

## **Comments on the FCC's Universal Service & Intercarrier Compensation Reform Order**

### **Testimony by CenturyLink John Idoux, Kansas Governmental Affairs Before the House Committee on Energy and Utilities January 18, 2012**

Thank you Chairman Holmes and members of the Committee. My name is John Idoux with CenturyLink's Governmental Affairs team and I appreciate this opportunity to provide CenturyLink's comments of the FCC's recent order on universal service and intercarrier compensation reforms.

#### ***CenturyLink Introduction***

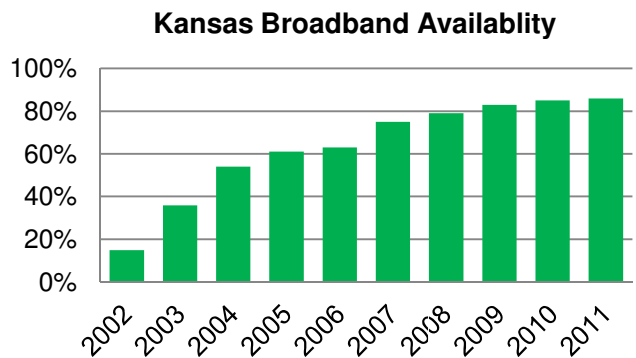
CenturyLink has provided communications services in Kansas for over 110 years and today is the third largest telecommunications company in the United States providing broadband, voice, wireless and managed services to consumers and businesses across the country. CenturyLink serves over 80,000 rural Kansans in 119 communities including Junction City, Fort Riley, Gardner, and 111 communities with less than 1000 residents. CenturyLink has deployed high speed Internet facilities to all 119 Kansas communities and nearly 87% of customers have access to broadband. In addition, the company provides data, voice and managed services to enterprise, government and wholesale customers in local, national and select international markets through its high-quality advanced fiber optic network and multiple data centers. CenturyLink is recognized as a leader in the network services market by key technology industry analyst firms, and is a global leader in cloud infrastructure and hosted IT solutions for enterprises through Savvis, a CenturyLink company.

#### ***Key Components of the FCC's Order***

The FCC's reforms fall into two key components: intercarrier compensation (ICC) and universal service fund (USF). For the ICC component, the FCC eliminates access rates and other charges over 7 years for AT&T and CenturyLink (over 9 years for rural carriers). Partial recovery through a new temporary surcharge is allowed. For USF, the FCC transitions from providing voice support to supporting incremental deployment of broadband. For price cap carriers, the FCC has defined the general framework but specific details will be completed by the FCC in 2012. For rural carriers, the FCC has yet to define either the general framework or the specific details at this time. Even with the uncertainties, it is safe to assume that the Kansas Universal Service Fund will be impacted. However, the magnitude of impact remains uncertain and any determination as to what changes will be required remain premature.

**CenturyLink Committed To Broadband in Kansas**

CenturyLink has not received any federal or state support to deploy its broadband network to the nearly 87% of CenturyLink’s Kansas customers that have access to high speed broadband. A vast majority of CenturyLink’s customers have access to speeds that equal or exceed 4 Mbps downstream; however, to date CenturyLink has not engineered its network to accommodate the 1 Mbps upstream speed contemplated by the FCC. The 1Mbps upload requirement will significantly reduce the number of locations that can be reached for the same amount of money. Also, augmenting capacity requires substantial investment. In 2011, CenturyLink invested over \$2 million to increase capacity and a 5-fold increase is underway for 2012 to accommodate increased usage from applications such as Netflix. As CenturyLink continues to expand its broadband network in Kansas, the investment per incremental customer grows exponentially due to the rural nature of Kansas. The following chart illustrates CenturyLink’s deployment of broadband in Kansas as measured by availability:



**Broadband Deployment Costs**

To take availability from	Incremental Investment
Current 86% to 90% 3116 lines	<b>\$2,250 per line</b> \$7.0 million
90% to 95% 3911 lines	<b>\$5,000 per line</b> \$19.6 million
95% to 98% 2346 lines	<b>\$7,000 per line</b> \$17.1 million
98% to 100% 1564 lines (some wireless)	<b>\$16,000 per line</b> \$25 million

Disclaimer: Investment costs are high level, best available estimates using factors from the NBP and will change

**Remaining Unserved Areas**

Nearly 92% of CenturyLink’s Kansas territory has less than 10 households per square mile. To reach rural Kansans with broadband, CenturyLink invested over the past two years more than \$1000 per accessible customer. With broadband service starting at \$15/month, or \$180/year, plus the additional network and operational monthly costs to maintain a robust broadband network, the payback period for this investment is measured in decades. This is compounded by the fact that less than half of all customers who have access to broadband subscribe to broadband service. Additional deployment will be extremely difficult without the type of public-private partnership envisioned with the FCC’s Connect America Fund and possibly the KUSF.

The attached Overview document provides both the pros and cons of the FCC’s Order specific for CenturyLink in Kansas and also lists what actions the Kansas Legislature and the Kansas Commission could undertake at this time. Thank you for your consideration.

## ***The FCC's Broadband, Universal Service, and Intercarrier Compensation Reform Order***

### **Broadband & Universal Service Fund Reforms**

#### *Pros*

- Goal of expanding broadband availability and speeds for Kansas customers.
- Funding will be targeted to granular areas (census blocks) once phase II of the Connect America Fund (CAF) is implemented. Targeting will greatly enhance the effectiveness and efficiency of the FUSF and bring funding to many rural areas that failed to receive funding under the former mechanisms.
- If the CAF phase II cost model is properly implemented, the plan will serve the goals of the National Broadband Plan by providing sufficient funding to enable broadband network extension to unserved areas.
- The FCC froze legacy high-cost USF support at 2011 levels. This action will allow a greater level of certainty in the midst of significant, fundamental changes.

#### *Cons*

- The FCC failed to implement a cost model and implementation of the long-term CAF will be delayed until a cost model is developed.
- The Order caps incremental funding at \$775 per location. As most of the remaining unserved areas cost more than this amount to serve, this provision greatly limits the amount of the additional funding and will affect broadband network expansion.
- The FCC established qualifying broadband speeds of 4Mbps/1Mbps. The 1Mbps upload speed requirement will significantly reduce the number of locations that can be reached for the same amount of money.

### **Intercarrier Compensation Reforms**

#### *Pros*

- The Order significantly changes existing intercarrier compensation process for all carriers: 1) unifying state & interstate access rates; 2) clearly imposing access charges on all traffic, including VoIP-PSTN; 3) prohibiting traffic pumping; and 4) eliminating phantom traffic.
- Consumers *should* benefit from lower long-distance prices as the largest cost component – terminating access charges – are reduced.
- The FCC provided for a reasonable phase-in period to allow consumers and carriers to react to these significant changes without shock to the system.

#### *Cons*

- The FCC ordered a complex, proscriptive recovery system that will likely be confusing to consumers and increases the risks of error. While attempting to unify rates and making significant progress to accomplish this objective, the FCC ordered CMRS intraMTA traffic to immediate bill-and-keep as of July 2012, generating a windfall to the wireless industry.
- The FCC failed to manage transitional terminating access rate reductions through the federal tariff process.

## ***The FCC's Broadband, Universal Service, and Intercarrier Compensation Reform Order***

### **What Should the Kansas Legislature Undertake in 2012?**

- Specific changes to Kansas statute are premature at this time due to substantial areas of uncertainty that will be defined by the FCC in 2012.
- Advocate for a reasonable and sufficient CAF cost model at the FCC. If the FCC fails to achieve such an outcome, rural consumers will suffer as the goals of the National Broadband Plan will fail to be realized and the burden will fall to the states. Every dime of the FCC's CAF fund that does not go to Kansas will go to another state
- Recognize the vastness of change underway. Nearly \$200 million of annual federal and state universal service plus tens of millions of additional dollars of intercarrier compensation revenue will be disrupted and/or shifted.
- Currently, carrier of last resort obligations (the statutory requirement that incumbent carriers provide service to everyone within a given territory) and KUSF support are inextricably linked. A public policy dialogue will need to be undertaken as to what happens if that link is separated. If support is eliminated, is it acceptable for landline carriers to retreat and is wireless coverage sufficient to address the telecommunications needs of rural Kansans?

### **What Should the Kansas Corporation Commission Undertake in 2012?**

- Implement the ICC portions of the order. Approve tariff filings and Interconnection Agreement (ICA) changes that are consistent with the FCC's order. Recognize the transitional nature of ICC and permit flexible implementation.
- Advocate for a reasonable and sufficient CAF cost model at the FCC. If the FCC fails to achieve such an outcome, rural consumers will suffer as the goals of the National Broadband Plan will fail to be realized and the burden will fall to the states.
- At the appropriate time, modify the KUSF to complement the changing federal USF as it migrates to the Connect America Fund.
- Understand the going-forward importance of network architecture and how carriers interconnect their networks for the proper and efficient exchange of traffic in a bill-and-keep environment.
- Establish competitive parity among all providers. In areas that do not receive high-cost CAF support, relieve carriers of outdated obligations and treat carriers similarly.
- Act consistently with the FCC; follow its lead and implement complementary policies.
- Take no immediate action on originating switched access rates given the vastness of change underway to avoid consumer and carrier shocks.
- Ensure compliance and good stewardship. In areas that receive CAF support, ensure that carriers comply with associated obligations and provide required reports.