

CenturyLink Testimony
Before the Senate Committee on Business and Commerce
Tuesday, October 9, 2012

Mr. Chairman, to begin, I'd like to thank you and the Committee for allowing me the opportunity to be here to discuss this very important issue. I am Scott Stringer with CenturyLink and Universal Service is very important to CenturyLink and its rural Customers, and Texas overall.

Senators, the situation we are facing today can actually be summed up in three simple statements:

First, the need for a strong and ongoing Universal Service Fund has *never been greater* than it is today.

Second, the competition we're seeing in the telecommunications market—both now and coming down the road—*does not eliminate or diminish this need* in any way. In fact, it makes the need even more urgent.

And third, *other changes* we're experiencing in the industry—such as adjustments regarding Federal universal service support—are *threatening the ongoing viability* of the networks here in Texas, networks that provide not only basic residential and business service but broadband to thousands of rural residents and businesses in the state.

With regard to my first point, it is an unfortunate but undeniable fact that certain communities in Texas are simply uneconomic to serve. The reason is straightforward: These markets are characterized by very small populations spread over very large geographic areas. And for *any* network technology—wireline or wireless, fixed or mobile—as customer density decreases network costs increase; a point is reached where the cost of providing service exceeds any revenues that the service could generate. And in many of these markets the situation is made

more difficult by dwindling rural populations, and even constantly-improving technology is not enough to make these communities economically viable.

For example, in a community such as Charco, in Goliad County, CenturyLink serves about 93 households spread across 95 square miles of land area. Not surprisingly, the monthly cost of providing basic telecommunications service in Charco is 10 times the price that we charge for that service. If CenturyLink were forced to charge the residents of Charco a price that actually covered the cost of providing their service it's likely that no Charco resident would find such a rate reasonable or affordable. So it's also not surprising that competitive providers of telecommunication services, in general, have passed Charco—and other similarly-situated communities—by.

In many other rural communities, competitive providers may be present but have actually aggravated the need for high cost support by selectively serving only the lowest-cost portions of the market. CenturyLink's Frankston wire center, which spans Cherokee, Anderson and Henderson counties, contains households across more than 175 square miles of land area. But the resident cable companies serving Frankston—Northland Cable and Suddenlink Communications—serve only 20 square miles and 7 square miles, respectively, of that 175 mile territory.

Now, it doesn't really matter whether these companies have strategically chosen to limit their service area or their service area is limited by franchise arrangements. The effect of this phenomenon is to increase the need for explicit high-cost support, since it is no longer possible for the Provider of Last Resort to offset the cost of serving the outlying (uneconomic) portions of Frankston with the relatively lower-cost, "in-town" areas.

So on one hand, we have an ongoing and increasing need for high-cost support due to market characteristics and selective competition. And on the other hand, we have recent activity at the Federal level that has set into motion a process that will, in the near future, take millions of

dollars of Federal high cost support away from Providers of Last Resorts in Texas. CenturyLink has estimated that over the next few years it will lose approximately five million dollars in explicit Federal support funds, funds that are currently being used to maintain our network in Texas. At the same time, and to make matters even more urgent, the continued erosion of our access charge revenues is chipping away at this implicit support that has, historically, helped us to maintain our networks as well networks that provide not only *basic* voice service but *broadband* services throughout some of the most rural portions of this state.

So while parties in this room may disagree as to some specifics—the proper size of the Texas High Cost fund, or the proper benchmark to use—there really can be no disagreement over the ongoing need for the fund. Providing truly “universal” service to every resident and business in the state is costly, challenging, and not a simple task. But it is what the residents of Texas—rural and urban —need and deserve. To accomplish the public policy goal of reasonable rates for basic local telecommunications service in rural and high cost communities a healthy and sustainable Universal Service Fund is required. Thank you.