
Communications Daily

July 15, 2011

Terry Says End Game of USF Reform Talks is Legislation

Congress will finish off Universal Service Fund reform, Rep. Lee Terry, R-Neb., said at a press conference Thursday kicking off rural telecom associations' marketing push on rural broadband. Terry said he's "extremely optimistic" there will be a deal by the end of August that's supported by industry, the FCC and the House Commerce Committee. Also at the event, Sen. Mark Begich, D-Alaska, predicted that the Senate will get "very aggressive" on the issue.

The FCC and House Commerce Republicans have been working together as the industry talks, Terry said. "Our mutual expectation is ... that when this document is written, it will be supported" by House Commerce and the FCC, he said. It will be a "mutual agreement that we can move forward and pass" in the House, Terry said. "Then it will be the Senate's turn" to pass legislation based on the deal, he said.

The House has done a lot of work, but the Senate will get involved in the final deal, Begich said. "There's such a strong interest in the Senate in the rural piece of this and the Universal Service Fund that I think you will see the Senate [get] very aggressive ... and be sure it's done right." Begich's recent letter with Sen. John Thune, R-S.D., and 26 other senators from both parties is a rare show of bipartisanship in the Senate, he said. When the issue heats up, even more senators will speak up, he said.

Terry cited progress for small rural carriers in the USF talks. "As it sits now, it looks like rate of return for our small companies is going to stay," and instead negotiators are working to set the appropriate rate. Reverse auctions are also "just about off the table," Terry said. The goal of USF reform is to ensure there's no digital divide between rural and urban areas, he said.

It's "critical" that rural is treated the same as urban, Begich agreed. The senator is against trimming \$1 billion from USF as part of deficit reduction efforts, as proposed by House Republicans (CD July 14 p1), he said. That would "cut off our future," he said. Telephone cooperatives are the ones making the investments in rural areas, he said.

Earlier, USTelecom issued an open letter to the White House and Congress. It said the proposal to raid the fund is "inadvisable" and "unworkable." The association has been leading the USF discussions among large and mid-sized carriers and has reached a "framework" on reforms, it said. USTelecom said using the fund to close the deficit might threaten the reform effort. Diverting "these funds to deficit reduction would constitute, in practical and legal effect, not only the imposition of a new tax on consumers' monthly communications bills, but also a dramatic departure from one of the Nation's highest priorities -- the deployment and adoption of broadband service throughout the United States, including rural areas that are hardest and most expensive to reach," USTelecom said in its letter.

The Independent Telephone and Telecommunications Alliance also panned the budget proposal. "The USF is an industry driven fund that is not part of the federal budget," association Vice President Paul Raak told us. "Unless Congress wants to return to the days of the Excise Tax and use telephone customers as an A.T.M. for the treasury, we hope Congress changes course."

Rural telecom association executives from OPASTCO, the National Telecommunications Cooperative Association and the Western Telecommunications Alliance launched their ad and social media blitz Thursday. The associations hope to warn Congress and the public that certain changes under consideration at the FCC may have negative consequences for rural areas, they said. -- Adam Bender, Bill Myers



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Published Friday July 15, 2011

Terry expects rural Internet progress

By Ross Boettcher
WORLD-HERALD STAFF WRITER

« Money Share

The years-long effort to reform the Universal Services Fund, a pot of money used to provide reasonably priced telecommunications services to all U.S. citizens, especially those in rural areas, is expected to wrap up by the end of August, Rep. Lee Terry, R-Neb., said Thursday.

The fund historically has been used to expand the reach of access lines and telephone service. Officials from Congress and the Federal Communications Commission now are working to aim the fund's focus at boosting the availability of high-speed Internet access in rural areas that are either underserved or don't have access to broadband at all.

"I am extremely optimistic that by the end of August we will have the deal," Terry said.

The effort to reform the USF has dragged on for nearly eight years, but officials now are trying to redistribute the \$8 billion in the fund by targeting waste in the program and redefining the remote areas of the country, including parts of rural Nebraska and Iowa, that need the funds most, Terry said.

But some rural telecommunications industry groups said they aren't completely on board with the FCC, saying that parts of the agency's proposed reform would cut funding that rural carriers rely on to expand and update their infrastructure.

Thursday, a group of rural telecom groups, including the National Telecommunications Cooperative Association, launched an advertising, lobbying and awareness campaign urging the FCC not to make sweeping changes but to keep in place aspects of the USF that are working.

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POLITICO

July 15, 2011

GOP's USF proposal under fire



AP

The proposal comes as industry stakeholders are in the final stages of an agreement for reforming USF.

By [KIM HART](#) | 7/15/11 5:37 AM EDT

A proposal from House GOP leaders to trim \$1 billion from the FCC's Universal Service Fund to help reduce the deficit is meeting stiff resistance from rural phone companies and cries that it's tantamount to a "hidden tax on consumers."

The idea, put forth this week, is not well understood. The \$8 billion USF program collects money from consumers and phone companies in the form of fees on monthly phone bills. Those collections then help subsidize phone service in rural, hard-to-reach areas of the country, where it is not economical for big phone companies to build networks.

Because the program is not directly funded through tax revenue, it is not immediately clear how \$1 billion would be trimmed from USF. It's possible that universal service collections would be capped at 2011 levels — or about 15 percent — to keep the fund from growing larger, industry sources say.

But if money contributed to the fund by the industry is then handed over to the Treasury instead of being distributed for universal service purposes, it becomes a tax, critics say.

According to the budget report by House Budget Committee Chairman Paul Ryan (R-Wis.), about \$1 billion could be squeezed out of the high-cost fund, which makes up \$4.5 billion of the \$8 billion USF program, by eliminating waste, fraud and abuse. But critics of the proposal point to recent USF program audits that put waste, fraud and abuse at only about 2 percent — which is nowhere near \$1 billion.

The National Telecommunications Cooperative Association, the Organization for the Promotion and Advancement of Small Telecommunications Companies and the Western Telecommunications Alliance came out against the proposal Thursday.

“The House Republican proposal is a new, hidden tax on consumers,” the associations said in a statement. “This will not only mean less money for consumers, but will also negatively impact commerce, e-government, agriculture and our overall prosperity and result in defaults in government and private sector loans leading to more economic distress and lost service.”

They urged consumers to tell their members of Congress “to leave the Universal Service Fund alone.”

“Suggestions that USF can be used to pay down the debt show a lack of understanding of how USF actually works,” said NTCA CEO Shirley Bloomfield. “It’s not part of general revenues and doesn’t come out of Treasury. ... Such a budget trick would effectively turn USF into a new tax.”

Paul Raak, vice president of legislative affairs for the Independent Telephone and Telecommunications Alliance, which represents midsize carriers, said USF funds shouldn’t be used to pay down the deficit.

“I don’t think Republicans are interested in taxes on consumers’ phone bills to pay down the deficit,” he said.

Despite the remaining questions as to how the proposal would work, stakeholders are concerned. The proposal comes as industry stakeholders are in the final stages of hammering out an agreement for how to reform the USF program.

Reforming the USF program will squeeze out some money by increasing efficiency and eliminating waste. But some stakeholders argue that any efficiencies gained by reform should be directed to serving high-cost, unserved areas rather than going to the Treasury.

“We’re taking it seriously,” said Randy Tyree, vice president for legislative policy for the Organization for the Promotion and Advancement of Small Telecommunications Companies. “Anything is possible.”

Tyree said yanking \$1 billion out of USF would be a severe setback for ongoing negotiations.

“If that were to happen, I don’t know how these negotiations go forward. If you take a billion out of USF, I think you’re starting over,” he said.

“It makes industry consensus impossible,” said one lobbyist who represents smaller carriers. “Suddenly everyone loses.”

Sen. Mark Begich (D-Alaska) also said he’s against the proposal.

“Especially as we’re trying to develop the best backbone to telecommunications, this is not the time to say, ‘Well, we’ll take a little here and take a little there,’” Begich said at a press conference Thursday.

“What you’re doing is chipping away at a backbone. ... People who are doing this short-term thinking are cutting off opportunity for the future.”

Randy May, president of the Free State Foundation, said taking money from the USF program would make only a “modest” impact on reducing the deficit.

“It just seems to me there are far more fruitful targets,” he said.



Friday, July 15, 2011

TERRY: USF WORKING GROUP WANTS TO KEEP ROR, DROP REVERSE AUCTIONS

Rep. Lee Terry (R., Neb.) said today that a working group helping him to formulate a new Universal Service Fund reform bill has voiced its displeasure with elimination of rate-of-return (ROR) regulation and instituting reverse auctions, and he expects a deal will be reached between stakeholders and a report written by the end of next month that will allow him to proceed with introducing new legislation.

Speaking at an event touting the importance of rural broadband, the vice chairman of the House communications and technology subcommittee said he has shared his concerns with FCC Chairman Julius Genachowski about the Commission instituting either of the changes as part of an order it may undertake, and added there is ongoing dialogue between the agency and Congress on the issue.

“They are injecting their input, and we’re working together,” Rep. Terry said. “And it is our mutual expectation . . . that when this document is written, it will be supported not only by the House Energy and Commerce Committee . . . but Chairman Julius Genachowski and the FCC.”

On ROR, stakeholders have stated that they want certainty in the marketplace, and are willing to accept lower returns but not to have the regime phased out altogether. And in addressing reverse auctions, industry members have said they are worried that instituting the practice could lead to stranded investment that wouldn’t allow small telcos to pay back their Rural Utility Service loans. Because of that, both ideas have been taken off the table by the working group.

“I am extremely optimistic that by the end of August, we will have the deal, and all of the elements on paper agreed to, that will protect our rural ILECs, that will provide you the certainty going forward, and will have a broadband policy the empowers rural America, as well as suburban and urban America,” Rep. Terry said.

While work continues at the Commission on USF reform, Rep. Terry said there are certain advantages the FCC could gain from a legislative solution, including the grant of additional authority. He expressed optimism that legislation could pass both the House and the Senate.

Sen. Mark Begich (D., Alaska), a member of the Senate Commerce, Science, and Transportation Committee who also spoke at the event, was more circumspect when it came to predicting whether such a bill could get through the Senate. “I want to be optimistic,” he said, noting there is a real desire in the Senate to revamp universal service.

Meanwhile, officials with the National Telecommunications Cooperative Association, the Organization for the Promotion and Advancement of Small Telecommunications Companies, and the Western Telecommunications Alliance touted a new lobbying and advertising campaign that they said would stress

to the FCC the importance of getting USF and intercarrier compensation reform so that economic opportunities can be brought to rural America.

As part of their effort, the groups are calling for developing a cost-based, ROR-based broadband funding mechanism for rural carriers; establishing several targeted measures to enhance efficiency in the use of USF support; applying existing intercarrier compensation rules and rates to all traffic originating from or terminating to switched networks; unifying intrastate and interstate ICC rates; and ruling out “bill-and-keep” or uniform ICC rates for all carriers.

John Rose, OPASTCO’s president, said the goals of the campaign, while different from those being discussed as part of an industry solution being crafted by members of the U.S. Telecom Association, outlines issues of concern for rural telcos. “We are working with this industry group,” he said. “But it is very fluid. I don’t think it conflicts with this effort here. We want [policymakers] to understand the money goes to these customers.” - Ted Gotsch, ted.gotsch@wolterskluwer.com



Saturday, July 16, 2011

Begich, Terry Hope to Unveil USF Reform Proposal in Late August

Sen. Mark Begich (D-Alaska) and Rep. Lee Terry (R-Neb.) are facilitating discussions between industry and the Federal Communications Commission on a new legislative proposal to reform the Universal Service Fund, which the lawmakers hope to unveil in late August.

Begich and Terry joined representatives from the National Telecommunications Cooperative Association, the Organization for the Promotion and Advancement of Small Telecommunications Companies, and the Western Telecommunications Alliance at a Capitol Hill news briefing to reiterate their support for reform that takes account of small, rural telecommunications providers and their customers.

The crux of their proposal, much like the FCC's, is to convert a fund that currently subsidizes the cost of providing telephone service in rural areas into one that helps pay to provide broadband internet service in those same areas. But in sharp contrast, the Begich-Terry-backed proposal would seek to better protect the interests of rural telecommunications companies.

"We may be nearing the end, not of the Universal Service program, but of bringing about reform," Terry told reporters at the July 14 briefing. "I am extremely optimistic that by the end of August we will have a deal ... with all of the elements on paper agreed to that will protect our rural ILECs [incumbent local exchange carriers], and provide you [rural phone companies] the certainty going forward."

Two FCC Proposals Irk Rural Telcos

The FCC has been working on its own plan, with the hopes of finalizing an order later this summer. As part of an omnibus rulemaking, the agency has proposed eliminating the Universal Service Fund's "high-cost" fund—the largest part of the universal service program with a 2010 budget of \$4.3 billion—in three phases over the next 10 years. The money would be shifted to a new "Connect America" fund to subsidize the cost of providing broadband internet service in areas where, absent such support, broadband would not be available, such as rural and sparsely populated regions of the country.

In the first stage, the FCC would rely on competitive bidding, or a reverse auction, to award subsidies for wired or wireless broadband deployment in "unserved" areas. To identify those areas lacking access to broadband of any kind, the agency would use the National Broadband Map recently unveiled by the National Telecommunications and Information Administration ([34 DER A-15, 2/18/11](#)).

The FCC's reverse auction proposal would essentially limit funding to a single company to provide service to an entire service area. The company that could provide service with the lowest level of funding would win.

Also as part of the proposal, the FCC would replace rate-of-return regulation with price-cap regulation for USF beneficiaries, which would allow companies to set prices freely within a certain range and keep any profits that may result from cost reductions, including any cuts in investment.

The rural telecom providers are staunchly opposed to the latter two FCC proposals to hold reverse auctions and to eliminate rate-of-return regulation altogether.

Terry addressed both issues during the briefing, noting first that, "as it sits now, rate-of-return regulation for our small companies is going to stay."

On the matter of reverse auctions, he acknowledged that both the FCC and members of the Energy and Commerce Committee, of which he is a member, “like reverse auctions.” But he cautioned that reverse auctions could “strand investments in capital.”

“Companies might not be able to pay back their Rural Utilities Service loans,” he said. Terry was unprepared to divulge any additional detail other than to say: “We’re making progress on that.”

ILECs Working on Their Own Plan

Meanwhile, a group of incumbent local exchange carriers have been busy drafting their own proposal to revamp the Universal Service and intercarrier compensation systems, and plan to file the proposal with the FCC later this month, according to industry sources.

The Universal Service Fund is sustained through surcharges tacked onto most consumers' bills and distributed among telephone companies to subsidize the cost of providing service to rural areas.

The FCC first voted in February to begin the lengthy, complex process of reforming the Universal Service Fund and the current structure for companies to compensate each other for connecting calls—two systems that, if modernized, could hasten the deployment of high-speed internet services nationwide, a key goal of the agency's National Broadband Plan.

Both systems are linked in the overall revenue stream that telecommunications carriers receive for their services. Both systems are considered broken by nearly all observers and badly in need of reform. But both systems remain, for the time being, intractable.

FCC sources and industry stakeholders had originally suggested that the commission could bring an order up for a vote as early as the agency's August open meeting, but that target seems less and less likely, as the complexity of the issues has required additional time to sort through.

“I’ve had conversations with FCC Chairman Julius Genachowski,” Terry said. “The FCC is standing right next to us during all these discussions. They too are injecting their input and we are working together.” Commenting on possible delays in the Senate once a bill is introduced, Terry said: “You always have the Senate's input, but it's hard to do something dramatically different when everyone signed off on it.” “It is important that we resolve this issue, especially around rural broadband,” Begich added.

The three rural telecommunications industry groups—NTCA, OPASCO, and WTA—have launched a campaign to educate the public about some of the FCC's proposed changes that they oppose, such as eliminating rate-of-return regulation and holding reverse auctions.

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Rural telecom firms fear new FCC rules will hurt small towns

By ROBERT EVATT World Staff Writer
 Published: 7/16/2011 2:25 AM
 Last Modified: 7/16/2011 4:15 AM

A group of rural telecom companies fears that new rules being considered by the Federal Communications Commission will stunt the growth of broadband access to low-population areas.

The National Telecommunications Cooperative Association, the Organization for the Promotion and Advancement of Small Telecommunications Companies, the Western Telecommunications Alliance and others announced their concerns - as well as the start of an informational campaign on the issue - during a teleconference this week.

Shirley Bloomfield, CEO of NTCA, said the changes proposed by the FCC could even prevent maintenance and upgrades on existing rural broadband.

"The future of rural broadband hangs in the balance, and we can't afford to be silent on the issue," she said.

Mark Gailey, president and general manager of Totah Telephone Co. Inc. in Ochelata, which provides service in Oklahoma and Kansas, said the changes could have dire consequences for his company and its approximately 2,500 customers.

"We'd almost immediately be in jeopardy of defaulting on our loans," he said.

Gailey said it's crucial to continue with assistance in providing high-speed Internet to people in Oklahoma and elsewhere who don't have access.

"We're there because the big guys couldn't work out an economic model to service us there," he said. "Without us there, I'm not sure how the customer can get broadband service."

Their specific complaints focus on the FCC's proposed changes to the distribution of money in the Universal Service Fund, which is supported in part by a surcharge on all telephone and cellphone bills.

Bloomfield said a price cap structure being proposed in an effort to keep costs under control

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would instead encourage development in areas where infrastructure is less expensive to the disadvantage of development in areas where infrastructure is more expensive.

The groups are also concerned about proposals by Republicans in the U.S. House of Representatives to take \$1 billion out of the fund and apply it to deficit reduction.

Bloomfield said the groups would like to have the FCC reform the rules behind distributing the Universal Service Fund, but not in a way that would impede continued broadband development.

She and others involved in the effort said broadband access is critical for all to enable better health care, economic competitiveness and easier access to goods and services, among other benefits.

Original Print Headline: FCC rules could hurt rural towns, groups say

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By ROBERT EVATT World Staff Writer

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"The groups are also concerned about proposals by Republicans in the U.S. House of Representatives to take \$1 billion out....."

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Rural telecoms need USF subsidies, industry advocates warn

July 17, 2011 — 10:51pm ET | By [Samantha Bookman](#)

Organizations representing telecoms operating in rural areas launched a program meant to raise awareness in Congress that they could lose \$1 billion in federal subsidies critical to bringing broadband into their areas if certain cuts to the Universal Service Fund (USF) are approved.

The National Telecommunications Cooperative Association (NTCA), the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) and the Western Telecommunications Alliance (WTA), along with U.S. Sen. Mark Begich (D-AK) and U.S. Rep. Lee Terry (R-NE), are using advertising and social media to highlight potential consequences of rule changes being considered.

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A particular bone of contention is House Republicans' proposal to take \$1 billion from the USF and apply it toward deficit reduction, something the associations said in a release amounted to "a new, hidden tax on consumers."

A campaign website, [saveruralbroadband.org](#), was launched along with Facebook and Twitter pages.

Meantime, the challenge of bringing broadband to rural America is moving toward a front-of-mind position for many legislators. A *Silver City Sun-News* opinion piece by Paul Gutierrez, executive director of the New Mexico Association of Counties, speculated that the merger of AT&T and T-Mobile could mean good things for rural areas waiting for adequate broadband coverage.

"As it stands now, the AT&T coverage area for its 4th generation technology is largely confined to major cities, such as ones like Albuquerque and Santa Fe. But if the merger goes through, AT&T has pledged to provide broadband access to the vast majority of rural communities across the country," Gutierrez wrote.

- For more:
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Telecoms increase push for rural broadband

By Hugh G. Willett

Posted July 17, 2011 at midnight

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At some rural hospitals X-rays have to be physically transported for review by specialists outside the area because the low bandwidth copper wire infrastructure cannot handle high-speed image transfer.

Hospitals are just one example of how rural areas without broadband access are at a disadvantage, according to a group of rural telecom associations that are urging the Federal Communications Commission not to cut subsidies for installation of high-speed fiber optic infrastructure.

The group of rural telecom companies kicked off an awareness program last week to let Congress know they are concerned about possible cuts of \$1 billion from the Universal Service Fund. The proposed cut is part of negotiations in an effort to cut the deficit.

The campaign includes advertising and social media to raise awareness of the issue. The website saveruralbroadband.org was launched along with campaigns on Facebook and Twitter.

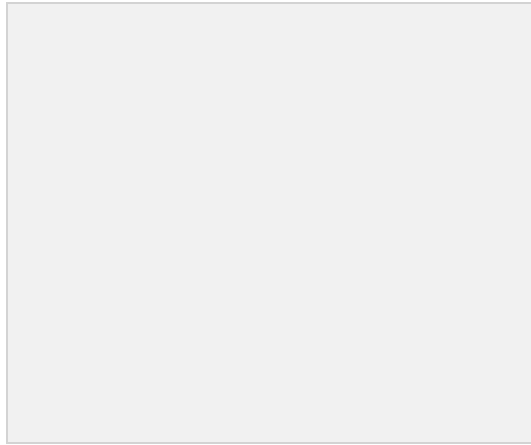
"We want broadband everywhere for everyone," said Shirley Bloomfield, CEO of the National Telecommunications Cooperative Association.

Rural telecommunications companies serve about 5 million customers in sparsely populated areas comprising about 40 percent of the nation's landmass.

Bloomfield and other representatives of rural telecom companies urged Congress to be selective in the cuts to the Universal Service Fund.

"They need to be surgical in these cuts," she said.

The support for rural broadband installation is necessary because large



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communications companies don't want to make investments in rural areas because of the small customer base and smaller, local service providers don't have the resources, said Kelly Worthington, executive vice president of the Western Telecommunications Alliance.

"Rural America can't afford to be silent on this," Worthington said.

Broadband also is good for business. Rural entrepreneurs need high-speed internet access to conduct business across a dispersed customer base, according to Nancy White, president and CEO of North Central Telephone Companies.

Mark Gailey, president and general manager of Totah Telephone Co. in Ochelata, Okla., warned of the economic impact of the cuts, which could include the loss of thousands of jobs.

A proposed alternative to the cuts included a cost-based rate of return funding mechanism, measures to enhance efficiency and a plan for unifying rates across state lines.

Residential broadband use breaks down along income, education and other socioeconomic factors including rural versus suburban household, according to a study conducted by the Department of Commerce in 2009 and released in 2010.

The study found that households using broadband grew to 63.5 percent in 2009 from 9.2 percent in 2001. Among urban households, about 70 percent subscribed to broadband compared with 51 percent of rural households.

About 94 percent of the households with incomes exceeding \$100,000 subscribed to broadband in 2009 compared with 35.8 percent of households with income of less than \$25,000, the study said.

The study found that 84.5 percent of households with at least one college degree subscribed to broadband compared with 28.8 percent of households without a high school degree.

The survey also found that 38 percent of Americans who don't have broadband at home say they don't subscribe because they don't need it, while 26 percent say it's too expensive and 4 percent say it's not available.

Hugh G. Willett is a freelance contributor to the News Sentinel.



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Rural Telecom Associations Raise Concerns Over USF Reform

FCC, Universal Service

July 18th, 2011

Josh Peterson, Reporter, BroadbandBreakfast.com



WASHINGTON, July 18, 2011 – The FCC should consider costs and service areas of rural broadband customers as it reforms the Universal Service Fund (USF) to include broadband expansion, urged members of congress and rural telecom associations Thursday.

The rural telecom associations announced at the Capitol building the inauguration of a DC-based print advertising campaign to highlight the economic harm of the FCC's current proposal. The associations believe that USF reform as it is presently being considered would result in lost jobs, poor health care coverage and stifled innovation due to blocked access to global markets.

"There was a recognition stated that we want what this Administration wants – broadband everywhere for everyone," said Shirley Bloomfield, CEO of the National Telecommunications Cooperative Association (NCTA), in a follow-up with Broadband Breakfast after the press conference, "but how we get there is complicated."

The association – one of three major rural telecommunications associations in attendance – represents over 570 locally owned and controlled rural communications entities. The other two associations represented were the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and Western Telecommunications Alliance (WTA).

"We have thousands of rural communities being well-served by small, independent companies who have built the infrastructure already and demonstrated their commitment and capabilities. We don't want those communities to lose what they already have if the FCC makes short-sighted decisions with long term consequences that will impact rural consumers and economies for years to come," said Bloomfield.

The associations have also taken to the web and social media under the campaign, "Save Rural Broadband," to inform consumers of what they believe is at stake from the current FCC proposal.

Sen. Mark Begich (D-AK) and Rep. Lee Terry (R-NE) joined the rural telecom associations at the event.

Representatives from the FCC were not available for comment.

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