

Testimony in Support of House Bill 2201

**Testimony by CenturyLink
John Idoux, Kansas Governmental Affairs
Before the Senate Utilities Committee
March 12, 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 express CenturyLink's strong support of House Bill 2201.

CenturyLink Introduction

CenturyLink has provided communications services in Kansas for over 110 years and is the third largest telecommunications company in the United States providing broadband, voice, and managed services 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.

House Bill 2201 Introduction

CenturyLink is committed to serving rural Kansas with landline phone service. CenturyLink supports House Bill 2201 because it modernizes and stabilizes the Kansas Universal Service Fund (KUSF) in a reasonable and measured manner that allows companies the needed resources and flexibility to serve rural Kansas customers. The bill significantly reduces the size of the KUSF, benefitting Kansas consumers by reducing fees, while maintaining the KUSF in a manner to ensure that every Kansan will have access to a first class telecommunications infrastructure that provides excellent services at an affordable price. The proposal improves the business climate for competitive companies to invest in advanced services by reducing unnecessary regulation. The bill also provides some certainty for regulated companies which allows for needed investments to serve rural Kansas. House Bill 2201 is a comprehensive proposal, crafted after months of discussion, by an unlikely coalition of companies that traditionally have opposing views on public policy matters. The bill results in over \$10 million in KUSF reductions the first year – or nearly 20% of the \$54 million high cost portion of the fund – with additional savings in subsequent years. Moreover, no company is harmed by these proposed savings.

Forward-Looking Plans Are Vital To Support Universal Service In High Cost Areas

CenturyLink is the leading rural provider of telecom services in the United States and supports the goals of universal service and long term investment strategies for good consumer outcomes. The concept of universal service is far from out-dated and will play a critical role in rural Kansas as the industry transitions from a voice to a broadband communications platform. Forward-looking universal service plans are vital to support universal service in high cost areas and is a necessary element to achieve universal service policy objectives.

CenturyLink embraces free market principles and, where regulatory outcomes permit, CenturyLink 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. It is critical that Kansas public policy regarding universal service create investment incentives that will allow rural consumers to purchase reasonably comparable services at reasonably comparable prices.

Universal service policies must not distort competitive equity. Incumbent companies provide telephone service to less than 4 of 10 customers nationwide and CenturyLink is just one of multiple competitors in many of its service areas. As such, the market rather than regulation should shape services and pricing to consumers. In areas with multiple competitors, incumbent companies need to be released from rules, regulations, and pricing constraints that were developed in a bygone era when CenturyLink had a monopoly on telecom services in its service areas.

Universal service obligations should be consistent with funding received. Universal service support should be limited to targeted high cost areas and only one landline provider should be funded in each area as the carrier of last resort. In areas where there is no universal service support, all regulatory requirements should be eliminated and prices and services need to be fully deregulated.

Public Policy Objectives Inextricably Linked

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.*"¹ The policy objectives of affordable prices and universal service will play a critical role in areas of Kansas where competition has not developed and the high costs to serve would burden consumers. Universal service obligations – commonly referred to as carrier of last resort or COLR obligations – are inextricably linked with universal service support and pricing regulation. Kansas universal service support must remain consistent with pricing regulation and carrier of last resort obligations.

¹ K.S.A. 66-2001 is the declared public policy for the State of Kansas regarding telecommunications.

As a price cap regulated company, CenturyLink's rates are regulated by the Kansas Corporation Commission. Under price cap regulation, CenturyLink's current local rates have been in place since 2006 and are \$17.73/month for residential service and \$28.66/month for business service. CenturyLink also is the carrier of last resort for the communities it serves and is obligated to provide local phone service to any requesting customer throughout its service area at its current local rates.

CenturyLink receives support from the KUSF but only in areas where the KCC has determined that the cost to provide local phone service far exceeds a benchmark cost. Specifically, the KCC established a statewide cost benchmark of \$29.16/month to provide voice service using a FCC cost model. Support from the KUSF is only received where the cost to provide basic voice service exceeds 125% of the statewide cost benchmark. In other words, CenturyLink only receives KUSF support for areas within the state that have costs greater than \$36.45/month. Approximately 55% of CenturyLink's customers reside in areas where the KCC determined the cost to provide service falls below \$36.45 and thus no KUSF support is received. The remaining 45% of CenturyLink's customers reside in high cost areas allowing CenturyLink to obtain KUSF support. The support CenturyLink receives for the high cost areas is on a per customer basis. If the customer moves or switches to a competitor, CenturyLink loses the related KUSF support. KUSF support is only for the provision of voice service and CenturyLink has not received any federal or state support to deploy its broadband network to the 92% of CenturyLink's Kansas customers having access to high speed Internet.

Helping Kansas Consumers

House Bill 2201 is a comprehensive reform proposal that reduces fees paid by consumers. Since the KUSF is funded by surcharges on telephone bills, any reduction to the KUSF will result in lower customer fees. CenturyLink customers currently pay \$1.85/month into the KUSF for local service with additional assessments for in-state long distance services. Wireless customers also pay into the KUSF. The wireless assessment is based on the amount of in-state voice service which results in a monthly fee of approximately \$0.50 - \$1.00 per phone (interstate long distance, data plans, texting services, and other non-voice services are excluded from the KUSF assessment). The legislative proposal will result in over \$10 million in reductions to the KUSF in the first year with additional reductions in subsequent years. These savings flow to all Kansas telecom customers in the way of reduced KUSF surcharges. Since all telecom customers pay into the fund – including traditional landline phone customers, cable-phone customers, wireless customers, and VoIP customers – all Kansas telecom customers will benefit with reduced fees.

Providing Stability for Telephone Companies Serving Rural Kansas

In addition to the significant consumer benefits, House Bill 2201 also provides stability to the companies that provide universal service throughout Kansas, helping to ensure that every Kansan will have access to a first class telecommunications infrastructure that provides excellent services at an affordable price. House Bill 2201 aligns Kansas universal service policy in a way that does not distort competitive equity, maintains fair funding obligations and matches universal service obligations to be consistent with funding received. The legislative proposal not only modernizes telecommunications policy for competitive providers but it also provides stability for regulated companies. This stability allows companies providing service in rural Kansas to make the multi-year investment and operational decisions that are required to operate a telephone network in high cost areas. CenturyLink desires to continue to provide service to all customers in its service area and the continued KUSF support allows CenturyLink's rural customers to purchase services that are reasonably comparable to urban services at reasonably comparable prices. There is no getting around the fact that parts of Kansas are high cost areas given the rural nature of the state. In spite of efficiently operating its network, CenturyLink serves areas that are not economically viable without support. CenturyLink's high cost services areas in Kansas often have just a few households per square mile. In these areas, the full cost of service would burden consumers and the support received from the KUSF allows CenturyLink to fulfill the universal service obligations established by the legislature.

An Unlikely Cast of Characters

As I mentioned above, this legislative proposal was crafted after months of discussion by an unlikely coalition of nearly 50 individual telecom companies that traditionally have opposing views on public policy matters. The proposal results in over \$10 million in KUSF reductions in the first year alone without harming any Kansas telecom company. The legislative proposal was developed at a time of great uncertainty in the industry and does not provide everything each coalition member sought; however, there is consensus that by doing nothing the KUSF will continue to increase and the level of uncertainty will only hamper future investments and business decisions.

Conclusion

CenturyLink urges you to support House Bill 2201 because it is a reasonable, measured pathway toward KUSF modernization and stability. When all the components are considered, the bill significantly reduces the size of the KUSF and reduces fees paid by all Kansas consumers, and at the same time continues to provide universal service to Kansans in high cost areas.

Thank you for your consideration.



Attachment A –

The legislative proposal bill includes components from the various telecom companies that are impacted by universal service reform. Each company is uniquely situated given its type of regulation, service territory, geographic location, etc. Specific to price cap regulated carriers, CenturyLink has proposed to codify into Kansas statute the following elements as part of a comprehensive, consensus proposal to stabilize the KUSF:

1. Cap total high cost KUSF dollar support for price cap regulated companies at 90% of 2012 levels for five years. HB 2201 does not allow price cap companies to obtain more funds from the KUSF than the company is eligible to receive based upon current KCC KUSF formulas even if such eligible funds are less than the capped amount. KUSF support is not frozen or guaranteed in any manner; rather, HB 2201 proposes a cap or ceiling. In the event a company qualifies for an amount less than the cap, there is absolutely no way HB 2201 allows for increased KUSF support. After the 5 year period, the amount of KUSF support would be subject to the cost review discussed below.

This provision would limit CenturyLink's ability to increase KUSF support once the components of the FCC's Connect America Fund are implemented for price cap regulated companies. By capping total high cost KUSF dollars at 2012 levels, CenturyLink is potentially forgoing over \$3.1 million in KUSF support because this amount, while due CenturyLink, is reduced from the total KUSF support payment by the KCC because federal high cost support is also received. This federal support will cease upon the implementation of the FCC's Connect America Fund and the amount reduced will drop to \$0 which would allow CenturyLink to be eligible for the \$3.1 million that is currently withheld. Reducing the cap to 90% of 2012 levels will result in the KUSF funding obligation to decrease by an additional \$1.3 million.

2. Freeze per line KUSF support amounts at existing levels (by exchange/by Zone) for price cap regulated companies. This provision would prohibit CenturyLink from seeking higher per line amounts in the event there was available room under the cap from item #1 above.
3. Reduces KUSF high cost support for areas where a price cap regulated company also receives FCC Connect America II funding. It is anticipated that the Connect America Fund will be implemented for CenturyLink and AT&T areas sometime in late 2013; however, it is not yet known how much federal funds will be available in these areas nor is it possible to determine the impact to the KUSF with this proposed provision. Using the best available information at this time,

2-5

CenturyLink anticipates this provision of the proposal will result in a significant reduction to the KUSF for CenturyLink – perhaps a reduction of 50% or more for the high cost portion. This amount cannot be guaranteed at this time given the uncertainty at the federal level but what is certain is the provision to reduce KUSF high cost support for areas where a price cap regulated company also receives FCC Connect America II funding.

4. Prohibits a price cap regulated company from receiving high cost KUSF support where the KCC has granted competitive classification and a non-subsidized wireline competitor is providing voice services. This provision is unlikely to materially reduce the overall size of the KUSF at this time given the fact that competitive companies generally enter markets that are high-density, lower-cost areas that generally do not qualify for KUSF support. The main value for this provision is to level the playing field for new entrants as the competitor will not have to compete against a company in an area that is receiving high cost support subsidies. This provision will not increase the KUSF in anyway and will result in an overall reduction which, over time, could potentially be substantive as competition expands.
5. The commission must undertake a review of the capped amount of KUSF and determine if a lesser amount is appropriate for support distributed after March 1, 2019, based on the forward looking costs of providing voice service using state-specific and company-specific inputs. The 5 year review is consistent with FCC framework.