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***Testimony in Opposition of House Bill 2563
Requiring Broadband Providers To Contribute To The KUSF And Authorizing
Disbursements From Such Fund To Promote Broadband Development***

**Testimony by CenturyLink
John Idoux, Kansas Governmental Affairs Director
Before the House Energy, Utilities and Telecommunications Committee
February 5, 2018**

Thank you Chairman Seiwert and members of the Committee. My name is John Idoux and I am CenturyLink's Director of Governmental Affairs for Kansas. I appreciate this opportunity to express CenturyLink's opposition of House Bill 2563 as it (1) fails to promote broadband development, (2) creates a state broadband grant fund that lacks proper structure and (3) advances a new state program that will certainly result in prolonged legal challenges all while creating false hope of rural broadband availability.

Please refer to CenturyLink's Introductory Testimony dated February 5, 2018 for a general introduction of CenturyLink including CenturyLink's commitment to rural broadband deployment and current challenges faced in deploying broadband further into rural Kansas.

The Need for a State Broadband Fund

The main concept of House Bill 2563 is the creation of a state broadband grant program for rural broadband deployment and maintenance. If properly structured and administered, a state broadband grant program has the potential to promote rural broadband deployment and CenturyLink is not opposed to this concept. Indeed, generally accepted economic principles and business models are serious challenges for private investment to deploy broadband networks in the most rural portions of the state without some sort of public-private partnership.

In CenturyLink's view, House Bill 2563 does not meet the criteria of a properly structured state broadband grant program, which is the overall basis of CenturyLink's opposition. I will provide a brief overview of CenturyLink's perspective of a properly structured state broadband fund and will highlight several of the deficiencies and concerns CenturyLink has with the proposed bill. While I will not discuss each and every concern CenturyLink has with HB 2563, it should not be concluded that CenturyLink agrees with the aspects of the bill that I do not specifically discuss.

The Need for a Properly Structured State Broadband Fund

A properly structured state broadband grant program would ensure public funding assistance goes only to areas unserved by a fixed broadband provider and public funding does not compete where private investment has already deployed broadband facilities or where other government assistance is targeted. To ensure this objective, there needs to be a defined challenge process established for current broadband providers with facilities within or near the grant area similar to the process undertaken by the FCC in its Connect America Fund (CAF) initiative. Another aspect with a properly structured program is a transparent competitive bidding process that awards qualified applicants that will serve the greatest number of customers with speeds of at least 25 Mbps download and 3 Mbps upload at the lowest cost. HB 2563 lacks many of these criteria.

A properly structured state broadband grant program would also have a proper funding source. Ideally, funding would come from the state general fund as this sort of public-private partnership to promote the basic needs of rural residents that cannot be served by market-based principles is one of the primary roles of state government. Indeed, other states fund their state broadband grant program from the state general fund.

There are other ways, of course, to properly structure the funding source for a state broadband grant program but HB 2563 lacks such proper structure. HB 2563 arbitrarily repurposes the existing KUSF program by penalizing current KUSF participants 25% of cost-based support without addressing the underlying carrier of last resort obligations which are mandated in state law. The current KUSF high-cost program provides vital cost support for wireline voice services. It is administered by the KCC to ensure a proper cost-structured approach and includes firm caps for KUSF support. In addition to KCC cost proceedings and audits, the entire KUSF program was recently reviewed by Legislative Post Audit without any major audit findings.

CenturyLink suggests that if a voice support initiative is no longer needed, that this determination is separate and distinct from the need to establish a state broadband grant program. HB 2563 simply guts the current KUSF program that supports landline voice service to fund a new broadband initiative without any determination that a voice initiative is no longer justified. This “rob Peter to pay Paul” methodology contained within HB 2563 neither promotes broadband deployment nor serves the public good. If policymakers conclude that wireless voice service is ubiquitous – or ubiquitous enough – in rural Kansas, and that the benefits of continued wireline voice support are outweighed by the costs and consequences of discontinuation of wireline voice support, then policymakers must reexamine this aspect of KUSF. Any reexamination, however, needs to also examine the entire KUSF compact for companies to serve as a carrier of last result in exchange for sufficient support. HB 2563 simply guts the funding while leaving all the obligations and

commitments in place. The need to establish a state broadband grant program is a separate determination from the authorized policy goals of continued wireline voice support although HB 2563 makes that determination interchangeably and arbitrarily.

Being fully aware of the budget challenges facing the State, CenturyLink submits that KUSF could be a potential funding source for both continued wireline voice support and a state broadband grant initiative if properly structured. The overall KUSF has declined significantly over the past few years and is now at an all-time low of \$41 million (at one time the fund was nearly \$100 million). If policymakers conclude a reasonable amount of KUSF should be set aside for a state broadband grant program, the process would be relatively straight-forward to direct the KCC to add these funds (this was the process used when the legislature funded Kan-Ed at \$10 million). While CenturyLink does not have overarching concerns about the overall size of the KUSF at this time, CenturyLink is concerned that the contribution methodology based on a percentage of intrastate revenues may no longer be sustainable and that a properly structured funding mechanism may need to look at a per connection assessment. HB 2563 attempts to address this contribution concern by including content providers; however, CenturyLink suggests that this approach will certainly result in impacted companies challenging the tax in court. Another straight-forward way to fund a state broadband grant program would be to simply combine a per connection fee with the current E911 fee and modify the description to appropriately inform the constituents of the purpose of the increased fee. This change would create a funding mechanism that includes all voice service providers, and is technology neutral, easier to implement and easier to administer. Utah and Nebraska are both changing to this methodology, and several other states are considering similar changes.

Conclusion

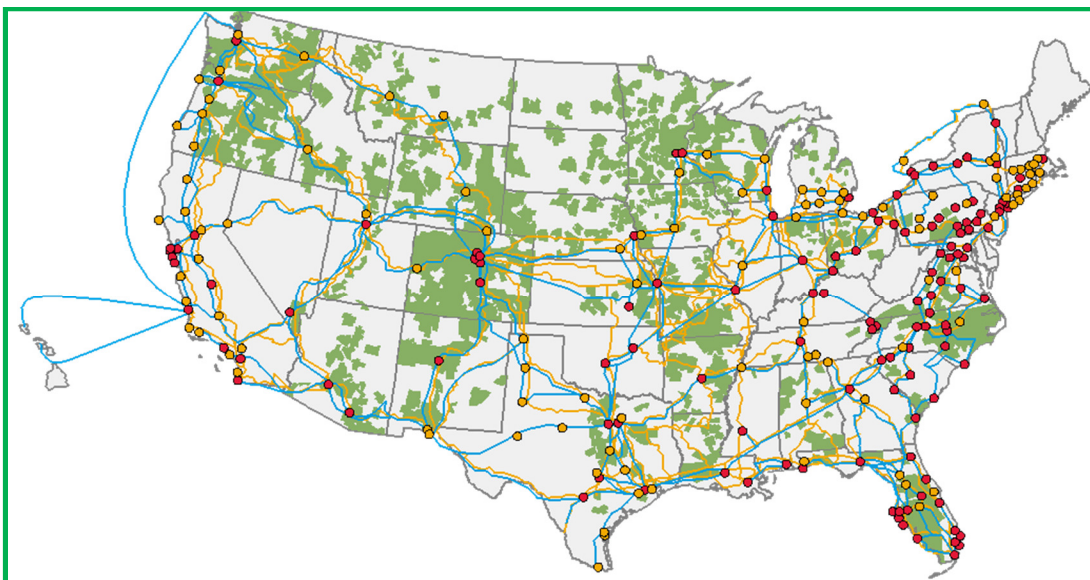
House Bill 2563 (1) fails to promote broadband development, (2) creates a state broadband grant fund that lacks proper structure and (3) advances a new state program that will certainly result in prolonged legal challenges. Legislating a poorly structured state broadband fund is not in the public interest and will create a false hope for rural broadband availability. For these reasons, CenturyLink urges the Committee to reject House Bill 2563.

**Introduction of CenturyLink
Before the House Energy, Utilities and Telecommunications
February 5, 2018**

Thank you Chairman Seiwert and members of the Committee. My name is John Idoux and I am CenturyLink's Director of Governmental Affairs for Kansas. I appreciate this opportunity to introduce myself and discuss CenturyLink's commitment to rural Kansas. This portion of my testimony will focus on CenturyLink's deployment of broadband service in Kansas and will also discuss some of the challenges CenturyLink faces in deploying broadband in rural areas of the state. Separate testimony is provided for each of the bills under consideration.

CenturyLink Introduction


CenturyLink is the second largest U.S. communications provider to global enterprise customers. With customers in more than 60 countries and an intense focus on the customer experience, CenturyLink strives to be the world's best networking company by solving customers' increased demand for reliable and secure connections. The company also serves as its customers' trusted partner, helping them manage increased network and IT complexity and providing managed network and cyber security solutions that help protect their business.



CenturyLink In Kansas

CenturyLink has provided communications services in Kansas under various names since 1909 and today serves rural Kansans in 119 communities including Junction City, Fort Riley, Gardner, and 111 communities with fewer than 1000 residents. CenturyLink maintains a significant workforce in Kansas with nearly 1250 employees and has nearly \$650 million in Kansas investment. CenturyLink also has more than 1500 route miles of long-haul fiber optics throughout Kansas, including three east-west routes and two north-south routes and fiber rings in metro areas.

Kansas Statistical Profile	
<input type="checkbox"/> Employees	1250
<input type="checkbox"/> 2015 Annual Payroll	\$100 million
<input type="checkbox"/> Total KS Investment	\$630 million
<input type="checkbox"/> Access Lines	65,000
<input type="checkbox"/> Communities Served	119
<input type="checkbox"/> Density (Houses/Sq mi)	10.5

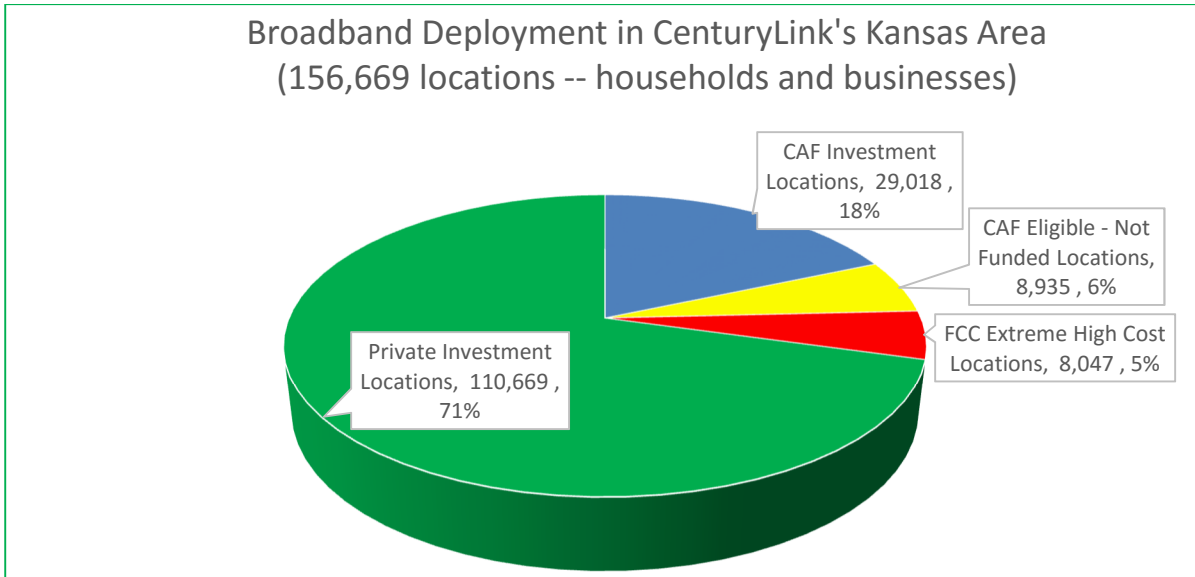


The map displays CenturyLink's service network in Kansas, with yellow lines representing fiber routes connecting major hubs like Colby, Hays, Salina, Junction City, Emporia, Topeka, Hiawatha, Kansas City, Gardner, Burlington, Fort Scott, Dodge City, Hutchinson, Newton, and Wichita. Green shaded areas indicate the 119 communities served by the network.

The State of Broadband in CenturyLink’s Area

CenturyLink has deployed more rural wireline broadband in Kansas than virtually any other provider and has not received any state support to deploy its expansive broadband network. CenturyLink first deployed broadband facilities in 2002 and by 2008 had fiber deployed to all 119 communities served. Over the past decade, CenturyLink has continued to invest in rural Kansas by continually augmenting capacity and speeds as well as deploying fiber facilities further into rural areas beyond the rural city limits. Additionally, CenturyLink deploys advanced technologies such as bonded pairs and enhanced extended reach to further extend broadband availability in a cost-effective manner. Today, nearly 85% of Kansas customers have access to some level of high speed broadband with over 66% of locations having access to speeds that exceed 10 Mbps downstream. Also, augmenting capacity requires substantial ongoing investment. CenturyLink recently invested over \$2 million to increase capacity 5-fold in order to accommodate increased usage from applications such as Netflix and YouTube. As CenturyLink continues to expand its broadband network in Kansas, the investment per incremental customer grows exponentially due to the low average number of houses per square mile inherent of the rural nature of Kansas.

In 2015, CenturyLink elected to participate in the FCC’s Connect America Fund (CAF) initiative in Kansas. CAF is a \$2 billion annual program providing six years of support for the construction and ongoing operation of broadband networks in high cost, unserved areas. CenturyLink committed to deploy broadband speeds capable of at least 10 Mbps downstream / 1 Mbps upstream to 29,018 households and businesses in Kansas by 2021, representing 18% of total CenturyLink locations.



Rural Kansas Broadband Deployment Challenges

CenturyLink continues to work to meet its obligations under the CAF II program and bring new or faster broadband to additional rural Kansans. Listed below are some of the deployment challenges CenturyLink faces in Kansas:

- ⇒ **Density. Density. Density:** CenturyLink’s Kansas service territory covers nearly 11,000 square miles. CenturyLink’s most dense area is Gardner in southern Johnson County with nearly 125 households per square mile. Almost equal in square miles is CenturyLink’s Quincy area in Greenwood County which has less than 1 household per square mile. For all practical purposes, it costs the same in Gardner to install a mile of fiber as it does in Quincy.

- ⇒ **Declining Rural Density:** The rural population in Kansas continues to decline and at an accelerated pace according to a recent report by the U.S Department of Agriculture. Factors include out-migration of young adults, declining birth rates among young adults who remain in rural areas, and a rising mortality rate among working-age adults in rural counties. The declining density in rural Kansas exasperates the broadband deployment calculations.

- ⇒ **Lower Than Expected Consumer Interest and Subscription Rates:** One might assume that most rural Kansans would subscribe to high-speed internet service if it were available. In fact, the FCC assumed 75% of CAF enabled locations would subscribe to the new broadband services. The reality, however, is that fewer than 30% of enabled locations have subscribed in Kansas after two years of CAF buildout. Reasons for not subscribing vary, of course, and range from no need for home internet to wireless internet being an acceptable substitute to wireline service.

- ⇒ **Increasing Data Needs and Backhaul Requirements:** Data needs are increasing and increasing at an accelerated pace. While fiber offers greater flexibility in capacity management, the required electronics needed to gain the desired capacity and network reliability comes with additional expenses. Furthermore, all that data must be carried across the state to the world wide web.
- ⇒ **Ongoing Maintenance:** A fiber network not only needs to be installed but it also needs to be maintained and the ongoing maintenance requirement is a significant expense. Networks require substantial electricity, pole attachment rentals, monitoring, trouble dispatches, periodic grooming, tax payments, occasional repair and replacement, etc.
- ⇒ **Grid Network Layout and Sparse Roads:** CenturyLink generally deploys its network based upon a street grid approach as opposed to an “as the crow flies” approach. Deployment along roadways allows greater use of public right of way easements and mirrors other utility networks which also better supports the ongoing maintenance requirements of the network. Given the large farms and limited roads in rural Kansas, this grid deployment approach results in longer fiber runs.
- ⇒ **Limited Pole Attachment Options & Electrical Availability:** CenturyLink uses both buried fiber and aerial fiber in Kansas, depending upon the situation. Where aerial fiber is used, CenturyLink uses a combination of its own poles as well as poles of other utilities where available. Given the demographics of rural Kansas, however, pole availability is limited at times. Another limitation, although to a lesser extent, is the availability of electrical infrastructure to power the remote nodes and terminals required to provide broadband service.
- ⇒ **Permits, Rights-of-Way, Easements and Utility Pole Attachments:** While these factors could easily pose challenges to broadband deployment, CenturyLink is fortunate in Kansas to experience limited obstacles. Issues do arise on occasion and these isolated instances are addressed with city, county and utility partners on a case-by-case basis. These are bigger factors for CenturyLink in other parts of the country.