



PEÑASCO VALLEY TELECOMMUNICATIONS

PLEASE READ THIS LETTER

- **IF YOU WANT CAPITAL CREDITS TO CONTINUE**
- **IF YOU DON'T WANT HIGHER RATES**
- **IF YOU DON'T WANT A LOWER LEVEL OF SERVICE**

Federal Communications Commission Ruling Impacts Rural Telephone Cooperatives

The “Universal Service Fund” (USF) - a program administered by the Federal Communications Commission (FCC) and funded by companies providing telephone service across the country - has been essential in providing telecommunications services to residents of rural, hard to serve places like most of PVT's service area. But new Federal regulations and still others under consideration could put the ability of small, rural telecommunications companies to serve their customers at risk.

From the earliest days of telephone service, Congress has enforced policies that required affordable access to comparable communications services throughout the nation. The Universal Service Fund has been essential to fulfilling that policy. Without USF, most rural residents would not have access to voice and data services that are essential in today's world and, without a dependable telecommunications network, it would be almost impossible to operate a business, or to provide services now considered essential like education and health care.

The Rural Electrification Administration (REA, since renamed the Rural Utilities Service, or RUS) provided low-interest, long-term loans to cooperatives to build and later expand and modernize networks to serve customers in rural areas. PVT's network, like those of neighboring cooperatives, was built with RUS loan funds. RUS not only funded loans to build facilities in high cost areas but often mandated that RUS borrower cooperatives serve high cost customers as a requirement to receive any loan funds at all.

As recently as 2010, cooperatives were encouraged under the Broadband Stimulus program to expand and modernize facilities with combinations of grant and loan funds. PVT was among the local cooperatives that received awards through Broadband Stimulus.

The combination of RUS loans and USF provided the capital and repayment ability that built most of the telecommunications network in rural, high-cost areas, especially in the western states. These new rules will put repayment of some of those loans in doubt.

The new FCC rules *require PVT to raise rates* in order to qualify for any USF support, ignoring the authority of New Mexico's Public Regulatory Commission. Some new rules may be subject to changes *every year*, making it impossible for companies to plan ahead. Other, mostly larger, carriers who use our rural networks will pay less. And, worst of all for PVT, there will be new limitations on our ability to recover the investments made building our network years ago.

Over the last several years PVT has diversified to provide other telecommunications services through our subsidiary, PVT NetWorks. We are continually looking for ways to cut costs and improve efficiencies while at the same time improving customer service and modernizing our network. We have done this because it is good business and because we believed eventually there would be an effort by the major corporate carriers and the FCC to reduce USF. But we did not anticipate that it would be this extreme.

Although USF payments are governed by the FCC, the Universal Service Fund is not taxpayer dollars. USF payments are made with funds from voice service providers, not the taxpayers. The savings from USF reform will go to the major carriers and their customers, not the taxpayer. The increased costs to rural cooperatives and their members will in effect go to improve corporate earnings and reduce costs to urban and more populated areas of the country.

The new rules will create a severe hardship for our cooperative. The further reforms that will be announced later this year could be even worse. We believe PVT will survive, but not without drastic changes. The financial constraints imposed by these reforms will make it impossible to maintain the level of service we provide now. They will limit our ability to keep up with the demand for broadband and voice service to current and future customers.

PVT along with other coops and small rural companies are contesting parts of the new regulations through the regulatory process and in the courts. We are not opposed to reform of the current system but we believe the new regulations are fundamentally flawed. They force an unfair portion of the reform burden on companies and their customers in hard-to-serve areas like ours. The net effect of these reforms will be to restrict access to modern telecommunications services by rural consumers. We believe that is a form of economic and social discrimination against our members and other customers that is not in the national interest.

As a non-profit, member-owned cooperative, PVT is required to allocate capital furnished to the cooperative by its members. PVT's financial condition has been strong enough in recent years for us to refund a portion of that capital to members. Although we remain strong and would like to continue to retire capital credits as in the past, based on the uncertainty from the FCC, we will not be able to this year. There are no indications that the FCC intends to modify these rules. If they do not, PVT will have to use all its resources to operate and repay RUS debt on our existing network.

If you want continued affordable access to voice and data telecommunications services, please help us tell our story in Washington. We have enclosed a postage paid post card for you to sign and write your own comments. We will make these available to all of the necessary parties. You may also go to our website, www.pvt.com, and click on the tab "Stop the FCC." Along with other cooperatives and their members, we will continue to use our every effort to secure the best possible outcome for PVT and its customers.

Sincerely,



Mike G. Casabonne
President
Board of Directors