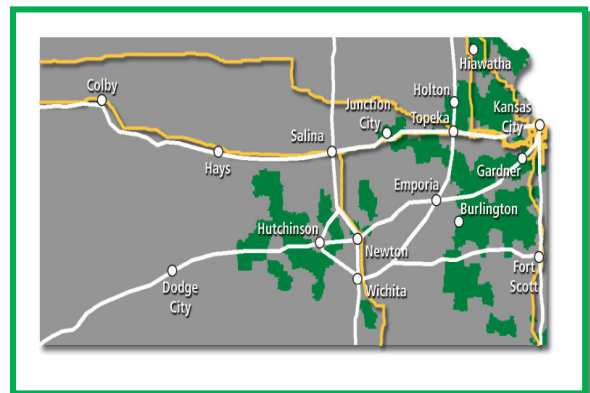
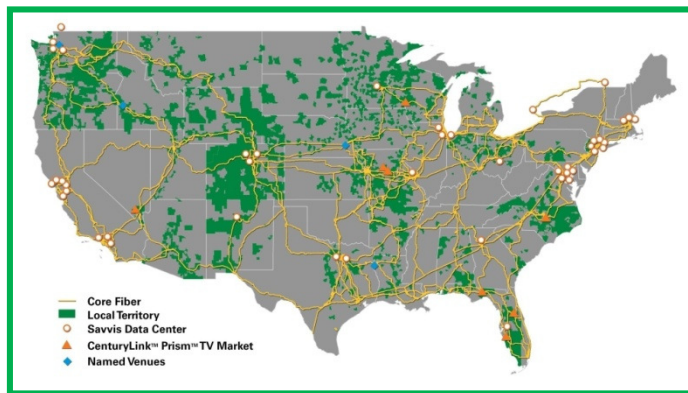


**Introduction of CenturyLink
And Overview of Price Cap Regulation
John Idoux, Kansas Governmental Affairs
Before the Senate Utilities Committee
January 22-23, 2013**

Thank you Chairman Apple and members of the Committee. My name is John Idoux with CenturyLink's Governmental Affairs team and I appreciate this opportunity to introduce myself and the long history of CenturyLink in Kansas as well as provide an overview of price cap regulation.

CenturyLink Introduction

CenturyLink has provided communications services in Kansas for over 110 years under various names including United Telephone, Sprint's local division and Embarq. Today, CenturyLink 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 72,000 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 92% 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.



CenturyLink maintains a significant workforce in Kansas with nearly 1700 employees. Over the past two years, CenturyLink subsidiaries have provided \$613,500,000 in taxable wages and \$28,400,000 in withholding taxes for the state of Kansas.

CenturyLink is A Price Cap Regulated Carrier

It is the public policy of Kansas to “*Ensure that every Kansan will have access to a first class telecommunications infrastructure that provides excellent services at an affordable price.*” As a regulated carrier, CenturyLink’s rates are governed by the Commission. In Kansas, there are two types of price regulation: rate of return regulation and price cap regulation. CenturyLink is a price cap regulated carrier which means it cannot raise its rates above a ceiling which was initially set by statute but is modified based upon a price cap formula determined by the Commission.

For price cap regulated carriers, statute established three categories or baskets of services:

1. Basket 1 includes residential and single-line business phone service and associated services such as extended area service (EAS);
2. Basket 2 includes switched access service; and
3. Basket 3 includes all miscellaneous services which is all other price regulated services not in Basket 1 or Basket 2, including customer calling features, network features, etc.

Under price cap regulation, a carrier can adjust rates upward or downward for individual services within Basket 1 and Basket 3 although the combined total of each respective Basket cannot exceed the cap. Every year the cap is adjusted based upon a price cap formula determined by the Commission for factors including inflation and productivity. Every five years the Commission undertakes a review of the price cap formula. For Basket 2, separate statutory requirements are in place although rates are currently being phased to zero in accordance with recent FCC actions.

To illustrate price cap regulation, CenturyLink’s current local rates are \$17.73/month for residential service and \$28.66/month for business service (Basket 1) . These rates are adjusted annually based upon the price cap formula. The price cap formula that has been in place the past five years has resulted in no changes to local rates. The previous price cap formula, which was in place for the five year period prior to 2006, required CenturyLink to reduce its rates in 2005 when CenturyLink’s local rates were \$18.00/month and \$29.34/month, respectively, for residential and business. In 2012, the Commission will undertake its next 5-year review of the price cap formula. This review allows the Commission to adjust the formula but not actual rates. A similar process is undertaken for Basket 3.

Price Cap Regulation & Kansas Universal Service Fund

As an incumbent carrier, CenturyLink serves as the carrier of last resort for the communities it serves and provides voice service to any requesting customer at its current local rates which are \$17.73/month for residential service and \$28.66/month for business service. CenturyLink does receive support from the Kansas Universal Service Fund (KUSF) but only in areas where the KCC has determined that the cost to provide service far exceeds a benchmark cost. Specifically, the KCC established a statewide cost benchmark of \$36.45/month to provide voice service using a FCC cost model. Support from the KUSF for CenturyLink is only received where the cost to provide basic voice service exceeds 125% of the \$36.45 benchmark. For CenturyLink, 55% of its customers reside in areas where the KCC determined the cost to provide service falls below 125% of \$36.45 and thus no KUSF support is received. The remaining 45% of CenturyLink's customers reside in areas where the KCC has determined to be high cost areas allowing CenturyLink to obtain KUSF support. *CenturyLink has not received any federal or state support to deploy its broadband network to the 92% of CenturyLink's Kansas customers that have access to high speed Internet.* CenturyLink desires to continue to provide service to all customers in its service areas although given the rural nature of the state, competition has not developed and the full cost of service would burden consumers.

Public Policy Objectives Inextricably Linked

The public policy objectives of affordable prices and universal service are far from out-dated and will play a critical role in enabling good consumer outcomes for rural Kansas as the transition from a voice to a broadband communications platform continues. CenturyLink wants to provide service to all customers in its ILEC service areas. Furthermore, CenturyLink embraces free market principles and will compete aggressively for customers. In areas where competition has not developed and the high costs to serve would burden consumers, the market failure must be recognized by policymakers in order to ensure all Kansans have access to a first class telecommunication infrastructure. Forward-looking USF plans are vital to support universal service in high cost areas and should be recognized as a necessary element to achieve universal service policy objectives.