

# CenturyLink Internet Basics Independent Researcher Report One

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# CenturyLink Internet Basics Year-One Independent Researcher Report One

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## EXECUTIVE SUMMARY

Expanding the rate of broadband adoption is a national policy priority and also consistent with CenturyLink's overall business objectives. Households where annual income is below \$25,000 per year are approximately half as likely to subscribe to broadband as households earning at least \$75,000 per year (43% versus 88%). However, household consumer surveys consistently find that affordability is not the only barrier to broadband adoption. In addition to cost, the lack of perceived personal relevance and not having a computer at home, are primary barriers for subscribing to broadband Internet. In October 2011 CenturyLink launched the Internet Basics program to proactively address these three major barriers in each of the states where it has Lifeline customers.

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This report expands upon each of these lessons learned and the implications for the continued program evolution in future years.

### INTRODUCTION

The National Broadband Plan includes six ambitious longer-term goals including that “every American should have affordable access to robust broadband service, and the means and skills to subscribe if they choose to.”<sup>1</sup> Consistent with this goal, CenturyLink’s overarching business interest includes positioning the company to continue as one of the nation’s leading broadband service providers.<sup>2</sup> The Federal Communications Commission’s *Memorandum and Opinion Order* approving the CenturyLink and Qwest Merger explicitly contemplated that the merger would better align both the company’s business interest and the public’s interest to expand the availability of advanced services to customers in the markets serviced by the Applicants.<sup>3</sup>

CenturyLink’s commitment to the expansion of broadband service to all customers in the newly defined combined territory is evidenced by certain voluntary public interest commitments that the FCC accepted as conditions to its approval of the merger. Notably CenturyLink committed to the implementation of a program “encouraging adoption of broadband service in the combined territory.” In October 2011 the merged company launched a program that targeted new broadband adoption by low-income customers in all the states where it has service. This program includes three general goals:

1. Reduce cost barriers for qualifying low-income customers<sup>4</sup> by offering a discounted broadband Internet Service at a price of \$9.95 per month, during the first 12 months and \$14.95 a month for the remainder of the term.
2. Address the lack of computer equipment among qualifying customers by offering an Internet capable computer for \$150 per month, plus taxes shipping and handling.
3. Improve education, promotion and training as to the availability and uses of broadband.

CenturyLink agreed to engage an independent researcher to help monitor and assess the impact of this Adoption Program. VisionTech360 Inc., a Strategy Solutions company based in Spokane Washington was selected to fulfill this role.<sup>5</sup> This report is the first of an

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<sup>1</sup> --- National Broadband Plan

<sup>2</sup> --- CenturyLink, Inc Q2 2012 Earnings Call; August 10, 2012. <http://seekingalpha.com/article/796801-centurylink-s-ceo-discusses-q2-2012-results-earnings-call-transcript>

<sup>3</sup> --- FCC 11-47. Memorandum & Opinion, March 18, 2011

<sup>4</sup> --- Qualifying customers are defined as customers eligible for Lifeline telephone service in the markets traditionally served by either of the two legacy companies, but who are not presently a broadband subscriber of either legacy company at the time of enrollment or subject to a collections dispute.

<sup>5</sup> --- Dr. Bill Gillis, President of VisionTech360 serves as the primary researcher for this assignment. Dr. Gillis is familiar with the industry and public interest regulation principles having served six years as a State of Washington Public Service Commissioner and Chair of the FCC Task Force on Universal Service. VisionTech360 is an experienced firm in the methodological design and creation of data collection tools

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anticipated series of research reports to be prepared annually for each of the five years of the Adoption Program. This is in addition to regular summary reports provided by CenturyLink to the FCC each six months on program activities measured against defined benchmarks. For the preparation of this first research report, VisionTech360 has reviewed data on the Adoption Program made available by the Company and conducted a number of independent interviews of company personnel representing key perspectives of the first year Program roll-out. This report provides an assessment of:

- Major Adoption Program outcomes during the first year.
- Challenges encountered and lessons learned.
- Opportunities to strengthen the Adoption Program in future years.

## MAJOR ADOPTION PROGRAM OUTCOMES

### Making Broadband More Affordable in Low Income Markets

The CenturyLink Adoption Program, branded as *Internet Basics*, was launched on schedule with formal public announcement October 3, 2011. This national announcement was followed by numerous state rollout events typically held in partnership with state or local leadership.<sup>6</sup>

As noted in the introductory section to this report, the Adoption Program provides discounted broadband service, access to low-cost computer equipment and customized awareness outreach and training targeted to a customer base that is eligible for the Lifeline telephone service.<sup>7</sup> By defining eligible participants as customers eligible for Lifeline support but who are presently not accessing the Internet with a CenturyLink home broadband connection, the Adoption Program hits at the heart of the US broadband adoption challenge.

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and analysis of data pertaining to broadband sector monitoring and evaluation.

<http://visiontech360.com>

<sup>6</sup> --- For example CenturyLink partnered with the Arkansas Leadership Council and Governors office for a November 17 launch of the Internet Basics Program at the Delta Technology Center in Dumas Arkansas.

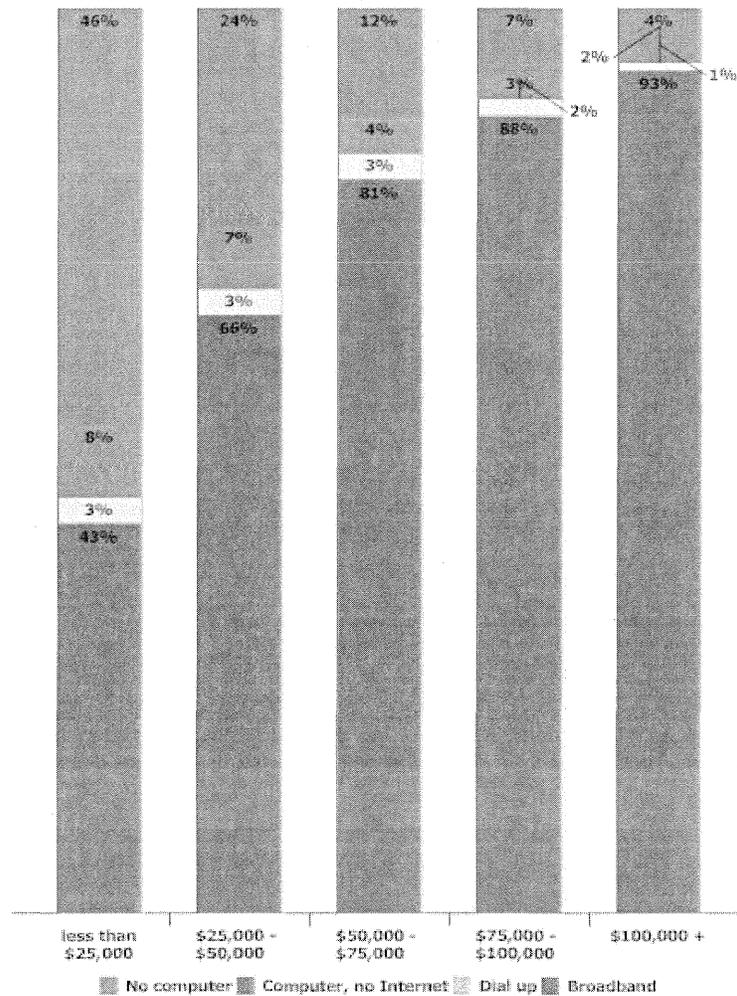
<sup>7</sup> --- Customers eligible for Lifeline telephone service typically live in households where family income is 135 percent or less than federal poverty levels.

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FIGURE 1: Computer and Internet use by household income, 2010



Source: NTIA / Image:FierceGovernmentIT

Both access to a computer at home and subscription to a broadband Internet connection are substantially less for lower-income families compared to those with higher income. In households with annual income less than \$25,000 per year, nearly half do not have a computer at home. A small percentage (about 7 percent) had a computer but no Internet connection in 2010. However, about 43 percent of the lowest-income households did subscribe to a broadband Internet connection at home in 2010. In comparison, nearly every household where annual income is over \$100,000 has a computer at home and only a small percentage (7%) choose not to have an Internet connection.

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TABLE 1: Comparison of Poverty and Broadband Subscription Rates in States Where CenturyLink has Significant Presence, by Business Region<sup>8</sup>

| CenturyLink Business Region | Average % of Families in Poverty 2009 | Average % Households Subscribing to Broadband, 2010 |
|-----------------------------|---------------------------------------|---|
| Eastern <sup>9</sup>        | 10.4                                  | 66.3  |
| Midwest <sup>10</sup>       | 10.5                                  | 67.1  |
| Mountain <sup>11</sup>      | 8.5                                   | 72.3  |
| Northwest <sup>12</sup>     | 8.9                                   | 75.5  |
| Southern <sup>13</sup>      | 12.5                                  | 65.1  |
| Southwest <sup>14</sup>     | 11.3                                  | 71.1  |
| <i>Company-wide</i>         | <i>10.7</i>                           | <i>67.9</i>   |

Table 1 provides a comparison of poverty rates with average broadband subscription rates organized by CenturyLink’s six business regions. The data generally supports the proposition that in states with higher poverty rates, the broadband subscription rate is lower, and in states with lower poverty rates, broadband subscription rate is higher. The 2009 family poverty rate is highest in the Southern Region at 12.5 % and broadband subscription the lowest at 65.1%. Poverty rates in the Mountain and Northwest Regions is less than 9 percent and broadband subscription rates are well above 70%.

Figure 2 (below) compares the 2009 poverty rate with the estimated average statewide broadband subscription rate in each of the states where CenturyLink has a significant presence. The pattern demonstrates a clear inverse relationship between poverty and broadband subscription. Mississippi has the highest poverty rate (17.3 %) among states

<sup>8</sup> --- Source: Poverty data from American Community Survey estimates, US. Census Bureau. Household broadband subscription data derived from U.S. Census of Population Household Survey, 2011.

<sup>9</sup> --- Eastern Region includes the states of Georgia, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee and Virginia.

<sup>10</sup>---Midwest Region includes the states of Illinois, Indiana, Iowa, Michigan, Minnesota, Nebraska, North Dakota, South Dakota and Wisconsin.

<sup>11</sup> -- Mountain Region includes the states of Colorado, Montana, Utah and Wyoming.

<sup>12</sup> -- Northwest Region includes the states of Idaho, Oregon and Washington and California. For purposes of business region summary statistics, California is not included in the Northwest Region as the Company only has 100 access lines in that state.

<sup>13</sup> -- Southern Region includes the states of Alabama, Arkansas, Florida, Kansas, Louisiana, Mississippi, Missouri, Oklahoma and Texas.

<sup>14</sup> -- Southwest Region includes the states of Arizona, Nevada and New Mexico.

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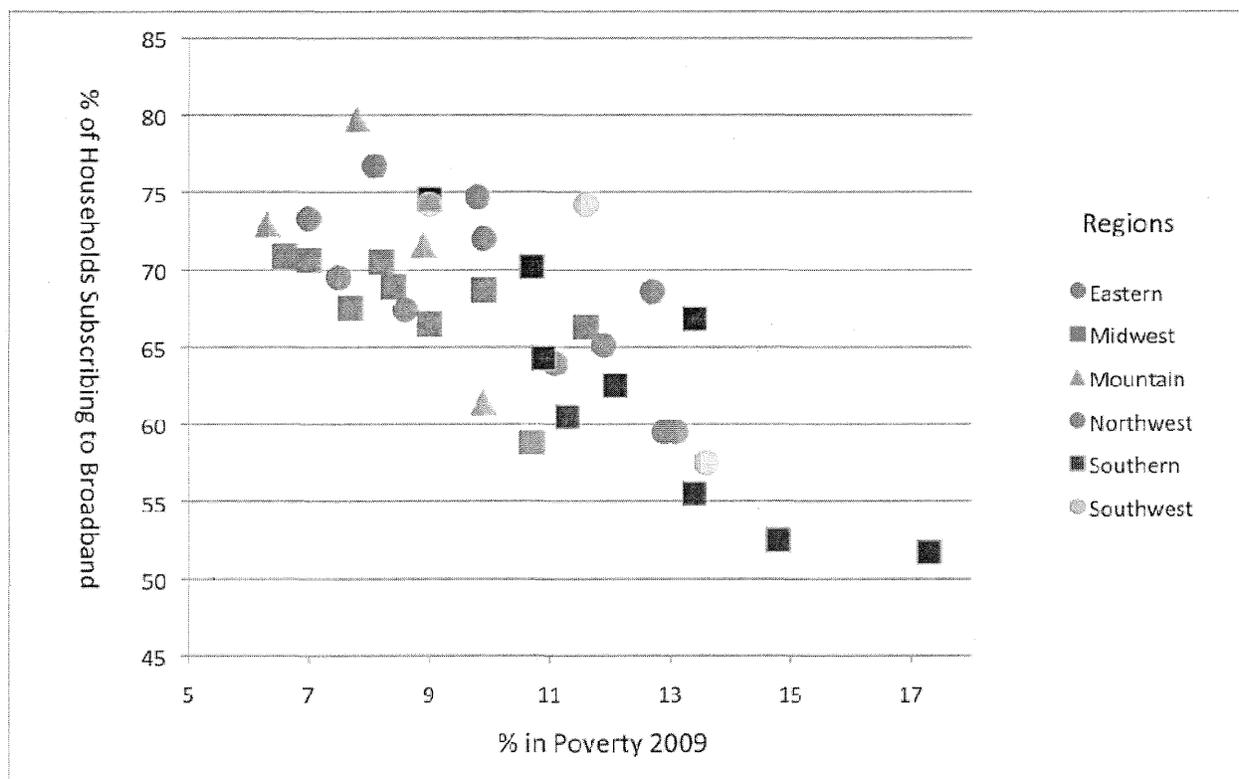


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where CenturyLink has access lines and also the lowest broadband subscription rate (51.7%) in the nation. On the other end of the spectrum, Utah has among the lower poverty rates in the nation (7.8%) and the highest broadband subscription rate in the nation (79.7%).

While income levels vary significantly across the CenturyLink states, families living at or below the poverty line represent a significant proportion of the current and potential broadband customers in each of the states where CenturyLink offers service. The launch of the Internet Basics program has introduced a new more affordable broadband service option previously not available to these customers who are generally less represented among broadband subscribers.

FIGURE 2: Relation of Poverty to Broadband Subscription Rates for CenturyLink States



## Awareness Outreach and Education

Data from the 2011 U.S. Consumer Population Survey reveals that while affordability of broadband service is a significant barrier to adoption, it is not the most frequently cited barrier.<sup>15</sup> Perception of “relevance” or value of broadband<sup>16</sup> was cited by 47 percent of non-adopters nationally as the number one reason for not subscribing to broadband. This compares to 27 percent who indicated that their number one reason for not adopting

<sup>15</sup> -- Household broadband subscription data published by CPS in 2011 was collected in 2010.

<sup>16</sup> -- The specific response was “not interested in purchasing broadband.”

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broadband is that it is too expensive. Approximately 14 percent indicated that the lack of an adequate computer is their primary reason for not subscribing to broadband. Significantly only 3 percent cited the non-availability of a broadband connection as their primary reason for not subscribing. This latter result suggests that unmet pent-up demand for broadband at current prices is relatively small. Proactive solutions that promote awareness of broadband relevance provide lower prices for service or address the need for an adequate computer may be required to expand take rates among the non-adopting population.

TABLE 2: Primary reasons for not subscribing to broadband<sup>17</sup>

| Reasons cited by non-adopters for not subscribing to broadband: |                            |                |                                  |
|---|----------------------------|----------------|----------------------------------|
| <b>CenturyLink Business Region</b>                              | <b>Perceived Relevance</b> | <b>Expense</b> | <b>Lack of Adequate Computer</b> |
| <i>Percent of Non-Adopting Population</i>                       |                            |                |                                  |
| Eastern   | 47.5                       | 24.5           | 11.2                             |
| Midwest   | 47.1                       | 25.1           | 14.1                             |
| Mountain  | 43.7                       | 20.6           | 22.8                             |
| Northwest   | 42.7                       | 25.1           | 13.2                             |
| Southern  | 44.5                       | 26.8           | 14.0                             |
| Southwest   | 36.0                       | 28.3           | 19.2                             |
| <i>Company-wide</i>   | <i>45.6</i>                | <i>25.5</i>    | <i>14.1</i>                      |

The general finding that perceived relevance is the number one barrier to adoption is consistent across all CenturyLink business regions. With the exception of the Southwest Region, well over 40 percent of the population in each region cite perceived relevance as the number one barrier to subscribing to broadband. Approximately one-quarter of the populations in each region cite expense as the major factor. Those citing lack of access to an adequate computer range from 11.2 percent in the Eastern Region to 22.8 percent in the Mountain Region (See Figure 2 above).

Among the U.S. non-adopting population, 54 percent are over the age of 55 (see Figure 3 below). For this older category of potential broadband customers, 60 percent cite lack of relevance as their primary reason for not purchasing a broadband connection (Figure 4).

<sup>17</sup> -- Source: Data derived from U.S. Census of Population Household Survey, 2011.

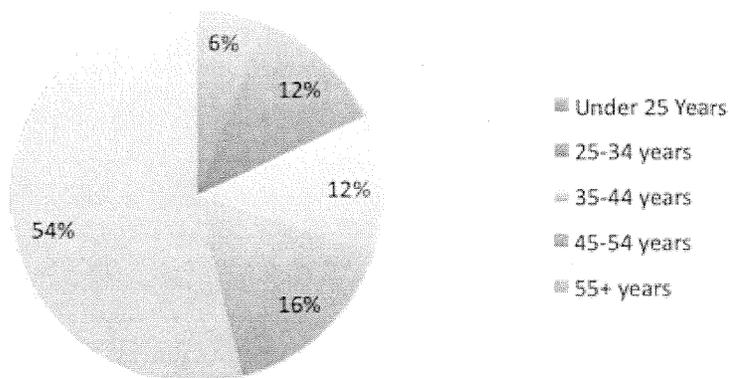
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And only 13.9 percent cite expense as the primary reason. Consequently, the discounted service and equipment offering are not as likely to attract the older customer group as are outreach efforts that focus on educating seniors on the relevance of broadband to their lives. In contrast for those under 44, expense is the more important consideration suggesting that the discount programs may be more effective in reaching the younger demographic group.

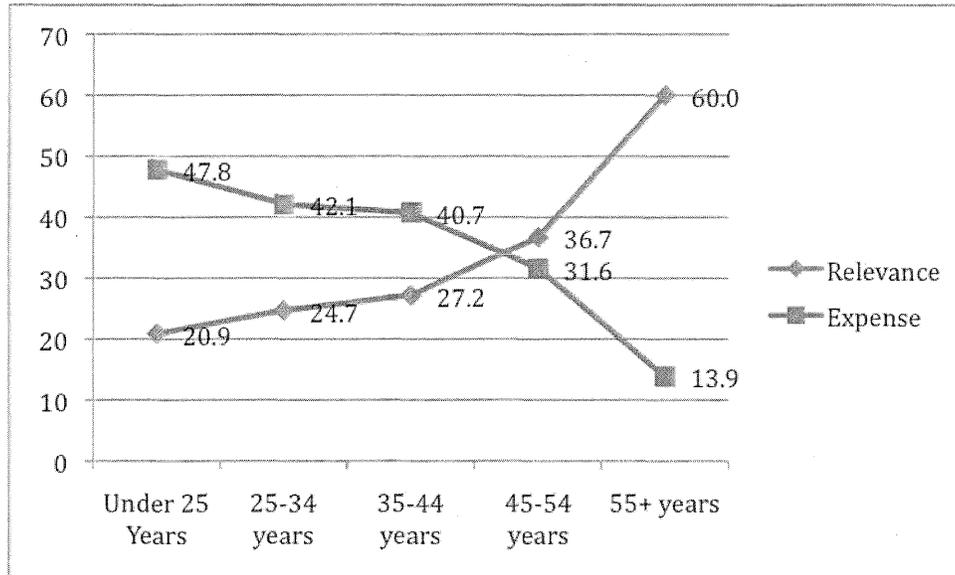
FIGURE 3: Age Distribution for Non-Adopters



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FIGURE 4: Percent of Non-Adopting Population Citing Relevance or Expense as the Primary Reason for Not Purchasing Broadband by Age Category<sup>18</sup>



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<sup>18</sup> -- Source: 2011 Consumer Population Household Survey

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## Internet Basics Discount Subscriptions and Computer Equipment Sales

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