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# The COLR Challenge, Broadband, and Rural America

NARUC

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# CenturyLink - Access Line Density Comparison

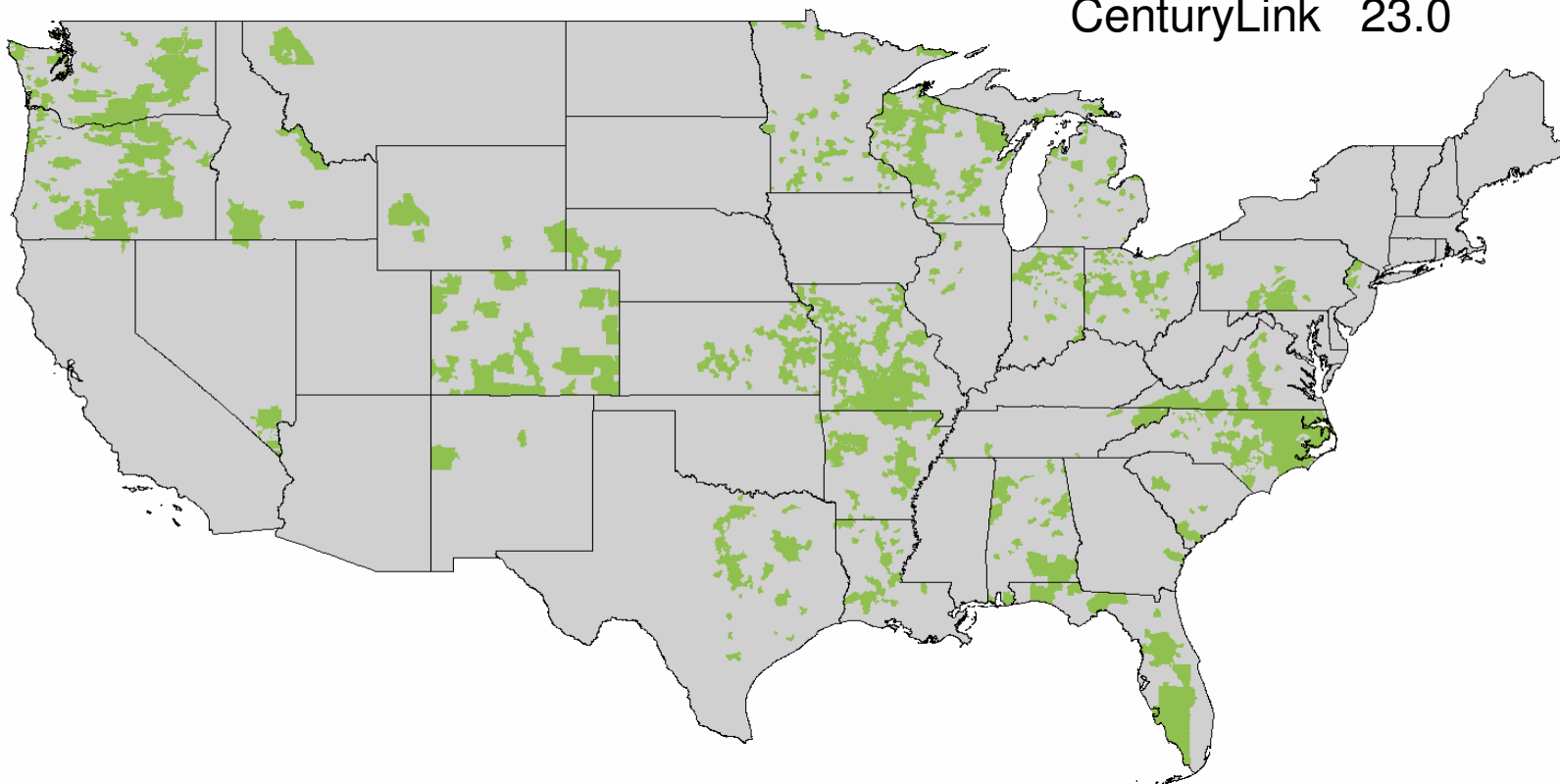
## Footprint Comparison:

AT&T	602,391 Square Miles
Verizon	372,060 Square Miles
Qwest	355,599 Square Miles
CenturyLink	325,293 Square Miles

## Density Comparison

### Loops per Sq Mi

AT&T	101.0
Verizon	110.9
Qwest	43.4
CenturyLink	23.0

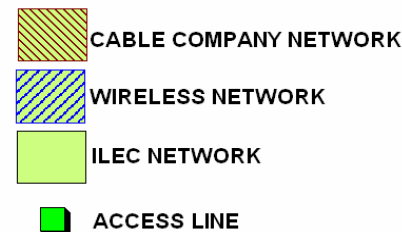
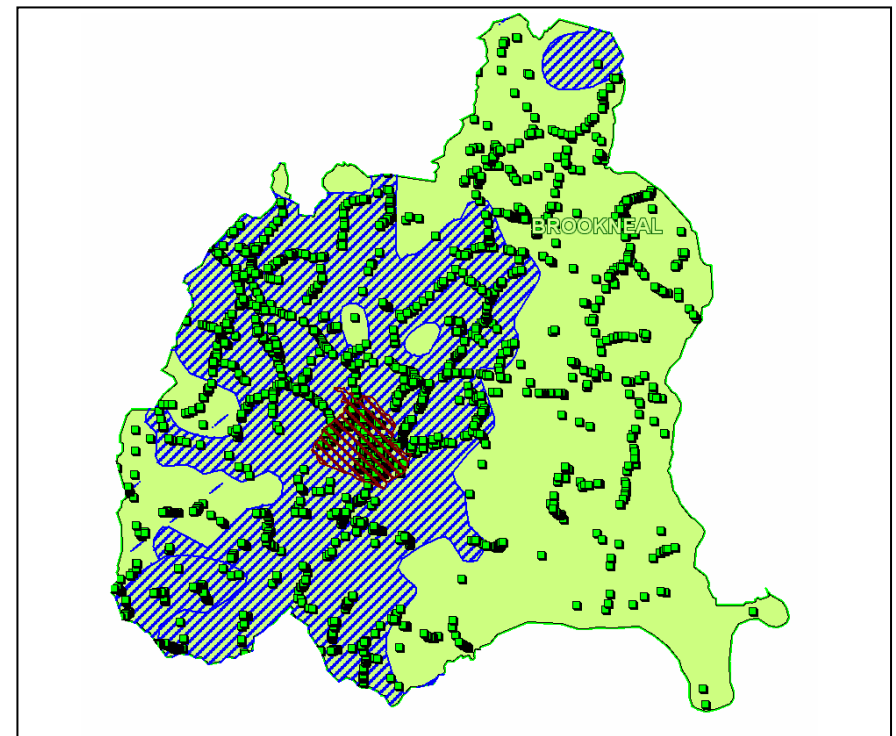


# Carrier of Last Resort Obligations Have Driven ILEC Networks to Lower Density Areas than Any Others

- ✦ Network deployed deeper into rural markets
- ✦ Deployment pursuant to state and federal obligations
- ✦ Continuing service obligations lead to ongoing cap ex
- ✦ Cost of service far exceeds business case

## Brookneal, Virginia

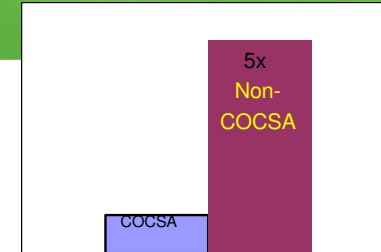
2,600 Access Lines



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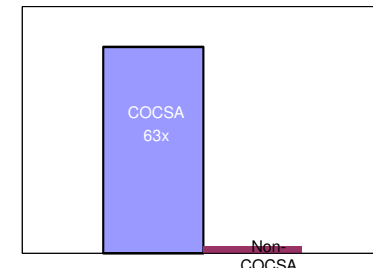
# Ladysmith, Wisconsin

## Investment per Line Ratio



The Investment per line that is required to serve customers outside of the Central Office Customer Serving Area is **5 times** greater than to serve the more dense COCSA.

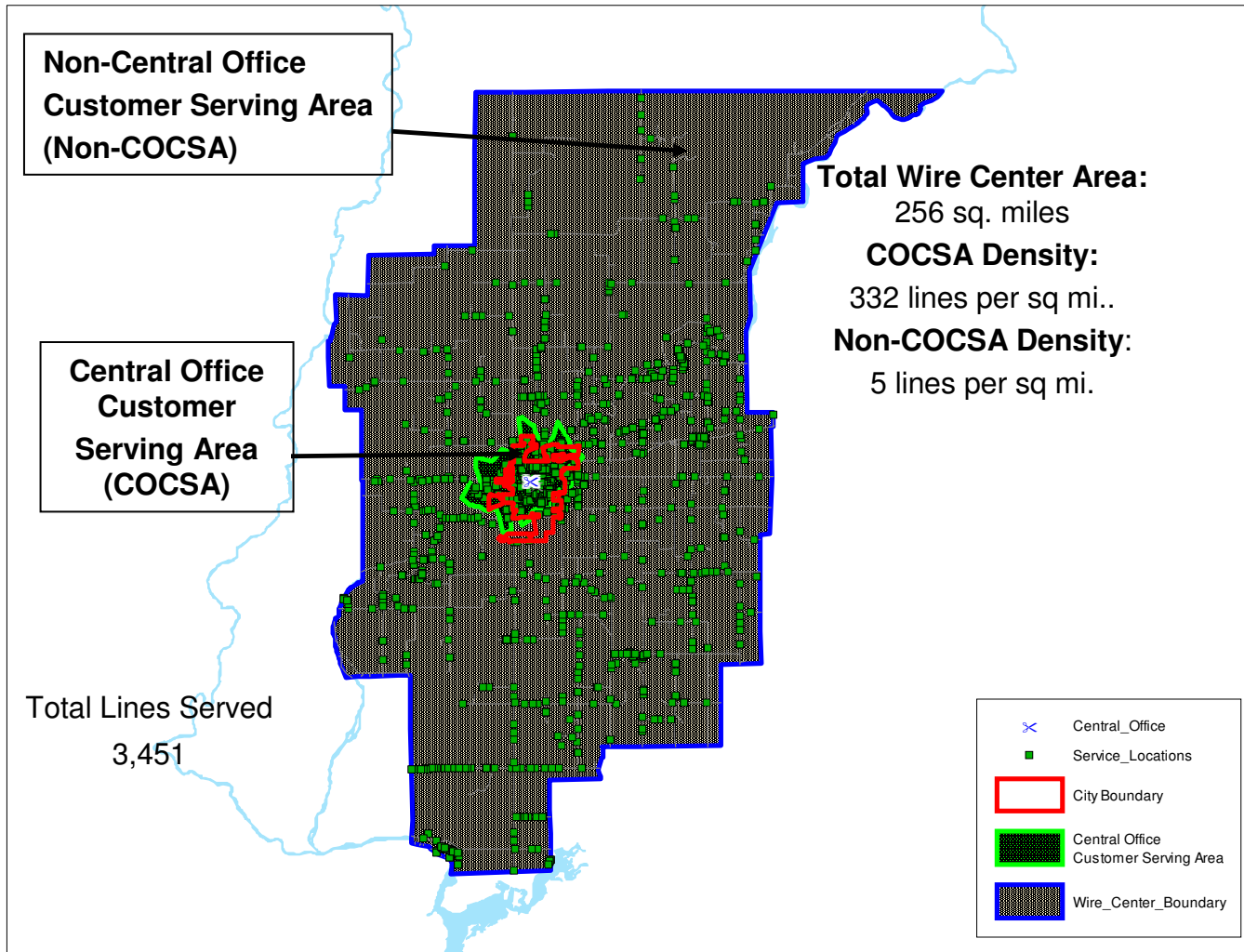
## Density Ratio



The COCSA is **63 times** more dense than the Non-COCSA area.



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# Voice COLR: A Success Story Taken for Granted?

- ✦ Success of program is apparent: 99+% availability
- ✦ Change is needed to address impact of competition
  - ✦ Pay off historical “mortgage” and ongoing “refinancing”
  - ✦ Properly fund any new requirements—no unfunded mandates
  - ✦ Cannot look to providers’ other products for cross-subsidy
- ✦ What has not changed:
  - ✦ The COLR obligation is tied to universal service principles. (Will those principles change?)
  - ✦ Substantial investment will be needed to maintain voice and broadband in highest cost areas.
  - ✦ Network costs are not going down
  - ✦ Demands for broadband commitments are increasing
  - ✦ Market forces will never fulfill public policy objectives for rural America as the business case is not there



# COLR and ILECs

- ✦ “Hotel California” effect—only ILECs bear the COLR obligation.
- ✦ Other competitors are free to pick and choose whom to serve, where to serve, and the pricing and terms of service.
- ✦ Support for COLR is fought over by competitors.
- ✦ There is increasing resistance by providers to supporting COLR service.
- ✦ ILECs have been good stewards of the COLR obligation and will continue to do so, given the appropriate reforms.



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# Trends Place Carriers of Last Resort At Risk

- ✦ Competition has eroded historical implicit support, impacting COLR ability to continue investing in broadband and maintaining current broadband
- ✦ Access lines, retail revenues, switched access revenues, and USF revenues are all declining for COLRs
- ✦ Rural market economics are largely unchanged; rural population density drives high costs
- ✦ COLRs are facing increasing attacks on access revenues and USF in the regulatory and legal arenas



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# Carrier of Last Resort and Broadband Deployment Depend on Intercarrier Compensation Reform

- ✦ Intercarrier compensation (ICC) reflects the ongoing cost of network maintenance and investment.
- ✦ Access charges often contain substantial support for local network elements.
- ✦ Intrastate access charges are vital in high-cost areas particularly where the state has no USF of its own.
- ✦ Erosion of access minutes and state-imposed rate reductions reduce COLR support and undermine broadband deployment.
- ✦ It is particularly critical that the historical treatment of IP-originated traffic continue until intercarrier compensation reform is complete.
- ✦ Otherwise, the ongoing COLR obligation—and the service upon which many consumers depend—is unfunded and at risk.



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# Unfunded COLR Obligation Example\*

- When the *entire* territory (study area) in a state is averaged, it is assumed that revenues earned in low-cost Franklin can be used to offset the cost incurred in serving high-cost Petroleum
- Migrating USF distributions from a study area basis can better align funding with costs - and (generally) away from competition
- Legacy EQ Indiana receives \$0 High Cost funding (except IAS access replacement) under the study area system; a wire-center system would fund the higher cost exchanges

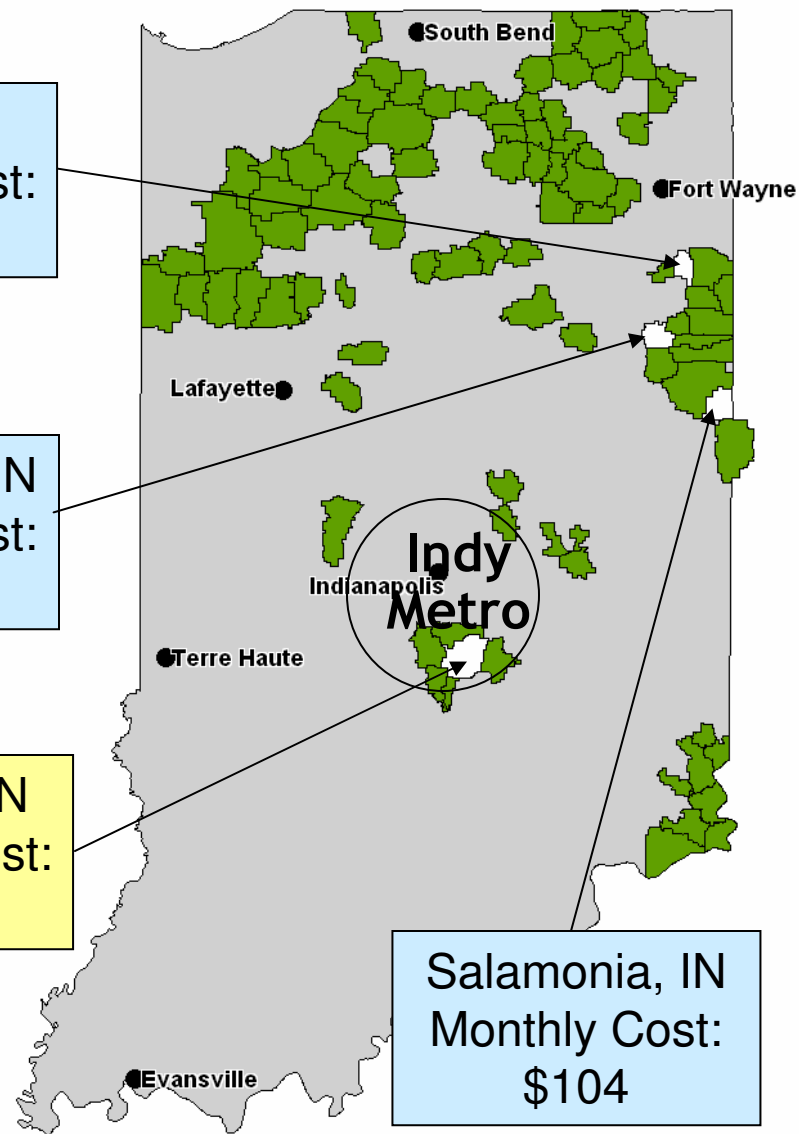
\*Costs for voice network; principle holds true for broadband

Preble, IN  
Monthly Cost:  
\$73

Petroleum, IN  
Monthly Cost:  
\$100

Franklin, IN  
Monthly Cost:  
\$28

Salamonia, IN  
Monthly Cost:  
\$104



# National Broadband Plan re: COLR

## Positives

- *Connect America Fund* proposal could promote more robust broadband to all Americans.
- Targets support to high-cost areas.
- Limits support to single provider.
- Requires provision of voice, as well as broadband.
- No unfunded mandates and no forced cross-subsidies.
- Deregulates unsupported providers.
- Broadens USF contributions base.
- Recognizes need for wireline networks.
- Promotes broadband adoption.



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# National Broadband Plan re: COLR

## Negatives

- Risk of stranded ILEC investment.
- Removes IAS support before replacement support system is in place.
- “Market-based” selection of *Provider of Last Resort* largely undefined.
- Uncertainty about cost model, lack of technological neutrality.
- Risk FCC could pick the wrong basis for distributions (e.g., counties vs. wire centers).
- Focuses on construction, downplays operation and maintenance.
- Creates interim uncertainty.



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# Trend Analysis: State View

- ✦ Total deregulation difficult to achieve
- ✦ Ongoing service obligations = COLR
- ✦ Service quality obligations also act as COLR
- ✦ Customer complaints? Expectation: Serve the customer
- ✦ Spin-off of Rural Properties: Expectation: Improve service/investment
- ✦ Acquisitions = Expectations
- ✦ Broadband expectations = new COLR



# COLR: Start With Desired Outcomes

- ✦ Long-term vision: 3, 5, 10 years from now?
- ✦ Service standards?
- ✦ Customer-driven obligations?
- ✦ Commission-driven obligations?
- ✦ Interconnection obligations?
- ✦ Lifeline obligations?
- ✦ Universal Service funding?

# Opportunities

- ✦ Making support explicit and targeting it to the highest cost portion of service areas
- ✦ Dedicated broadband/wireless funds
- ✦ Broadband commitments for receipt of funding = one provider for rural markets
- ✦ Similar obligations for all ETCs in a given area
- ✦ Reconcile some state service obligations with today's environment

# What to Watch For

- ✦ “DNA” of providers
  - ✦ Willingness to serve and make necessary investment = key differentiator
  - ✦ “Rhetoric” vs true Rural Focus
- ✦ Solutions-based approach to rural service
- ✦ Public Interest Track record:
  - ✦ Public safety
  - ✦ Reliability/Service quality
  - ✦ Service Restoration (Katrina)

# Conclusion: COLR Realities

- ❖ Pressure on existing regulated revenues.
- ❖ Competitive issues and consumer price tolerance in competitive markets.
- ❖ Incumbent carrier of last resort (COLR) obligations.
- ❖ Escalating demand for affordable and faster broadband in highest cost markets.
- ❖ Long-term view of what needs to change to meet telecommunications goals.



## ⑩ *Changes and the Reality of Rural Economics...*

- While many forces are changing our industry, cost characteristics of serving rural areas haven't changed.
- Distance coupled with lack of density are key cost drivers.
- Bringing broadband to remaining rural areas adds additional costs.
- We can no longer rely on implicit subsidies to fund rural America.
- Instead, policymakers must provide explicit support to achieve economic viability of high cost service mandates.