

Keeping Consumers Connected

Washington State and Universal Service

WUTC Workshop

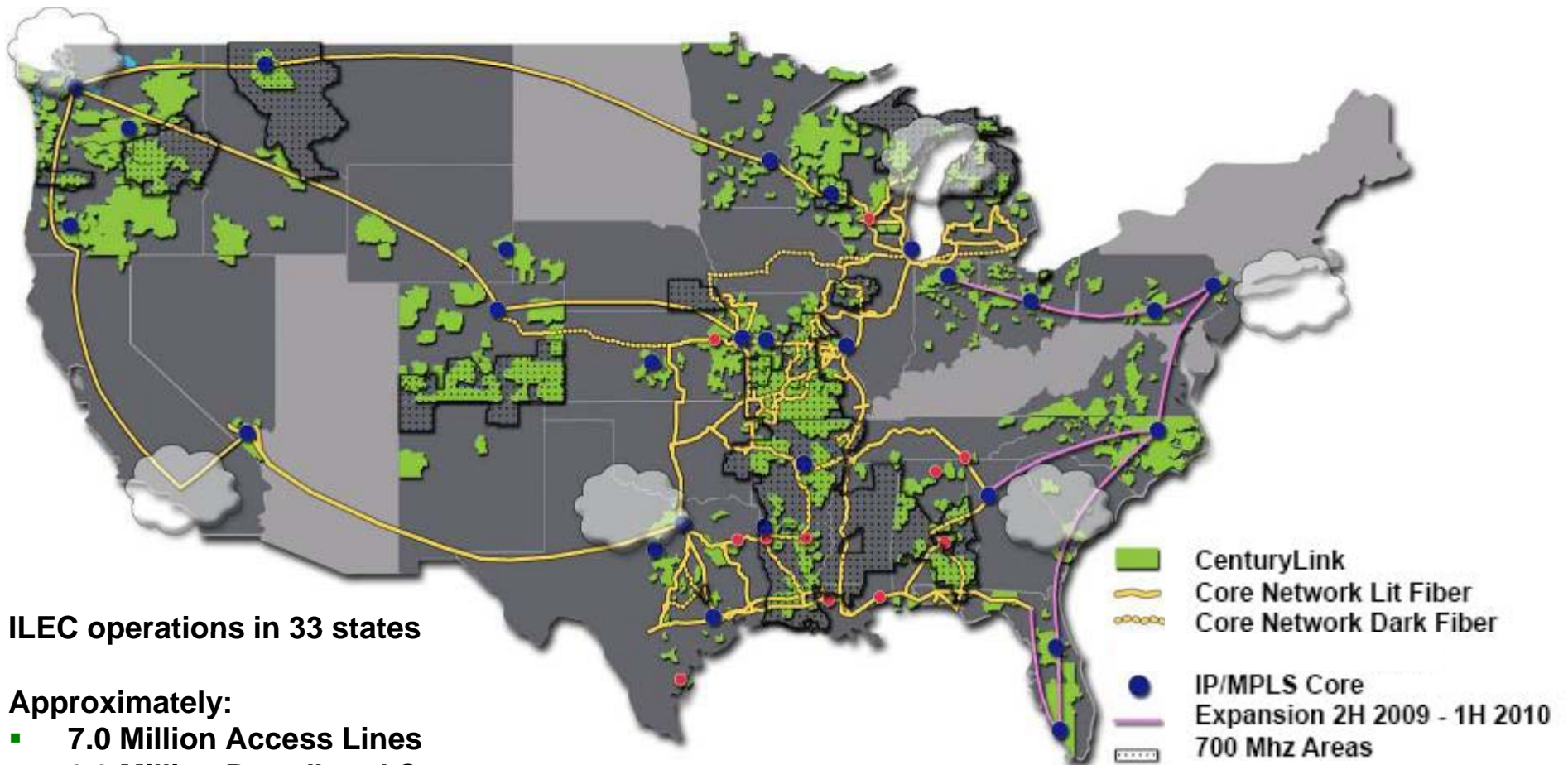
May 5, 2010

John F. Jones
CenturyLink
Vice President State Government Affairs

Issues Identified for Workshop Discussion

- Changes affecting telecommunications industry that implicate universal service in Washington.
- Factual explanations of the scope of the problem.
- Potential changes to existing mechanisms or new approaches that should be considered for addressing universal service prospectively.

CenturyLink: National Footprint






CenturyLink Service Areas



Washington Statistical Profile

Employees	420
2009 Annual Payroll	\$30,248,000
Total Investment	\$937,825,000
Access Lines	200,000
Access Lines, DSL-Enabled	86%

-  CenturyLink Wireline exchanges
-  Core Fiber (Lit)
-  Core Fiber (Dark)

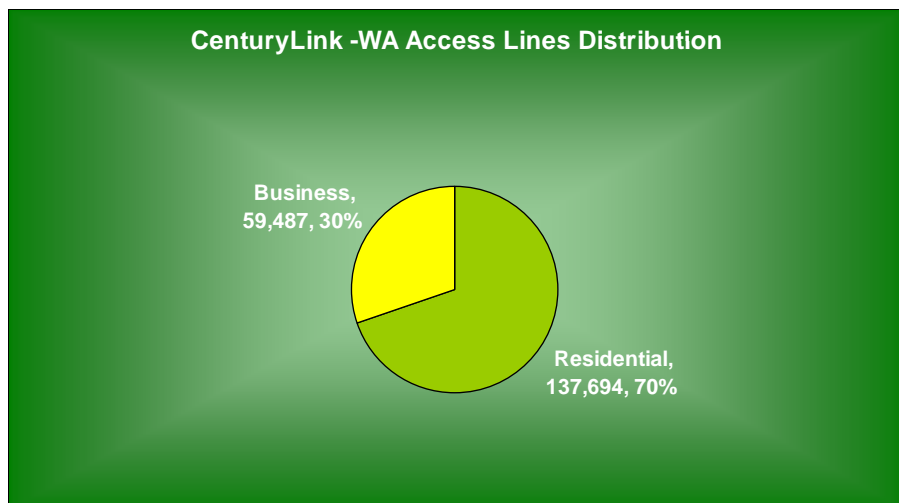


CenturyLink™

CenturyLink – State of Washington

Washington State	CenturyLink In Washington
Population Density: 97.2 persons/sq mi	Population Density: 29 persons sq mi
Median HH Income: \$58,081	Median HH Income: \$45, 428
Median Age: 44 yrs old	Median Age: 58 yrs old

56% of CenturyLink exchanges do not have a cable presence.



...CTL average local line rates for Washington:

- R1 service averages – \$13.80 per line
- B1 service averages – \$28.36 per line

...Compared to the national local line charge averages of:

- R1 service national average – \$14.53 per line
- B1 service national average - \$26.95 per line

Industry and Marketplace Changes Have Significant Implications for Universal Service in Washington

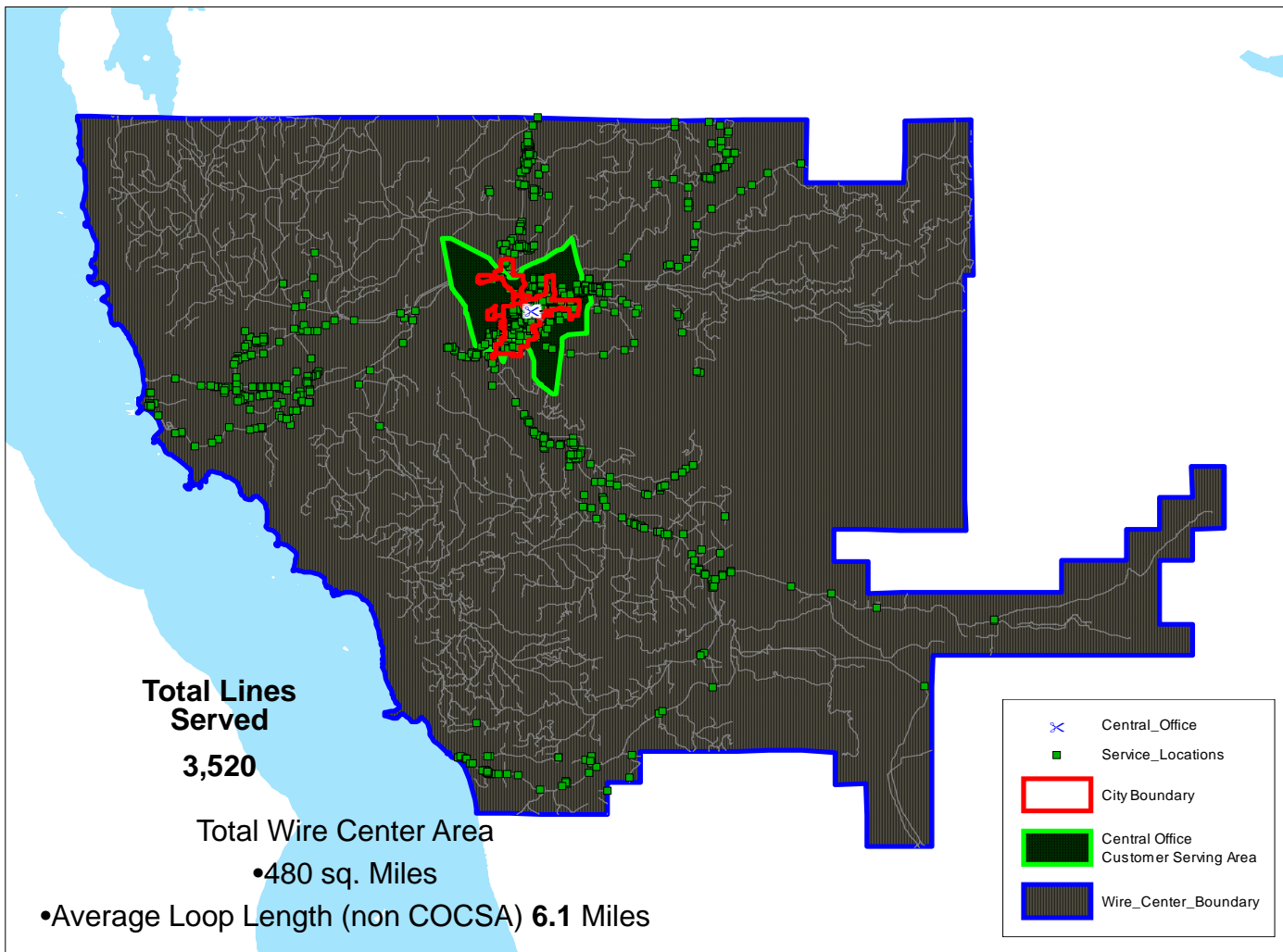
- Pressure on existing regulated revenues
- Competitive issues and consumer price tolerance in competitive markets
- Incumbent carrier of last resort (COLR) obligations
- Escalating demand for affordable and faster broadband in highest cost markets
- Long-term view of what the State needs to achieve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

Changes and the Reality of Rural Economics...

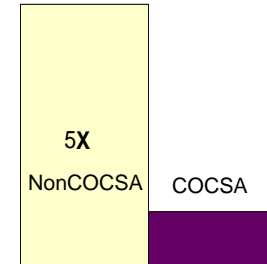
- While many forces are changing our industry, one thing that hasn't changed is the cost characteristics of serving rural areas.
- Distance coupled with lack of Density are key cost drivers
- Bringing broadband to remaining rural areas adds additional costs.



Forks, Washington

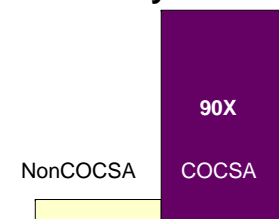


Investment per Line Ratio



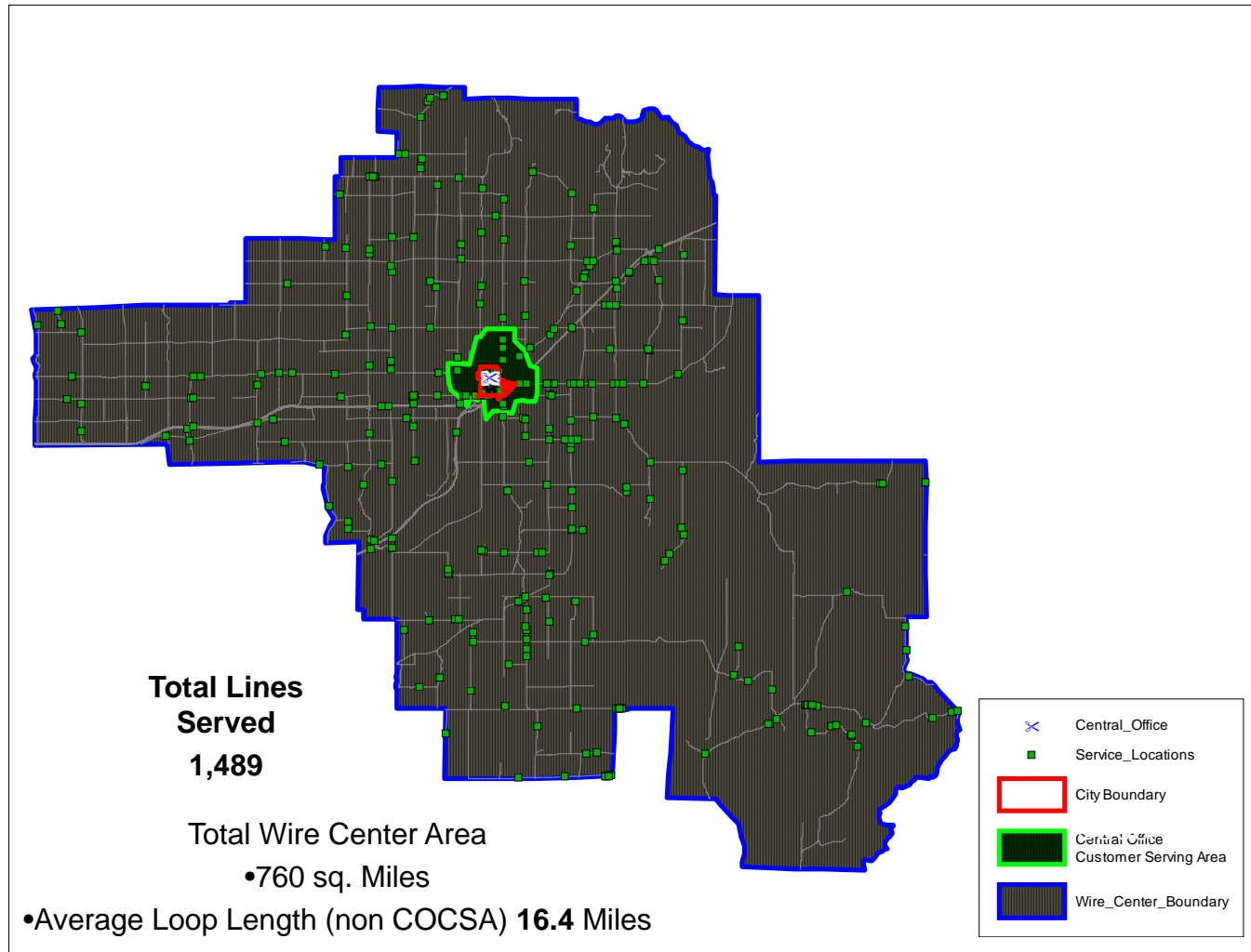
The Investment per line that is required to serve customers outside of the Central Office Customer Serving Area is **5 times** greater than to serve the more dense Central Office Serving Area.

Density Ratio

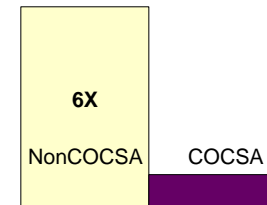


The Central Office Customer Serving Area is **90 times** more dense than the non Central Office serving area.

Ritzville, Washington

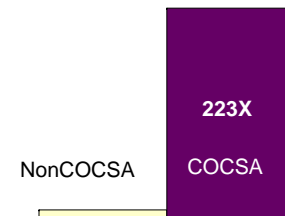


Investment per Line Ratio



The Investment per line that is required to serve customers outside of the Central Office Customer Serving Area is **6 times** greater than to serve the more dense Central Office Serving Area.

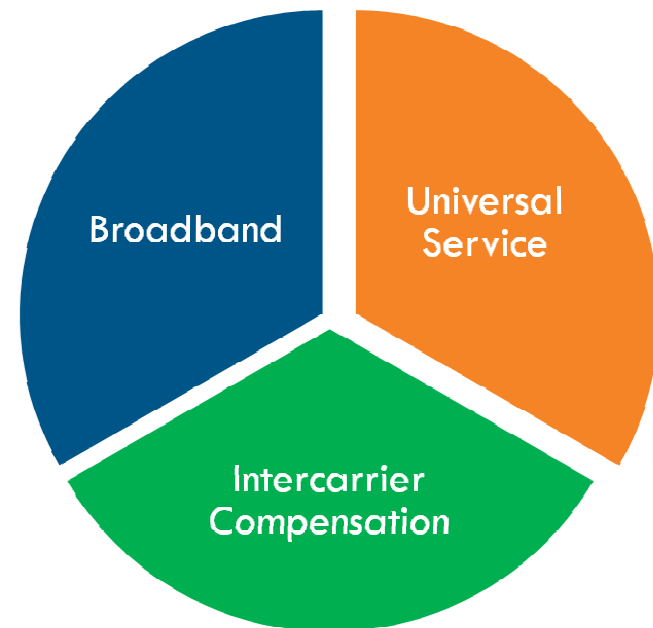
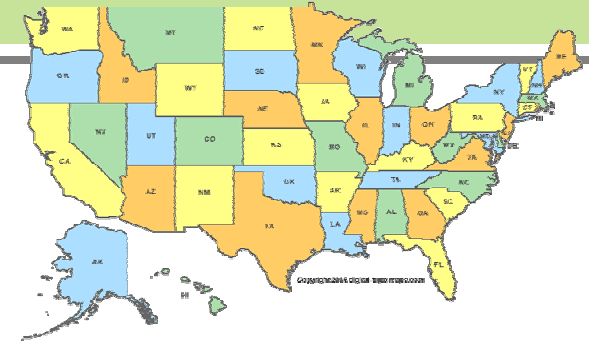
Density Ratio



The Central Office Customer Serving Area is **223 times** more dense than the non Central Office serving area.

The State of the States...

- Federal activity casting doubt on future role and timing.
- Lack of consistency regarding telecom regulation.
- Long-term telecom planning?
- Legislatures increasingly active on telecom reform issues.
- Regulatory parity still not a reality for most ILECs.



Today's Telecom Environment

Precedent in Other Reforms

- Majority of other state reforms have involved access-rate reductions AND universal service funding.

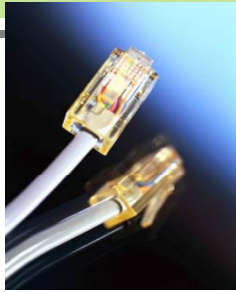
State	Access Reduction	Comments	Reference
AR	Yes, local rate increase to offset	State law that LECs may elect alternative regulation, freezing intrastate access rates for 3 years; then LEC can raise local or intrastate access rates so long as rate remains below an inflation-based rate cap	ACA § 23-17-407
CA	Yes, local rate increase to offset	Various access charge reforms to cut non-traffic sensitive rate elements from intrastate access, with in local service rates.	See, e.g., Decision 04-12-022; Decision 06-04-071
IL	Yes, state USF offsets access reduction	State law states that the Illinois Commerce Commission cannot create a state USF until existing implicit subsidies, including those in intrastate access, have been identified and eliminated.	220 ILCS 5/13-301(e)(2)
KS	Yes, state USF and local rate increases offset	Statutory reduction in intrastate switched access charges (reduced to interstate levels) offset by rebalancing of local residential and business rates and the creation of a state universal service fund.	Kan. Stat. Ann. § 66-2005(c)
ME	Yes, local rate increase; review potential harm	ME statute requires that intrastate switched access rates are equal to interstate switched access as of Jan. 1, 2003. Commission must take into account potential harm to customers hurt by increases. Support for high costs above those of largest carrier.	Maine Rev. State. Ann. § 35-A §7101-B
NE	Yes, state USF and local rate increases offset	Intrastate access rates reduced in proceeding that created intrastate USF rates, and in setting bench-marked local service rates. Legislation and PSC acknowledged intrastate access was implicit support.	See Application No. C-1628 (rel. Jan. 13, 1999)
OK	Yes, state USF offsets	Oklahoma Telecom Act of 1997 required SWBT (now ATT) to set intrastate access at parity with interstate access rates, offsetting lost access through the Oklahoma Universal Service Fund.	17 O.S. § 139.103.D.3; OAC 165:59-3-11
OR	Yes, state USF offsets	In creating the Oregon USF (OUSF), the commission required LECs to reduce intrastate access rates offset by recovery from OUSF.	ORS § 759.425; UM 731, Ord. No. 00-312 (rel. 6/15/00); UM1017, Ord. No. 03-082 (rel. 2/3/03)
PA	Yes, state USF and local rate increases	PA USF partially offset reductions in intrastate switched access and intraLATA toll rates with increases in user rates and payments from Pennsylvania Universal Service Fund. The current PUSF contribution factor is 1.0801709% of a carrier's monthly intrastate revenues.	Doc. No. M-00001337; Doc. Nos. P-00991648, P-00991649, Opinion and Order (rel. 9/30/99)
SC	Yes, state USF to offset	SC statute requires state commission to create state universal service fund to make whole those carriers elect to reduce their intrastate switched access rates.	SC Code Ann. § 58-9-280(L) & (M); Doc. No. 69-318-C, Ord. No. 2001-396 (5/16/01)
TX	Yes, state USF to offset	State USF set up to offset access rate cuts; contribution factor is 4.4% of intrastate revenues; fund size approximately \$550 million (\$405MM to large LECs — Verizon, AT&T, Embarq; \$90MM to RLECs).	PURA § 65.201
UT	Yes, local rate to offset	Utah statute allows pricing flexibility for LECs, allowing higher end user rates, but only after reducing intrastate access (and other items) as approved by commission. State USF since 1988.	UCA 1953 § 54-8b-2.3(2)
WI	Yes, state USF and local rate to offset	State statute requires price-regulated LECs to reduce intrastate access to parity with interstate access, offset by possible increases in end user rates and state USF-like surcharges.	Wis. Stat. § 196.196(2)(b)



Approaches that should be considered for addressing universal service in Washington

- **Balanced, transitional approach to implementing universal service goals is imperative**
 - **Must complement access reform measures and rural broadband investment incentives.**
 - **USF should be considered a bridging mechanism to successfully implement reform**
- **The Art of the Possible: Reform in Georgia and Michigan**
 - **Legislative initiatives which balance access reform with universal service support needs.**
 - **Reasonable transition plans and time periods for reducing intrastate access rates.**
 - **Legislation establishes state universal service funds to provide replacement for necessary support currently provided by intrastate access revenues.**



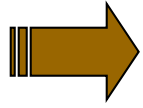


The Challenge We All Face: Reconciling Reform with Broadband Infrastructure Goals

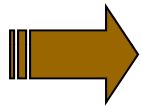
- Continued investment in rural networks is critical for economic development, education and high-tech employment.
- Rural carriers recover a significant portion of their infrastructure costs from: 1) payments from other carriers who utilize the network; 2) customers; and 3) USF-like funds
- **Key question: Will proposed state and federal reforms achieve the goal of continued rural broadband investment?**



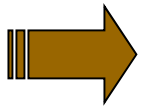
Pitfalls to Avoid



ABNORMALLY HIGHER CONSUMER COSTS: Disproportionate monthly service rates that may force many citizens in rural areas either off the network or push broadband services out of their reach.



EMPLOYMENT IMPACTS: Stymied economic development efforts that are dependent on new and expanding telecommunications services and may result in job losses in the sector.



PRESSURE ON BROADBAND INVESTMENT: Rural telecom providers are working to bring broadband service – and the economic stimulus that goes with it – across their service areas. Inadequate network reimbursements by carriers that still use our network will hamper this investment.



Key Questions

- **Given a changing regulatory, technology and competitive environment, how does the State of Washington successfully transition to a new era of universal broadband availability and maintain important public policy goals?**
- **How will the State's universal service policy advance affordable broadband services and their adoption by customers in high cost areas?**
- **What mechanisms will be needed to keep Washington consumers connected and bridge important transition gaps for rural-focused incumbents to deliver affordable, high-quality services in high-cost areas?**



Baseline Principles for Success

Successful Reform = Good Outcomes for All Stakeholders

- As regulators consider Reform Policy, several key components should be included:

Key Goal:

Create a clarified and predictable approach that:

1. Benefits consumers;
2. Attracts private investment in support of broadband deployment; and
3. Enables states to achieve long-term telecommunications objectives for public safety, telemedicine, COLR and education.

- A long-term view of desired telecommunications outcomes for the State
- A balanced, transitional approach that allows consumers and providers to adjust to an evolving telecom environment
- Retail rates that do not create rate shock or exceed competitive levels
- Funding mechanisms that supports high cost areas and help to bridge critical transitions
- Incentives to reduce arbitrage and phantom traffic
- Reasonable carrier rate levels that are sufficient to create a balanced, overall revenue structure
- Infrastructure investment that supports state objectives