PSD Commissioner June Tierney
Remarks to Senate Finance re: CoverageCo

Please know that the Governor and I concern share your concern for the Vermonters who stand to lose cell service – in particular E911 access -- if CoverageCo cannot find a viable business path forward for continuing its operations. My principal focus has ever been to find the means, within reason, to ensure that this service continues, and, failing that, to avert a hasty or premature end to cell service for the many Vermonters who have come to rely on CoverageCo's operations.

Like you, I am very mindful of how high the stakes are for our fellow citizens who have quickly come to rely on the basic cell service that CoverageCo has made possible with a significant capital investment by the taxpayers of this state. That said, in working to address the challenges posed by CoverageCo's present financial and operational difficulties, I must also be mindful of the responsibility of the Department of Public Service to take fair and balanced regulatory actions that duly consider the compelling interest of the Vermonters who use CoverageCo's service, as well as the interest of taxpayers in responsible government stewardship of capital dollars, and the interests of other stakeholders such as Vermont utilities whose ratepayers ultimately bear the rate consequences when a struggling utility customer fails to pay its electricity bills. With these many competing and compelling interests at issue, I have taken great care to act with deliberation and prudence.

It is very distressing that the adverse impacts of CoverageCo's present difficulties stand to be visited upon fellow Vermonters who have waited so long for reliable cell service to reach them. In this spirit, I offer you my firm assurances that the Department will spare no effort in finding a reasonable and sustainable path forward in bringing reliable cell service to these affected Vermonters, as well as to others in our state who do not yet have the benefit of this means of communication. Patience and sound policy vetting will be needed though, to guard against repeating the setbacks and disappointing aspects of the CoverageCo experience.

On several occasions in recent weeks, members of the Committee have asked what the Department's plan is for dealing with the CoverageCo situation. I have pointed to the need for patience, latitude, and understanding that the situation calls for flexibility in responding to the fluid nature of the material facts as they develop. The constantly changing facts have necessitated changing plans. When a prospective sale of the company fell through in February, the Department's plan turned toward preparing a request for proposal to find a new operator. When Mr. Biby was appointed to serve as CovergeCo's interim executive, the Department deferred issuing an RFP and instead shifted its plan to providing him with an opportunity to develop a viable business plan. In short, the Department's plan has been and remains to be flexible and responsive to changing circumstances, to generate the best options, and to preserve the existing service as long as is reasonably possible, bearing in mind that there are fairness considerations to ratepayers and taxpayers that be must be factored into this preservation strategy as well.

CoverageCo's system consists of antenna sites that largely are located along remote roadsides (approximately 150 miles), with some antennas placed in locations that facilitate some fixed cell coverage within 26 towns in hard-to-reach areas of Vermont. For scale, there are approximately 3,000 miles of roads in Vermont with little or no cell service coverage. The company does not have subscribers who pay a fee for service. Rather, CoverageCo derives its revenue from facilitating call traffic that is compensated pursuant to roaming agreements with carriers who have paying customers.

From its inception, CoverageCo was a novel, untested undertaking to bring cell service to areas that have not attracted a system buildout by a more traditional cell-service provider due to the substantial capital investment required to deploy a conventional cell system and the attendant slight prospect of realizing a robust revenue stream. Recognizing the project's potential to bring cell service to areas of the State that otherwise have had little or no prospect of making such gains, the Department has consistently endeavored to help the CoverageCo forward
to maximize the odds of success for the project. After taking the project over from the now-defunct Vermont Telecommunications Authority in July of 2015, the Department agreed to several project adjustments and accommodations, but over time, it has come to pass that CoverageCo has not fulfilled its contractual obligation with the State to complete system construction, maintain the State's equipment, and to otherwise operate the system reliably.

It has also become apparent over time that financial success has proved elusive for CoverageCo. Among other things, with experience now under its belt, the company has learned that Vermonters place far fewer calls on the road than the national average – this put a damper on revenue-producing calls from traffic along the company's service corridors. Nor has CoverageCo historically been successful in securing the full extent of

arrangements needed to ensure adequate roaming revenue to make its operations profitable. Though I understand that as of this week, AT&T has agreed to roam with CoverageCo.

At the end of March, the Department became aware that Mr. Richard Biby had been appointed to serve as the interim CEO of the company. To date, the Department has worked diligently and prudently to create a reasonable opportunity for CoverageCo to regain its footing under Mr. Biby's leadership

On April 23rd, CoverageCo submitted a document to the Department as a plan for moving forward. This document contains no balance sheet, income statement or cashflow. **As a result, the Department is not able to confirm that the assistance the amendment proposes (2 x $50k) with payment of E911 geolocation fees. Also, any such assistance should be paid from the Connectivity Fund (30VSA7516), and not the Enhanced E911 Fund 30VSA7054).**
And this appropriation should be characterized as funding for a pilot-project

During a conference call on April 25th with CoverageCo and its principal investor, Rose Park Advisors, the Department received a briefing detailing the company's outstanding debts (which are substantial) as well as representations that Rose Park will provide temporary, short-term financial assistance for the company to stay current on its bills. In the Department's view, any assistance to CoverageCo must ensure that ratepayers are made whole. **The Company must make arrangements to pay down its arrearages to Vermont utilities such as VEC, WEC, Jacksonville Electric, Hardwick Electric, Green Mountain Power, Southern Vermont Cable, as well as Consolidated FairPoint.**

Last Friday, the Department received additional information about steps CoverageCo is exploring with a third party to stabilize its operations and finances. The Department is now reviewing all of this information to assess the feasibility of CoverageCo's plan and its implications for other stakeholders such as Vermont taxpayers and ratepayers. This review will inform whether, in the Department's best judgment, there is a reasonable path forward for the State with CoverageCo, or whether the greater public interest lies in unwinding the State's relationship with CoverageCo.

Possible options open to the Department are to serve a notice of termination (a remedy provided for under the contractual relationship) and to issue a request for proposal seeking an alternative vendor to operate the network. Serving a notice of termination would trigger a 60-day period during which CoverageCo could continue to work toward curing its contractual defaults. **In recent discussions, the Department has explained to Mr. Biby and Rose Park that noticing termination and issuing an RFP would be actions directed at preserving the Department's options in best advancing the collective public interest, that these actions should not be seen as an unwillingness to work with CoverageCo, and that the Department would remain open during the 60-day cure period to continuing to work with CoverageCo to see if there is a sensible way to preserve the operation of the system that is fair to all stakeholders concerned.**

If the company's operations were to cease, and, assuming a viable successor operator successfully bids in an RFP search, the Department estimates that it would take 3-6 months from the selection of CoverageCo's successor to re-establish service. Because CoverageCo does not have retail customers who pay subscription fees to the company for service, there is no precise number available for how many users may be affected should CoverageCo cease operations. That said, the Department estimates that CoverageCo's network covers an area that encompasses approximately 2,781 residential and business E-911 locations, which represents less than 1% of the 305,000 E911 locations in Vermont. These 2,781 addresses are also locations where landline telephone service is available. To be clear, the 2,781 estimate does not capture the transitory system usage of calls placed from vehicles traveling along the company's roadside service corridors.

It bears noting that VTel Wireless, Inc. has begun offering wireless voice service and provides access to emergency services to both VTel customers and non-initialized customers. Also, the advent in due course of FirstNet -- a federal program designed to bring first responders broadband service in the field -- will further expand commercial cell coverage in Vermont, including in many of the areas served by CoverageCo today, though not in all of them. More immediately, however, the difficult fact remains that serving a notice of termination on CoverageCo carries with it the risk of an interruption or cessation of the cell service now available in the areas where CoverageCo's system operates. It is the very prospect of such an unfortunate setback that has motivated the Department to proceed deliberately in taking the responsible and prudent steps available to work with CoverageCo and to encourage the company to use the window of time the Department has created to promptly develop a plan for moving forward with meeting its remaining contractual obligations to the State to operate the existing network and to complete the scheduled buildout.