



TESTIMONY BEFORE THE
SENATE COMMUNICATIONS AND TECHNOLOGY COMMITTEE
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Chairwoman Phillips-Hill, Minority Chair Santarsiero, and Members of the Committee, my name is Josh Motzer and I am the Pennsylvania Government Affairs Director for CenturyLink. Thank you for allowing me to contribute to this important discussion regarding the benefits and challenges of further deploying broadband throughout the Commonwealth. In addition, I appreciate the opportunity to identify the regulatory challenges faced by my company and my peers that hinder our ability to maximize investment in broadband.

Today, I will address four key areas -- (1) a brief background on CenturyLink, (2) CenturyLink's work to bring broadband to more Pennsylvanians (3) some of the major obstacles to allowing CenturyLink to focus on our business, including broadband investment, and (4) potential solutions.

CenturyLink Background

CenturyLink provides residential voice and broadband services in 37 states. It also provides business services through its extensive global fiber network resulting in low-latency



network connectivity layered with cybersecurity intelligence. CenturyLink supports all these customers by employing over 40,000 associates around the world.

CenturyLink and its predecessor companies have been operating in Pennsylvania for many decades, initially as an incumbent telephone company providing voice service to Pennsylvania homes and businesses. Just a short decade ago we had over 315,000 voice access lines in the Commonwealth across 25 counties. Over that time, CenturyLink has had to change dramatically in response to the new competitive marketplace for voice, data and video services. Today, CenturyLink has only 121,000 voice access lines across that same local footprint.

Broadband in Pennsylvania

CenturyLink has met its statutory obligations under Chapter 30/Act 183 to make 1.544Mbps broadband available to all our customers. Of course, during that time and since then services like video streaming now require exponentially more bandwidth and faster speeds resulting in additional costs as providers are required to constantly add more fiber and associated electronics to the network. Unique to broadband deployment is the on-going need for capital investment just to match the never-ending demand for more bandwidth. The accelerated pace at which those upgrades are necessary is far greater than the voice technology changes of the past that spanned decades (i.e., analog to digital, rotary to touchtone).

In response to this demand, CenturyLink has continued to make network investments such as providing speeds up to 1 Gig over fiber in Carlisle, Hanover, New Oxford and Marysville. In places where the high capital investment to deploy broadband cannot support the business case to serve that area, the company may seek alternative funding solutions. One



example of alternative funding solutions is the Federal Connect America Fund (CAF) program. CenturyLink accepted funding over six years to get a minimum of 10/1Mbps speeds to nearly 1.2M rural homes and businesses across the country. Of that national commitment, CenturyLink in Pennsylvania accepted CAF support to augment our own capital expenditures to reach over 30,000 rural homes and businesses with broadband speeds of at least 10/1Mbps

Obstacles

I will address at least three of the major obstacles to broadband deployment -- (1) the economic and financial challenges for deploying facilities to support rural broadband, (2) the technological challenges to rural broadband deployment and (3) the costs of complying with outdated regulation.

- (1) Beyond the statutory obligations of Chapter 30/Act 183 previously mentioned, CenturyLink must make its investment decisions based on a reasonable business case and return on investment (ROI). Rural broadband deployment is a problem of economics. Low population density means higher costs to serve than in higher density areas. Consequently, the number of subscribers -- and therefore potential revenue -- is smaller.

For example, if we assume installing one mile of fiber is roughly \$30,000, the investment per unit in an area of 10 customers is \$3,000 per unit. For that same investment in a more urban area of say 100 customers, the investment per unit is only \$300. Because lower population density leads to higher costs per unit and fewer customers with which to recover the investments, the ROI of a rural investment is longer than that of a similar investment in a more urban area. Despite these economic hurdles,



CenturyLink has found ways to improve on the business case. One approach has been to participate in various state and federal grant programs where funding is available to support broadband deployment. Also, CenturyLink is continually testing new technologies to lower the overall cost to build to these homes and businesses.

(2) Installing individual fiber optic cables to every home in rural areas is just not economically feasible. This cost limitation presents a technical challenge of how to deploy faster broadband speeds into these rural areas. Today, CenturyLink provides residential service in the Commonwealth using very high-speed digital subscriber lines (VDSL) that allows us to provide broadband over the existing copper "last mile." More specifically, CenturyLink has been installing fiber and upgrading electronics in our remote serving devices that then connect to homes using the "last mile" of existing copper wires. VDSL speed offerings depend upon the distance from CenturyLink's remote serving device to the customer's home, like the spokes on a wheel. A customer very close to the device can see speeds up to 80 Mbps, while a customer around 3 miles from the device might only see speeds up to 1.5Mbps.

(3) The last obstacle is outdated regulation of traditional telecommunications companies. Just a few decades ago, before the Internet and broadband, CenturyLink had the full voice services market share within its local serving footprint with very few competitors, no real competing technology, the presence of federal universal service support fund

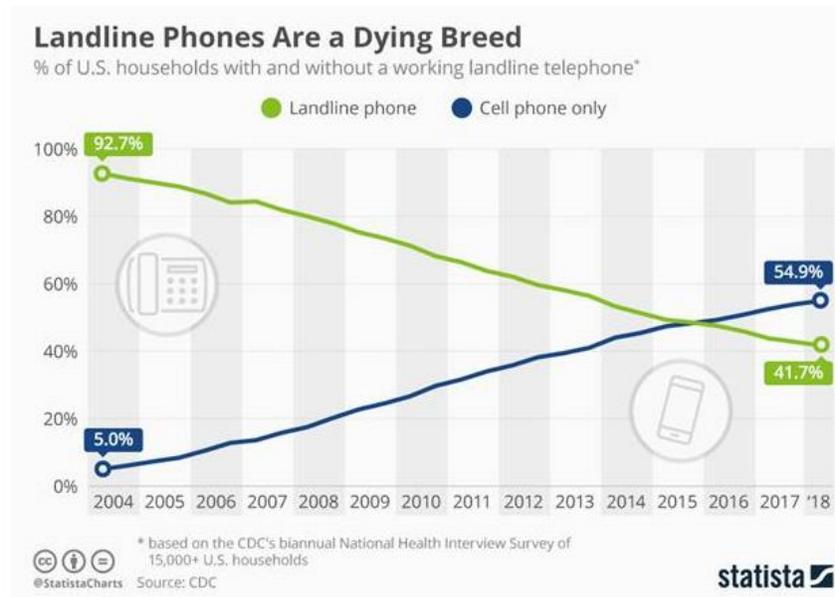


mechanisms for voice services, and a heavy regulatory requirement on service quality, pricing and other areas of voice service. In 2019, it is a very different marketplace.

Today, enough customers have switched to cellphones that wireless connections outnumber that of traditional landlines. Traditional cable TV companies have moved from simply offering video services to also being major providers of broadband and voice services. In parallel to the growth of competition, the legacy funding support mechanisms for high cost voice services were eliminated.

The one significant element that hasn't changed between the "old" and new marketplace is that the regulatory environment has not adjusted accordingly to match the competitive landscape for voice services. Traditional voice telecommunications providers must comply with regulations that may have been completely appropriate when those providers were the only choice for voice services, but in today's marketplace the national data supports that most consumers choose to use other methods of voice communication that are not hampered by outdated regulation.

To be clear, CenturyLink is not suggesting that our competitors be regulated to the same degree that we are regulated. We are suggesting that most of the regulations that apply only to the traditional voice providers should be substantially reduced or eliminated so that all providers compete on a level playing field. The following chart graphically demonstrates what has been happening in the industry for decades now:



Solutions

What can we do to further promote broadband in Pennsylvania? First, we can develop grant programs that promote broadband expansion. Numerous examples of different formats and grant fund sizes are available across the nation. The Pew Charitable Trusts have created a tool on their website that catalogs the details of those various programs:

<https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2019/state-broadband-policy-explorer>

My intent in sharing this tool is to showcase the progress that has been made across the country regarding the modernization of telecom policy and broadband expansion. The more successful programs include, but are not limited to, provisions that maximize the limited funding such as:

- (1) protecting existing investments from overbuilding
- (2) including a robust challenge process
- (3) encouraging public-private partnerships
- (4) offering a weighted scoring system for the applications

As these comparisons are being made, special consideration should be given to the Commonwealth's unique broadband foundation made available by the buildout obligations of Chapter 30/Act 183. Very few states, if any, have the advantage of the statewide network investment made by the incumbent local exchange carriers especially in rural parts of the Commonwealth.

Second, we should work to reduce and ultimately eliminate unnecessary regulation of voice services and the network as outmoded regulation distracts us from focusing on the growing demand from our customers for advanced technology services. Numerous states have reformed their telecom regulatory frameworks to accelerate this transition. According to a study conducted by the National Regulatory Research Institute, there were 35 states that had passed legislation (as of December 2017) limiting direct oversight of the retail wireline telecommunications services provided by the large incumbent price cap service providers (linked citation to this study and others). <https://www.naruc.org/nrri/nrri-library/research-papers/telecommunications/>

Telecom regulatory modernization is not a new concept but rather an on-going dialogue over the past 20 years. More importantly, the last decade has accelerated these conversations of



regulatory relief due to the explosive growth of competition from wireless, the Internet, and the demand from consumers for broadband connectivity and mobility.

The Public Utility Commission initiated a proceeding in September 2018 to review many of the regulations that apply to traditional voice telecommunications providers and the industry filed comments in that proceeding urging the PUC to reduce or eliminate many of the outdated regulations. Furthermore, the industry filed a waiver at the PUC suggesting the elimination of certain outdated regulations. Both are still pending with the PUC. In addition, CenturyLink will continue to explore both regulatory and legislative initiatives that take positive steps towards more parity across the entire competitive marketplace.

In closing, I want to thank you Chairwoman Phillips-Hill, Minority Chairman Santarsiero and the other members of the Committee for this opportunity to introduce you to CenturyLink and to outline benefits and challenges of deploying broadband. I would also like to recognize the Chairwoman for her acknowledgement within Senate Resolution 47 of the regulatory challenges faced by the telecom industry and for the need to modernize these telecom regulations.

We are encouraged by the sincere interest of this Committee and the Legislature regarding the expansion of advanced technology services for the constituents of Pennsylvania. Our ask is that the broadband conversation be inclusive of the various challenges and obstacles currently limiting the traditional voice telecommunications carriers, like CenturyLink, from maximizing their broadband investment. Thank you for your time and consideration.