Written Testimony Submitted by

CenturyLink

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Good morning, Chairman Godshall, Chairman Caltagirone, and members of the Consumer Affairs Committee. My name is Thomas Bailey, Director of State Regulatory and Legislative Affairs for CenturyLink. I want to thank you for the opportunity to testify on behalf of CenturyLink on the state of rural telephone and broadband service in Pennsylvania today.

CenturyLink is a leading provider of voice, high-quality broadband and entertainment services to both consumers and businesses in all or parts of 25 predominantly rural counties in Pennsylvania. At present, we currently serve approximately 168,593 access lines and employ over 380 individuals in the Commonwealth.

Nationally, CenturyLink is the third largest telecommunications company in the United States, offering local, long distance, data, high-speed internet, entertainment and wireless services across 37 states. Although CenturyLink serves a handful of urban areas, we serve numerous smaller and very rural towns.

In Pennsylvania, CenturyLink primarily serves small rural communities such as Blain, Blue Ridge Summit, Foxburg, Hewitt, Hopewell, and State Line. It also serves a few larger communities, such as Butler, Carlisle, Chambersburg, and Gettysburg. The nature of the rural service areas is similar for all rural telephone companies and the cost to serve the rural customers is similar as well.

**THE STATE OF PENNSYLVANIA RURAL TELEPHONE COMPANIES**

Pennsylvania rural telephone companies (RLEC) continue to be challenged by the competitive nature of telecommunications services. Although the number of customers who have chosen to move their traditional landline telephone service to wireless or cable competitors has slowed, it continues to reduce the number of customers on the rural telephone companies' network. This also means a continued reduction in the local service revenue to the RLECs. Since the RLECs are the only telephone service providers required to maintain a network to serve all customer locations in their designated service area, the loss of a customer and the associated revenue does not necessarily mean there is a corresponding
reduction in expenses to the RLECs, since the telephone facilities must continue be maintained to all locations regardless if there is an active paying customer there or not.

The second difficult issue resulting from the current state of telecommunications competition is the fact that many of the remaining RLEC customers are in rural areas that are simply uneconomical to serve. Competitors are not willing to offer service in these areas because there is no economic benefit. They can’t get a positive return on their investment.

RLECs understand that these rural areas are uneconomic to serve. In years past the RLECs have had State and Federal support, along with the averaging of the expenses for serving both high cost areas and the low cost areas. Under those regulatory programs the RLECs could economically maintain the cost of the entire network that included the high and low cost areas along with State and Federal support.

Today the Federal support for voice service is being or has been eliminated. State support has been greatly reduced and competitors have taken the majority of the low cost customers. The Pennsylvania Universal Service Fund (PA USF) is one of the last voice support mechanisms left for rural telephone companies in Pennsylvania. When you see how these dynamics are working in the RLEC market place, you can understand why many RLECs continue to broaden their list of service offerings to enhance their revenue take. Many are adding services such as video, broadband, network transport, wireless, data storage and cloud computing. The need for revenue stream diversification has led to the large number of mergers and acquisitions in the telecommunications/cable/wireless industry over the last few years. These will likely continue because any company that has a business plan primarily focused on basic local telephone service revenue will continue to struggle.

**BROADBAND SERVICES**

Broadband service has become a major focus of consumers, regulators and legislators alike. It has become a social entitlement issue as well. Pennsylvania approved and implemented the latest Chapter 30/Act 183 Broadband Legislation in 2004 with a minimum speed of 1.544 megabits per second (mbps) downstream and 128 kilobits per second (kbps)
upstream. It appears that Pennsylvania is the only state to have assured that a specific level of broadband service would be available to all customers by the end of 2015. To ensure compliance with the Chapter 30 broadband commitment, the Pennsylvania Public Utility Commission required RLECs to file reports showing the progress of deployment. Today customers do not contact CenturyLink because they can’t get the Chapter 30 required minimum broadband speed, they typically call because they want higher speeds. This is especially the case if they are in an outlying rural area.

Many people mistakenly believe that the FCC’s Connect America Fund Phase II (CAF II) should have provided the RLEC’s the funding necessary to provide at least a speed of 10 mbps down and 1 mbps up (10/1) to their location. They also believe that the CAF II 10/1 broadband service should be available now. Here are some of the significant facts of the FCC CAF II program:

-In Pennsylvania the program only applies to areas where the speeds are less than 10/1, since all customers have access to 1.5 mbps under the Chapter 30/Act 183 requirements.

-The CAF II program offers support to provide 10/1 broadband service to a predetermined number of households in Census Blocks (CBs) identified by the FCC model.

-The CAF II program was not intended to cover 100% of the cost of providing the 10/1 service at all the households in the identified CBs, it is an incentive for local telephone companies to expand their broadband service offerings.

-The CAF II program does not require that 10/1 service be provided to 100% of the households in the identified CBs but allows the participating local telephone company to choose the households the program indicates must be covered.

-The CAF II program build-out/speed-update period is multiyear and may run through 2021.
- Further, based on the FCC criteria, the CAF II program does not cover: (1) extremely high cost areas, (2) CBs with a unsubsidized competitor, (3) all households in CBs that qualify for the program and (4) CBs that are low cost, based on FCC costing models.

RLECs are continually challenged by rural customers who believe that any broadband speed that they want should be available, because of their limited understanding of the broadband funding process or their belief that broadband is an RLEC obligation. While broadband can be provided over the traditional copper voice network, it has many limitations that affect rural deployment. Distance and speed are the two most significant. The required Broadband speed of 1.544 mbps is limited to a distance of approximately 2 route miles from the nearest exchange office or extended exchange office field node. To get broadband speeds higher than 1.544 mbps typically requires a shorter distance than 2 route miles between the exchange office or fiber node and the customer’s location. This means to get the higher broadband speeds over the copper network, fiber must be extended further into the field, closer to the customer’s service location. In most cases placing or extending fiber to increase broadband speeds is not economical because of its high cost, the low household density in rural areas and the fact that there is no guarantee customers will buy the service. While there is much discussion on broadband availability, today less than 1 in 4 CenturyLink customers, who have 10/1 or higher broadband speeds available, actually buy the service.

RLECs would like to make broadband speed of 10/1 or higher available to everyone in their service areas. However, as previously noted, because of the cost of upgrading the network and the low buy rates of higher speed broadband service, it is not economically feasible to make the necessary network investments to all customer locations. In reality some customer locations will cost thousands to tens of thousands of dollars to reach with no expectation of ever recovering the expense of providing the service. The dilemma of managing economical deployment of rural broadband is not unique to Pennsylvania. Many states are reviewing support funds, grants and other incentives to expand broadband services today.

Further discussion, investigation and fact finding would be a logical place to begin a broadband expansion plan for Pennsylvania.