

Testimony of Daniel R. Tunnell, President  
Broadband Cable Association of Pennsylvania  
Before the Senate Committee on Communications & Technology  
On the KINBER Project

September 22, 2010

Chairman Folmer, Members of the Committee and Staff, I am Dan Tunnell, President of the Broadband Cable Association of Pennsylvania, a statewide trade association representing the largest component of the broadband sector providing connectivity to over 3.5 million Pennsylvania households.

Pennsylvania features one of the largest group of cable companies in the country, with approximately 65 companies serving our Commonwealth. We employ over 17,000 Pennsylvanians, operate over 80,000 miles of broadband plant, and provide true broadband services to urban, suburban and rural areas. Our services include digital voice, data and video offerings.

We are here today to discuss the federally funded Keystone Initiative for Network Based Education (KINBER). Let me say at the outset that our industry completely agrees with the premise underlying the deployment of an array of robust and expanding broadband services throughout the Commonwealth. We also support bringing more connectivity to research areas, which in turn can attract research dollars and talent. We do not see threats in the proliferation of technology and the rise of competition. We see opportunity.

However, the KINBER Project contains some troubling aspects, many of which are beyond the purview of state legislators and regulators, since the grant for this project emanated from federal legislation. The potential exists for unwarranted and unfair competition to seep into the state landscape through the funding stream that has resulted from this grant.

We are not certain that the KINBER Project, per se, is a threat to the viability of our networks, but that potential does exist. Our main concern is with the private company that has been tasked with building the network for KINBER. This company, Fibertech, intends to construct a 1600 mile, 48 strand fiber network to provide middle mile service to a number of educational and health care institutions, most of which are already served by our member companies and traditional telephone companies. This is the essence of the KINBER Project. However, Fibertech also intends to construct a parallel network of 48 strands which it will own.

One of our main concerns results from this public-private construction scenario, in which the cost to build the private network might be subsidized by the federal grant. Therefore, we urge the Senate to exercise oversight of the spending to make certain that the two networks, which are intended to be separate, are indeed separate. In its simplest form, this means that the construction costs should be properly allocated evenly to these projects, thus requiring that each 48 strand bundle bear 50% of the total cost to construct. This should include permit costs, make-ready costs, pole attachment costs, and any other costs that are common to the two projects.

In addition to the proper assignment of costs, we are concerned about the ongoing operating cost scenario. We do not know whether the project is sustainable long-term, but if member institutions are required to join the consortium, and our member companies lose customers as a result, it would represent government competition at it worst. We are not sure this will happen, but we ask for your oversight of this aspect also. At the outset I indicated that we welcome competition, but when your competitors are funded by government, thus eliminating the need to repay capital expenditures, their cost structure offers them a substantial advantage in the marketplace. Our companies invest private capital to construct our networks, which must be recovered through the service we provide. Government money features no such requirement. Further, our ongoing costs include taxes and other governmental fees while government sponsored-or non-profit-entities do not.

Additionally, KINBER has indicated that it will be self-sustaining, thus eliminating the need for additional public funds. However, the member institutions receive funding from government, in addition to tuition payments, and separating those accounts in a meaningful manner is the business of accountants. We know of no accurate way to separate these accounts, and thus we are resigned to additional cross-subsidization of the network operations by funding from state appropriations.

On a positive note, however, we have met with the KINBER folks and we have agreed to look for ways to partner. Our companies already provide services to the KINBER member institutions. They need bandwidth and we are experts in providing bandwidth. Thus we are guardedly optimistic that we might strike a positive business relationship with some of the institutions engaged in this project.

Senate Resolution 133, which passed the Senate unanimously last June, calls on the Governor and the General Assembly to institute a mobilization strategy to manage funds from the American Recovery and Reinvestment Act of 2009 (ARRA) in general while focusing on funding that will be directed to Pennsylvania for broadband deployment. Senate Resolution 133 sets forth a number of principles including:

- leveraging existing public and private infrastructure;
- establishing meaningful reports and accountability for all projects; and
- ensuring that all projects receiving stimulus money have proven, identified sustainability plans after the stimulus money is used.

We subscribe to these same principles and support the thrust of Senator Folmer's Resolution.

Thank you for the opportunity to provide testimony on this program.

Notes for testimony:

Thank you Chairman Folmer and members of the committee for the opportunity to appear today.

I am Dan Tunnell, President of the Broadband Cable Association of PA. I represent companies throughout PA that provide advanced broadband services including digital voice, data and video services. We operate over 80,000 miles of broadband plant and serve over 3.5 million Pennsylvania households.

I am here today to discuss the KINBER Project and its potential impact on our member companies. We support expanded connectivity to research areas, which can attract more research dollars and talent. We do not see threats in the proliferation of technology and the rise of competition. We see opportunity.

However, the KINBER Project contains some troubling aspects. Although most of these are beyond your reach, there is potential for unwarranted and unfair competition to our industry and others as a direct result of this grant.

The KINBER Project, per se, may not pose a threat to our viability, but KINBER's partner, Fibertech, might obtain an advantage as a result of this federal money. Fibertech intends to construct a 1600 mile, 48 strand fiber network to provide middle mile service to a number of educational and health care institutions, most of which are already served by our member companies as well as by traditional telephone companies. This is the essence of the KINBER Project. However, and more importantly, Fibertech also intends to construct a parallel network of 48 strands which it will own.

This public-private construction scenario could easily lead to the building of a competing private network utilizing federal grant money. Although this is a federal program, we urge you to exercise oversight of the spending to assure that the two networks are indeed separate. All construction costs should be allocated appropriately, which likely means that the sharing of costs should be on a 50-50 basis. This includes permit costs, make-ready costs, inspection costs, and others that are common to the two projects.

We are also concerned about the ongoing operating cost scenario. We ask that you exercise oversight to make sure that additional government money is not utilized to operate either network. KINBER has indicated that it will seek no state funding for operation; rather all costs will be borne by the participating institutions. Now we all know that accountants know how to move numbers to support a conclusion. We merely hope that state appropriations to the anchor institutions do not get re-programmed toward this project in some manner.

Finally, and on a more positive note, we have reached out to the KINBER principals to let them know that we stand ready to partner with them. We have

met with them and indicated that we look forward to striking a positive business relationship with some of the institutions that make up KINBER. In fact, since we already serve many of these entities, we know much about their broadband configuration, and can augment what we have already provided.

My written remarks extend these comments, and I will be happy to answer questions. Thank you.