STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Petition of the Vermont Department of Public Service for an investigation into the service quality provided by Telephone Operating Company of Vermont, Inc., d/b/a Consolidated Communications, Inc.	)))))	Case No. 18-3231-PET

DIRECT TESTIMONY OF
JEFFREY AUSTIN
ON BEHALF OF CONSOLIDATED COMMUNICATIONS

June 12, 2019

SUMMARY OF TESTIMONY

Mr. Austin discusses the competitive nature of telecommunications in Vermont as it relates to the three customer segments, consumer, commercial, and carrier.

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1. Q. Please state your name, position, and business address.

A. My name is Jeffrey Austin, and I am Director of Government Relations and External Affairs, 266 Main St, Burlington, VT.

2. Q. On whose behalf are you testifying?

A. I provide testimony on behalf of Consolidated Communications of Vermont Company, LLC (formerly Telephone Operating Company of Vermont, LLC) d/b/a Consolidated Communications ("Consolidated Vermont").

3. Q. Please describe your professional and educational background.

A. I have over 25 years of experience in the industry working in a variety of positions at Consolidated and its predecessor companies in Vermont. In my Government Affairs role, I work closely with the Vermont Legislature and the Vermont Department of Public Service ("Department") on all issues related to our industry. Prior to my Government and External Affairs role, I managed the Vermont Outside Plant Engineering organization with a focus on pole management and practices, broadband expansion, collaboration with State Agencies and Electric Companies on large projects, and I have Sales Engineering experience working with enterprise and commercial customers and government agencies designing networks and working through the business case process.

4. Q. Have you previously testified before the Vermont Public Utility Commission (the "Commission" or "PUC") or another state public utility commission?

A. No, I have not.

5. Q. What is the purpose of your testimony?

A. My testimony will explain the competitive nature of telecommunications in Vermont as it relates to the three customer segments, consumer, commercial and carrier. My testimony will also discuss competition related to services such as residential voice and internet along with business and carrier voice, internet, point to point, and multi-point services.

6. Q. Why is a discussion of competition relevant to this investigation?

A. The focus of this investigation and the Department's stated concern is with service to landline customers without a competitive alternative. Consolidated, too, is concerned about those individuals and as detailed in the testimony of Mr. Shultz, Mr. Whitlock, and Mr. Waggoner, Consolidated has made extensive efforts to improve service quality issues in this State following the 2018 challenges.

At the same time that Consolidated lives up to its commitments to this State and works to improve its service, it is imperative that the Commission, Department, and public understand that having rural residents with access only to a landline should not be a problem that Consolidated alone is expected to fix, and not a situation that is remedied by the out-dated 5903 metrics. As Mr. Shultz explains, Consolidated is losing money to provide service to customers in the most rural and remote corners of the State. And, although the Department states telephone service is a "basic necessity," our state and federal initiatives and the funds that follow such initiatives are 100% focused on broadband buildout.

This discussion on competition is relevant because it highlights the fundamentally unfair situation that has evolved for Consolidated. Consolidated must continue to serve all areas it serves within the State, while its competitors (some using government funds for broadband expansion) can pick and choose only to serve certain markets. At the same time, Consolidated - but not its competitors - is subjected to service quality metrics developed 20 years ago. Despite the fact that Consolidated is already losing money to serve its most rural customers, through this investigation the Department seeks penalties to make it even more costly to serve these customers. The context of the competitive landscape is an important part of assessing the quality of service Consolidated provides in what is a very challenging business environment.

7. Q. What types of telecommunications competition exist for residential customers in Vermont?

A. There are many companies in Vermont that compete with Consolidated Communications for basic telephone service and internet services including, but not limited to, Comcast, Charter, Stowe Cable, Burlington Telecom, Southern Vermont Cable, Vermont Telephone Duncan Cable, EC Fiber, Kingdom Fiber, and all of the wireless carriers. Some of these companies only provide cable television services, but most provide cable television, internet, and a basic telephone service alternative like Voice Over Internet Protocol (VoIP). Our competitors can choose specific areas where they want to offer service, which provides them with an acceptable return on their investment. Because our competitors do not have a requirement to serve an entire territory, competition is the heaviest in the most populated areas where competitors can recoup the greatest return on their investment. Consolidated does not have the option to select only certain markets to serve. Because Consolidated is a "provider of last resort" we do not have the option to pick and choose the areas we serve. The Department has acknowledged this conundrum in the Draft 2018 Telecommunications Plan where it notes, "Many of the state's rural communities lack meaningful competition from cable and wireless providers. Even where there is competition, there is no obligation that competitors maintain service."

According to the Draft 2018 Telecommunications plan, nearly 74% of addresses in Vermont have a competitive wireline alternative for voice and internet services. This statistic does not include wireless carriers, although, also in the Draft Telecommunications plan, the Department does mention "wireless" as being meaningful competition. The competition in this State is increasing and having a greater impact on Consolidated as it continues to lose voice lines. Access line loss has increased over the last several years from 1.6% annual loss when Verizon owned and operated the Vermont territory to 6.2% annual line loss during FairPoint's and Consolidated's ownership. This annual access line decrease has resulted in the loss of 238,840 access lines in Vermont since 1999, significantly reducing revenues in the consumer markets, which also makes meeting statewide service quality metrics extremely challenging. This line loss is attributable to wireless network expansion and availability, cable and VoIP competition, and competition from other Competitive Local Exchange Carriers.

8. Q. What types of telecommunications competition exist for business customers in Vermont?

A. Consolidated has over 3,800 miles of fiber and a large portfolio of commercial products on the largest network in Vermont to service our business customers. Consolidated competes very strongly in the commercial markets working closely with all of our customers, from large hospitals and banks to country stores in the most rural parts of Vermont. As with residential competition, commercial competition is strong in Vermont, especially in the most populated areas and can likely be found in every town in the state where it is financially advantageous for other providers to compete. CenturyLink and FirstLight are telecommunications providers in Vermont that only compete for medium to large enterprise business and government customers in the commercial market and have no requirements to provide service to residential customers in Vermont. Other carriers such as Comcast, Charter, EC Fiber, Burlington Telecom, Kingdom Fiber, VTel, Duncan Cable, and Southern Vermont Cable compete mainly in the small to medium business commercial segment, and there are some businesses that rely solely on their wireless services to support and run their businesses.

9. Q. How has the telecommunications landscape changed since 1999?

A. Providing universal basic telephone service coverage to every address in Consolidated's service territory is extremely challenging and expensive. Vermont is a rural state that has many geographic challenges related to its mountainous and rugged terrain, and service challenges related to its many extremely rural areas. Back in 1999, a model existed that balanced the cost of providing universal basic telephone services at the same cost to all customers in all of

Vermont. Due to the significant increase in consumer, commercial, and carrier competition in Vermont, year over year line loss and customers' migration to wireless or VoIP technologies, this model and our current service quality metrics, which cover every address in our service territory, does not provide a framework for Consolidated to compete on a level playing field in Vermont. I describe these changes more below:

Residential Services:

Historically, these more populated areas cost less to provide and maintain service per location. The higher revenues from the more populated urban areas helped subsidize the rural, less populated areas where the cost to provide and maintain service per location is greater compared to urban areas.

This shifting of revenues no longer works because of the increased competition in more populated areas. The customers in the rural areas of the state paid, and still pay, the same monthly rates as customers in the urban areas. Yet, the costs to serve those areas has increased with less funding from other sources to cover our costs.

Business/Commercial/Carrier:

Historically, Consolidated saw higher revenues related to higher cost and higher subscription rates due to limited competition for commercial customers. These revenues also helped subsidize the cost to provide universal basic telephone service to all locations in Vermont. This shifting of revenues no longer works because of the increased competition as to commercial customers.

Long Distance:

Long distance rates have significantly dropped since 1999. They were once a big part of the model for providing universal service but over the years many customers have migrated to wireless or voice alternative providers, which offer long distance services at no charge.

In summary, the old model just does not work in the competitive telecommunications landscape of 2019, and there is not a level regulatory playing field in Vermont. There are significant amounts of competition in the profitable, populated residential and commercial territories in Vermont reducing potential revenues to help subsidize more rural parts of the state. These competitors can choose which areas and customers they want to serve whereas Consolidated is still responsible to provide service to every location in its 7,460 sq/mi service territory whether there is or is not competition in an area.

10. Q. Where is telecommunications competition usually found in Vermont?

A. Competition for telecommunications can be found in virtually every town in Vermont. As previously stated, the most recent draft of the 2018 Telecommunications Plan shows that nearly 74% of Vermont addresses have a wireline competitor. There is also significant wireless coverage in Vermont, primarily in the more populated areas, and areas along major roadway corridors, which would increase the 74% to a much higher number.

The greatest concentration of competition exists in the more populated areas. In larger cities, such as in Burlington, Winooski, and Montpelier, you can likely find wireline and wireless competition throughout the entire city due to denser populations. In the smaller cities and larger towns there is likely wireline and/or wireless competition in the populated downtown areas and through corridors in and out of the city/town and in the more suburban areas. One of the challenges with competition comes in the smaller towns and rural communities in Vermont that may not have a town center or populated area that has attracted a wireline or wireless competitor. Consolidated's subscription rates are higher in these types of areas, which are harder and more expensive to serve. Meanwhile in the more populated, less costly to serve territories, our subscription rates are much lower. We remain the only company responsible for providing universal service to every address in our Vermont territory but the significant increase in competition in the populated areas has made this incredibly difficult for the reasons I discussed above.

11. Q. Does the Department of Public Service provide financial support to competitors of Consolidated?

A. Yes, the Department of Public Service and the previous Vermont Telecommunication Authority (VTA), have provided Vermont Connectivity Grants to expand broadband service to cable companies and to several fiber to the premises (FTTP) companies that directly compete with Consolidated for consumer and commercial internet and voice services. The VTA built 100 miles of fiber in 2013 to support an initial build-out for ECFiber, a Communications Union District and FTTP company. This company has no required service quality metrics or regulation from the Vermont Public Utility Commission, which is building in 23 towns in Consolidated's service territory. The Department of Public Service owns more than 300 miles of middle-mile fiber in Vermont, mostly in Consolidated's service territory, that is marketed and available for lease to any telecommunications companies along their routes. This results in increased or potential competition along all of these routes, further eroding Consolidated's customer base and potential revenue, while still regulating and requiring us to provide universal basic telephone service to every address in Vermont.

The DPS has awarded 35 Vermont Connectivity Grants since 2015, 32 of these grants were awarded in Consolidated's service territory. Consolidated has been awarded 8 of the 32 Connectivity grants in our service territory, totaling approximately $777,000 and EC Fiber has been awarded 17 grants totaling approximately $652,000. In the most recent grants awarded by the DPS, two FTTP start-ups, Pear Networks and Mansfield Fiber received awards. Similar to EC Fiber, these companies do not fall under the jurisdiction of the PUC, they do not have service quality reporting requirements, and are not required to provide and maintain service to all locations in their service territory.

As Consolidated works to provide and maintain ubiquitous basic telephone service to all addresses in its service territory, state subsidized competition is and will continue to erode its customer base in those areas where the competition chooses to serve and maintain service. At the same time, Consolidated is required to serve and maintain the largest telecommunications network in Vermont with more competition and less customers, while also meeting the 5903 metrics that many of our competitors are not required to meet.

12. Q. Does this conclude your testimony?

A. Yes, this concludes my testimony.