Statement by:

Mr. Kevin G. Hess,

Vice President-Federal Affairs

TDS Telecommunications Corporation

Madison, Wisconsin

On behalf of the

Independent Telephone and Telecommunications Alliance,

The

National Telecommunications Cooperative Association,

The

Organization for the Promotion and Advancement of Small Telecommunications Companies,

And the

Western Telecommunications Alliance

Before the

U. S. House of Representatives

Rural Caucus Task Force on Telecommunications

March 9, 2005

Introduction

Good afternoon Chairman Gutknecht, Co-Chairman Stupak, distinguished members of the House Rural Caucus – Task Force on Telecommunications. My name is Kevin Hess. I am Vice President of Federal Affairs for TDS Telecommunications Corporation, headquartered in Madison, Wisconsin. Today I am speaking on behalf of TDS and four national associations – ITTA, OPASTCO, NTCA and WTA – which together represent close to a thousand independent, rural carriers across the country. I would like to congratulate you for holding this afternoon's briefing on the status of Voice over Internet Protocol (VoIP), and the potential impacts it could have on consumers in rural America.

Corporate Background

TDS TELECOM is one of the leading providers of rural telecommunications in the country. TDS owns and operates 112 local exchange companies across 28 states, serving over 700,000 lines. Our local markets range from very small, rural towns to a few suburban communities. Also, with the opportunity provided us in the '96 Telecom Act, we are also a facilities-based competitive carrier in four states serving over 400,000 lines.

From our founding in 1969, TDS TELECOM has consistently sought to bring the highest-quality, advanced communications services to the rural customers we serve . To give you a better feeling for these areas, the average size of the more than 900 communities we serve is not much over 1000 access lines, with many being much smaller. While these communities may be small in population, they typically cover vast distances which only adds to the significant operational barriers TDS must overcome to provide service to our customers. On average, we serve only 12 households per square

mile, and in one of our communities it is actually less than a single household per square mile of serving area. Yet our customer satisfaction is extremely high, consistently at the top of the Telecommunications industry. So I think it would be fair to say that we understand the many unique and diverse challenges of providing service to residential and business consumers in rural America.

Importance of the Broadband Capable Network

In recent years, TDS TELECOM, along with countless other independent local phone companies, has been a market leader in getting broadband access, in the form of Digital Subscriber Line (DSL) technology, to most of the areas we serve. In fact, today TDS TELECOM has DSL technology available to roughly 70% of our rural customer base and growing rapidly. Independent telecom providers like TDS are typically among the leading high-tech investors and employers in the thousands of rural communities they serve.

For a specific TDS TELECOM illustration, we serve a small community represented by a member of the Rural Caucus. In Rep. John Peterson's district in Pennsylvania, we serve the community of Loganton and surrounding rural area. In total, we have 1300 access lines in service and the density is sparse. Having said that, we have invested significantly in Loganton and now have close to 85% DSL availability in the Loganton exchange with additional deployments scheduled to attain 100% availability by the end of 2005. This is a typical snap shot of the rural communities TDS serves and the investments we make to bring the promise of broadband to our customers.

TDS is not alone in its aggressive deployment of rural broadband. Hundreds of other rural providers have invested in their communities as well. In fact, the FCC's most recent broadband report showed that broadband deployment to the most sparsely populated zip codes of the country rose from 23% in 2000 to over 73% in 2004.

Emergence of Voice over Internet Protocol

TDS' significant broadband investment has positioned it to offer its customers a variety of IP-based Voice and Video applications which represent the next wave in the communications industry's evolution and which will drive broadband adoption rates across our country. As such, we recognize the important role these new services will play in our industry and we at TDS welcome them with open arms. Without the deployment of a broadband capable network, however, the significant potential for IP-enabled services cannot be realized.

Regulatory Treatment of Voice over Internet Protocol

As with any new technology development, IP-enabled services raise a host of serious policy and regulatory questions. These are questions that must be answered by policymakers if we are going to continue to have an advanced communications network in this country that is available to all consumers regardless of where they live.

Today, I would like to identify three of the most important of these issues. First, as I have already stated, there needs to be a broadband network in place for a customer to access and utilize an IP-enabled service. But rural providers cannot continue to make the necessary investments if they cannot recover the costs of that investment from those who

use the network. If any service provider – IP-enabled or otherwise – uses another provider's network – that service provider should compensate the other provider for the use of their facilities. Requiring anything less would simply allow one set of providers a "free-ride" on another set of providers' network investments. Today's intercarrier compensation mechanisms, mainly terminating access charges, remain the most appropriate mechanism of compensation for this type of traffic. Ultimately, this is not about regulation or deregulation. It is simply about just compensation.

Second, because networks in rural areas are substantially more costly to build and maintain that those in more urban areas, Congress established a universal service fund that would insure consumers living in rural areas would be connected and have access to services similar to consumers in urban areas. For the continued viability of the universal service fund, it is critically important that all Telecommunication services contribute equally into the fund. Since voice provided over the Internet is no different functionally to the customer than traditional voice provided over existing wireline and wireless networks, there should be no distinction as to the need for voice over the Internet services to contribute on an equitable basis with these other services into the universal service fund.

Lastly, while I do not believe that IP-enabled services should be subject to the myriad of regulations embodied under federal Title II regulation, there are certain social obligations that should apply to voice over the Internet service. These would include public safety, such as E911, CALEA, and access for those with disabilities, as well as certain consumer protection measures.

Future Consumer Benefits of Voice over Internet Protocol Technologies

Moving from a regulatory to an operational perspective, TDS TELECOM has been and continues to be involved in testing and assessing the viability of various voice over the Internet service offerings. For example, during 2004, 50% of the new business systems we installed for our customers were voice over the Internet capable systems. Having said that, it should also be noted that to maintain the high service quality level our business customers have grown accustomed to, we continue to rely on the public switched network for transporting these calls form one location to the next.

In addition, during 2005 we have plans to trial a series of voice over the Internet commercial solutions, as well as a fixed wireless residential solution in hopes of bringing product enhancements and new services to our customers, which will compliment our existing, robust Telecommunications network architecture.

Lastly, for those customers interested more in the savings opportunities provided by voice over the Internet applications, we are completing our roll-out this year of an unlimited long distance calling package. We hope this plan will offer customers an affordable, high-quality alternative for meeting their long distance needs.

So again, for illustration purposes, in Co-Chairman Bart Stupak's rural district in the Upper Peninsula of Michigan, TDS TELECOM customers in the communities of Chatham, Skandia and St. James (which is actually an island in Lake Michigan) are currently able to purchase unlimited calling packages with an assortment of calling

features for a very competitive price akin to what urban consumers in the Lower Peninsula enjoy today. Putting consumer needs first is the way we have operated our organization for decades. The emergence of exciting new products, services and pricing plans is the natural evolution of our business.

Conclusion

In conclusion, TDS and other independent companies are rightfully proud of the gains they have made in bringing advanced services and competitive pricing options to rural customers across the country. We look forward to the future and see widespread opportunities for growth and development of IP-enabled services for rural customers.

But current FCC policies are increasingly undermining the ability of rural providers to bring these services to rural communities. Without appropriate public policy decisions on intercarrier compensation, universal service and social obligations for IP-enabled service providers, the continued deployment and upgrading of broadband networks in rural communities will be put at risk.

Thank you for the opportunity to be a part of this important discussion.