide testimony on the question of "Is the Broadband Stimulus Working?"

Succinctly the answer is it is not working as effectively and efficiently as it should be and the programs I am familiar with actually undercut the efforts of private sector broadband infrastructure investment. Certainly a program from the federal or state government to help providers expand broadband makes sense. Also, the Universal Service Fund can assist in meeting the challenges of deploying broadband to these markets with programs that are properly designed. But the implementation of this program did result in waste and unwarranted competitive harm to companies whose networks were overbuilt with federal money.

In closing, FairPoint will continue to work with the NTIA, RUS, FCC, Congress and the BTOP and BIP awardees to ensure taxpayer dollars are used to better benefit the shared public policy goal of nearly ubiquitous broadband. Thank you and I would be happy to answer any questions.



**Testimony before the Subcommittee on Communications and Technology Hearing,
“Is Broadband Stimulus Working?”
House Committee on Energy and Commerce
Rayburn House Office Building
Wednesday, February 27, 2013, 10 a.m.**

SUMMARY:

- My testimony will concentrate on providing some specific examples of how well-intentioned public policies can go off track when put into implementation, opening the possibility of wasting millions of dollars of taxpayers’ money and potentially leaving people without the promise of reliable broadband access.
- As the State President in Vermont, I have been very vocal that public money used to overbuild existing networks is duplicative of private sector efforts, and in many respects, undercuts those efforts.
- FairPoint and many other telecommunication providers saw the broadband stimulus program as an opportunity to bring broadband services to those areas which are rural and geographically challenging, where the business model makes it difficult to bring broadband to those consumers.
- Never, did we expect the federal government to fund programs that overbuilt existing networks. We thought the emphasis would be on providing broadband to those residents and businesses that have no access to Internet services, those customers we know as “unserved”. Nonetheless, NTIA awarded the grants and duplicative networks are being built with taxpayer funds.
- The key term that I ask you to focus on is “overbuild.” This practice is wasteful, and does not provide broadband to those who are now unserved.
- In my opinion, stimulus funding should be directed to the last mile where the need is the greatest. It is a waste of taxpayers’ money and duplicates existing networks and does not bring meaningful last-mile broadband to Vermonters. In fact, it actually undercuts the private investment that has already been made in Vermont.
- The implementation of this program did result in waste and unwarranted competitive harm to companies whose networks were overbuilt with federal money.
- FairPoint will continue to work with the NTIA, RUS, FCC, Congress and the BTOP and BIP awardees to ensure taxpayer dollars are used to better benefit the shared public policy goal of nearly ubiquitous broadband.