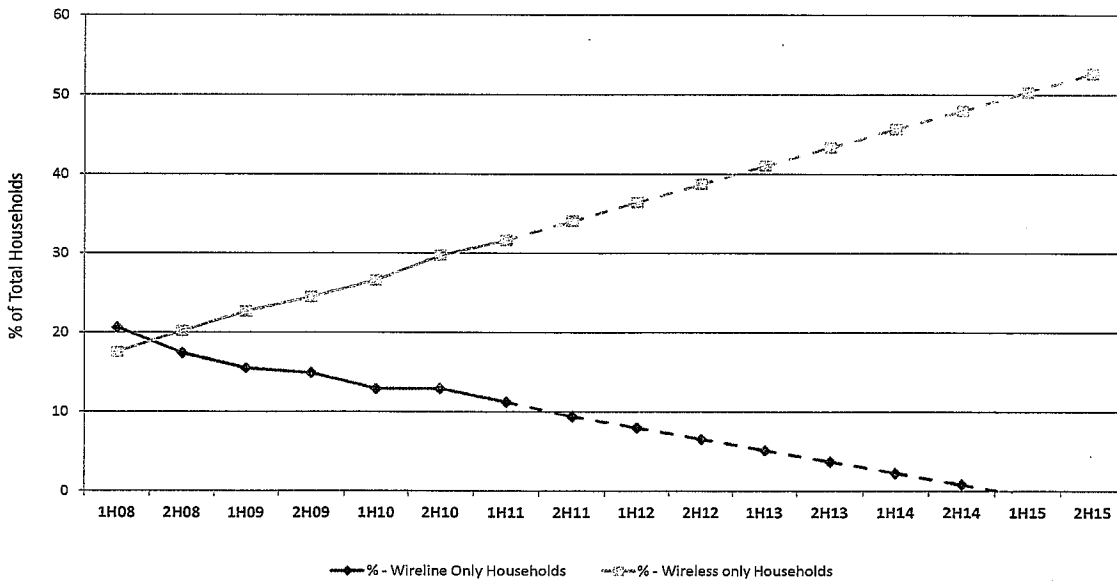




Many of us in this room have had front row seats to observe the extraordinary changes in the communications market. A little over fifteen years ago, local voice telephone service was a regulated monopoly service. But that monopoly is gone forever, changed as Americans enthusiastically embraced competition, and now wireless and broadband IP services.

This has been good for consumers, but it poses a dilemma for providers and policymakers alike.

Wireline-Only Households v. Wireless-Only Households



Source: *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January – June 2011*, Stephen J. Blumberg, Ph.D., and Julian V. Luke, Division of Health Interview Statistics, National Center for Health Statistics (Released 12/21/2011), Table 1 (dotted Lines indicate estimates based on linear trending).



© 2012 AT&T Intellectual Property. All rights reserved. AT&T and the AT&T logo are trademarks of AT&T Intellectual Property.

Today, in the 22 states in which AT&T operates a wireline network, fewer than 30% of homes connected to the ILECs' old POTS infrastructure actually subscribe to legacy telephone service.



Instead, people are choosing among myriad providers and services, and are communicating everywhere, all the time.

Given this dynamic, the economics of the legacy telephone network don't make sense.

Requiring companies that build modern IP networks -- that consumers are demanding -- to maintain the old network and services -- that fewer and fewer people want -- makes no sense and it's not good public policy. As fewer and fewer people are served by the old telephone network, the substantial fixed cost per line is rising and will ultimately be borne by consumers.

Existing Regulations Jeopardize Investment

Every dollar spent on shoring up the legacy network is a dollar that can't be spent on the technology consumers want

Government should:

- Removing roadblocks which hamper investment in new technology
- Ensure regulation reflects the current communications environment
- Encourage investment in new technology

Government should not:

- Make artificial distinctions between technologies
- Tell a competitive business what type of technology to use
- Force carriers to maintain an outdated technology
- Mandate where and how private companies must serve their customers



Other companies have chosen to deal with this dilemma by selling off lines and passing along the problem. AT&T has made a different decision, and I'm here to tell you about the path we've chosen. I hope you will be as excited by this as we are.



Testimony of Mike Scott, Legislative Director, AT&T Kansas
Before the Special Committee on Rural Broadband
November 14, 2012

Last week, AT&T announced a three-year, \$14 billion capital investment plan – Project Velocity IP -- to significantly expand and enhance our wireless and wireline IP broadband networks.

This is in addition to our planned investment and breaks out to an additional \$8 billion wireless capital investment and an additional \$6 billion wireline investment, with total capital spending expected to be approximately \$22 billion for each of the next three years.

So, let's look closer at what this means.

Nationally, we plan to expand our 4G LTE network to cover 300 million people throughout the United States by year-end 2014.

- Throughout the country, we'll be adding more facilities to improve the reach, capacity, and performance of our network.
- These improvements will make more efficient use of our spectrum and allow us to provide all of our customers best-in-class voice and data services.
- In our 22-state wireline area, this means we'll reach 99% of customer locations with expanded 4G LTE coverage to deliver voice and broadband services by the end of 2014.

Through Project Velocity IP, we also plan to expand and enhance AT&T's wireline IP network to reach a total of 57 million customer locations (consumer and small business) by year-end 2015.



Testimony of Mike Scott, Legislative Director, AT&T Kansas
Before the Special Committee on Rural Broadband
November 14, 2012

- This means we'll be providing advanced wired broadband services to 75 percent of customer locations in AT&T's 22-state wireline service area.
- U-verse – AT&T's integrated voice, data and IPTV platform – will increase by more than one-third or about 8.5 million additional customer locations, reaching a planned total of 33 million customer locations.
- Our services compete directly with cable's offerings, bringing new and better options to consumers. Ironically, in this new world, the legacy telephone companies are not the incumbents. Instead, we are investing in wired infrastructure to bring additional choices to consumers in a marketplace that other providers currently lead.

And not only will broadband be available more broadly, but it will be faster. We'll use new technologies and speed enhancing techniques capable of bringing our customers truly next-generation broadband speeds of up to 100Mbps.

At the end of 3 years the broadband landscape in our traditional telephone network footprint will have changed dramatically. These network investments are expected to provide high-speed IP Internet access -- via IP wireline and/or 4G LTE -- to 99 percent of customer locations in our wireline service area and 300 million people nationally. We will be transforming our old telephone network into an IP-only platform for the future.



Testimony of Mike Scott, Legislative Director, AT&T Kansas
Before the Special Committee on Rural Broadband
November 14, 2012

In 2009, we all applauded the FCC's National Broadband Plan goal of broadband access for all Americans, but I assume that – like us – you questioned how that bold and ambitious goal would ever come close to being realized.

The vital fact is that the world has changed. In order to meet consumer demand today and in the future, we must move from POTS service to IP, from a voice network to a broadband network where voice is just one of many applications riding on that infrastructure. This transition is already happening and consumers are leading the way – they want more, they want it everywhere, and they want it all the time.

So for us, our substantial investment is a business imperative to keep pace with consumer demand – and at the same time it is exactly the kind of infrastructure investment that policymakers have been urging in order to push America ever closer to the national policy goal of ubiquitous broadband.

If we work together, we can facilitate and accelerate the IP transformation by all providers for all Americans.

We envision 21st century regulation for 21st century services – regulation aimed at protecting consumers where necessary in today's marketplace, not yesterday's, and regulation that is



Testimony of Mike Scott, Legislative Director, AT&T Kansas
Before the Special Committee on Rural Broadband
November 14, 2012

applied in a competitively and technologically neutral fashion. But we acknowledge that there are many questions and we don't have all the answers.

Last week, AT&T filed a petition with the FCC to begin the necessary dialogue. AT&T has suggested the FCC work with the ILECs to identify a few select wire centers to conduct trials for a transition from POTS service to IP-based service, including the retirement of legacy copper-based facilities and offerings. AT&T believes that this regulatory experiment will inform the FCC as to the limited and competitively neutral regulation that might be warranted in the IP-only world toward which we're headed.

One of the greatest misconceptions is that customers are going to be "left behind" in this transition. With the investment we announced last week, AT&T will be bringing next-generation IP voice *and* broadband services to nearly all customer locations in our service area, and, indeed, virtually everyone nationwide.

Our plan will be to do our very best to provide our customers with services built on an IP broadband architecture. And for those few we cannot reach with a broadband service, whether wireline or wireless, they will still be able to keep voice service. That's our goal and our commitment to our customers. We are very cognizant that no one should be left behind in this transition.



Testimony of Mike Scott, Legislative Director, AT&T Kansas
Before the Special Committee on Rural Broadband
November 14, 2012

We are taking a big step with this substantial investment – and our approach is very different than our competitors. But investing in next-generation technologies on a broad basis is good for our customers, the states and our country, and is also right for our business – we have a proven record of success where we deploy IP broadband.

AT&T looks forward to working with both state and federal policymakers as we all take bold steps away from the past and toward the future to accelerate and complete the transition to an all-IP world on a nationwide basis so that America will grow and lead in the 21st century.