

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska Public) Application No. NUSF-100/PI-193
Service Commission, on its own motion,)
to consider revisions to the universal)
service fund contribution methodology.)

**BRIEF OF THE RURAL INDEPENDENT COMPANIES
IN RESPONSE TO JULY 12, 2016 ORDER SOLICITING BRIEFS**

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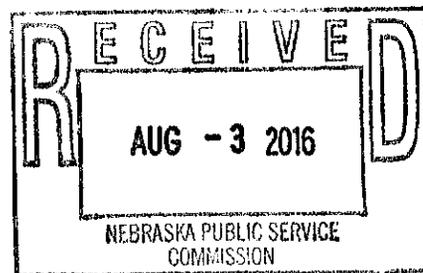


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I. INTRODUCTION AND SUMMARY

The Nebraska Rural Independent Companies (“RIC”)¹ submit this brief to address the legal issues raised by the Nebraska Public Service Commission (the “Commission”) in this proceeding on July 12, 2016.² In the *July Briefing Order*, the Commission requested submissions on the following legal issues:

- (1) What jurisdictional considerations are raised with respect to both interstate and intrastate traffic being carried over a given connection on which an NUSF surcharge will be assessed and how can any such issue be addressed?
- (2) What issues may be presented if a state connections-based USF contribution mechanism proposes to assess a regulatory surcharge on a connection through which only broadband Internet access service access is provided versus a connection where both broadband and voice is provided?
- (3) How does a party that has identified a legal issue recommend that such issue be addressed by the Commission in order to minimize or eliminate the impact of such issue on the implementation of a connections-based contribution mechanism?³

¹ Arlington Telephone Company, Blair Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hartington Telecommunications Co., Inc., Hershey Cooperative Telephone Company, Inc., K & M Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company, Rock County Telephone Company, Stanton Telephone Co., Inc., and Three River Telco.

² See *Order Soliciting Briefs*, Application No. NUSF-100, PI-193, entered July 12, 2016 (the “*July Briefing Order*”).

³ *Id.* at 1.

RIC provides its responses to these issues in summary fashion below and amplifies the legal justification for such responses in later sections of this Brief.

In its various filings made in this proceeding RIC has supported and continues to support the Commission's Nebraska Universal Service Fund ("NUSF") contribution reform efforts.⁴ While RIC understands that there may be a variety of approaches that the Commission could adopt to implement connection-based NUSF contribution reform, RIC respectfully submits that the approach that it advocates builds upon existing legal and public policy constructs that are intended to avoid the uncertainties that may otherwise arise in the event that applicable Federal Communications Commission ("FCC") standards and rulings are not considered and accommodated as part of the Commission's actions in this proceeding. RIC therefore incorporates by reference comments previously filed in this docket to the extent that the contents thereof amplify and otherwise provide background support for RIC's positions on the legal issues raised in the *July Briefing Order*.

As the Commission moves forward with NUSF contribution reform, RIC respectfully requests the Commission to address the legal issues raised in the *July Briefing Order*. In connection with this effort, RIC also respectfully requests that Commission action incorporates the implementation and public policy framework outlined in the RIC comments or a similar approach that incorporates the positions embodied in this submission.

RIC anticipates that FCC action regarding federal universal service fund ("FUSF") contribution reform will occur at some future point in time, but waiting for the FCC to act at a

⁴ See generally, Comments of Nebraska Rural Independent Companies, Feb. 13, 2015 ("*Feb. 2015 Comments*"); Reply Comments of Nebraska Rural Independent Companies, April 13, 2015 ("*April 2015 Reply Comments*"); Comments of Nebraska Rural Independent Companies, June 6, 2016 ("*June 2016 Comments*"); and Reply Comments of Nebraska Rural Independent Companies, July 15, 2016 ("*July 2016 Reply Comments*").

time when the current NUSF contribution methodology may not be sustainable is not a viable alternative.⁵ Thus, any proposal adopted by the Commission should allow for and anticipate that the Commission will need to collaborate with the FCC in an effort to establish a contribution mechanism for Broadband Internet Access Service (“BIAS”) that allows for both FUSF and state universal service fund (“SUSF”) assessments.⁶

In connection with implementation of the federal/state partnership on universal service, it is entirely logical and reasonable that the FCC should unequivocally declare that state commissions may assess BIAS to contribute to the deployment of a ubiquitous broadband network. From a policy perspective, all users of this network should contribute to universal service mechanisms that allow for the recovery of the deployment and operational expenses associated with the network. Currently, however, universal service contributions are not made by all BIAS users and thus voice users are subsidizing BIAS users. This framework is unsustainable.⁷

⁵ See, *In the Matter of the Nebraska Public Service Commission, on its own motion, to consider revisions to the universal service fund contribution methodology*, Application No. NUSF-100/PI-193, Order Opening Docket and Seeking Comment, pp. 1-2 (Nov. 13, 2014).

⁶ As further discussed in Section III below, the FCC has found BIAS to be a telecommunications service (and such finding has been confirmed by the Courts (*see generally USTA v. FCC*, No. 15-1063, *slip op.* (June 14, 2016))). However, the FCC has also stated that “we conclude that any state requirements to contribute to state universal service support mechanisms that might be imposed on such broadband Internet access services would be inconsistent with federal policy and therefore are preempted by section 254(f) – at least until such time that the Commission rules on whether to require federal universal service contributions by providers of broadband Internet access service. 47 U.S.C. § 254(f).” *Protecting and Promoting the Open Internet, Report and Order on Remand, Declaratory Ruling, and Order*, 30 FCC Rcd 560, para. 490, fn. 1477 (2015) (“*Open Internet Order*”).

⁷ RIC has consistently advocated that FUSF and SUSF support assessments should apply to BIAS. For example, RIC stated in its Comments filed in the FCC’s 2012 Further Notice of Proposed Rulemaking:

In the future, states will need to collect universal service funds from broadband facilities and services for the same reasons that the 1996 Congress allowed states

Accordingly, for all of the reasons stated herein and previously by RIC, RIC respectfully requests that the Commission address the issues raised in the *July Briefing Order* as follows.

- (1) ***What jurisdictional considerations are raised with respect to both interstate and intrastate traffic being carried over a given connection on which an NUSF surcharge will be assessed and how can any such issue be addressed?***

Summary of Position

The Commission possesses all necessary authority to implement, update and ensure that the NUSF achieves the policies of the Nebraska Legislature in Neb. Rev. Stat. § 86-323. Commission action to implement these Nebraska legislative policies is consistent with and serves the Congressional policy expressed in 42 U.S.C. § 254 that encourages a “federal/state” partnership that has been acknowledged by the FCC. There should be no insurmountable

to collect universal service funds from voice services. Then and now, state commissions’ ability to continue state universal service programs is essential in achieving universal service goals and in developing a ubiquitous national broadband-capable communications network. Federal support is unlikely to prove sufficient by itself. Since federal USF support alone is unlikely to deliver ubiquitous broadband, the Commission should intentionally reserve to the states a sufficiently broad contributions base to sustain state universal service funds.

Nebraska Rural Independent Companies Comments dated July 9, 2012 at 3 (filed in response to the *Further Notice of Proposed Rulemaking*, WC Docket Nos. 06-122, GN Docket No. 09-51, released April 30, 2012 (“*2012 FNPRM*”).

In RIC’s Reply Comments also filed in the *2012 FNPRM*, in which RIC summarized statements by other commenters that shared the above-stated views, RIC further stated:

NRIC wants to ensure that nothing impairs the ability of states that have implemented state USFs to impose surcharges on broadband revenues or broadband connections. Whatever decision the Commission [FCC] makes regarding the federal universal service base, it should not impair the ability of state USFs to reach that same base or, alternatively, to continue operating state USFs as at present.

Nebraska Rural Independent Companies Reply Comments dated Aug. 6, 2012 at (XX) (filed in response to the *2012 FNPRM*).

jurisdictional issue regarding a decision by the Commission to migrate to a connections-based NUSF contribution mechanism *provided that* the Commission assesses only that part of the connection that is used for “intrastate” traffic. Further, at such future point in time that the FCC concludes that state commissions may make SUSF assessments on BIAS, the connections-based NUSF contribution mechanism should be expanded to add BIAS to existing assessable services.⁸

- (2) *What issues may be presented if a state connections-based USF contribution mechanism proposes to assess a regulatory surcharge on a connection through which only broadband Internet access service access is provided versus a connection where both broadband and voice is provided?*

Summary of Position

To avoid direct conflicts with applicable FCC actions and otherwise to acknowledge the FCC’s statements regarding assessment of BIAS by state commissions for SUSF purposes, the Commission (absent any directives from the FCC and the Federal-State Universal Service Joint Board) should, at the present time, isolate and assess only that part of the connection that carries “intrastate” traffic.

- (3) *How does a party that has identified a legal issue recommend that such issue be addressed by the Commission in order to minimize or eliminate the impact of such issue on the implementation of a connections-based contribution mechanism?*

Summary of Position

In response to the Commission’s Questions 1 and 2 above, RIC submits that it has provided the basis for minimizing and/or eliminating the impact of the legal issues that RIC has identified relating to the Commission’s proposed NUSF connections-based contribution mechanism. Thus, RIC respectfully suggests in this brief and in RIC’s other filings in this docket RIC has provided a framework to ameliorate any negative impacts (*e.g.*, unpredictability and

⁸ See generally, Section III below.

instability) in the Commission's efforts to implement an NUSF connections-based contribution mechanism in this proceeding:

- A. For isolating intrastate usage, please see response to Commission Questions 1 and 2 below and RIC's *June 2016 Comments*, pp. 12-16.
- B. For addressing NUSF assessments on business and special access services, please see response to Commission Question 2 below, RIC's *June 2016 Comments*, pp. 19-22 and RIC's *July 2016 Reply Comments*, pp. 10-11.
- C. For addressing access to comparable FCC Form 477 data and other information from the FCC, please see response to Question 2 below, RIC's *Feb. 2015 Comments*, pp. 10-11 and RIC's *June 2016 Comments*, pp. 22-25.
- D. For addressing mixed use connections (those residential connections that combine broadband and intrastate use) and those connections that are standalone broadband, please see response to Question 2 below and RIC's *June 2016 Comments*, pp. 12-16.

II. THE COMMISSION SHOULD RESOLVE THE LEGAL ISSUES RAISED BY QUESTION 1 OF THE *JULY BRIEFING ORDER* IN THE MANNER OUTLINED HEREIN.

As set forth above in summary fashion, RIC respectfully submits that legal issues regarding the Commission's authority to migrate to an NUSF connection-based contribution reform proposal could arise, depending on how the Commission implements any connections-based reform. At the same time, however, RIC provides the basis herein for minimizing and perhaps eliminating any such issue by tailoring the efforts on NUSF contribution reform in a manner that focuses on the "intrastate" nature of either the connections or revenue that is being examined. Thus, RIC respectfully submits that the Commission should resolve the legal issues raised in the *July Briefing Order* in the manner set forth herein.

- A. **Subject to Defined and Well-Understood Jurisdictional Parameters, the Commission is Well Within its Authority to Establish and Implement the NUSF Contribution Reforms at Issue in this Proceeding.**

1. The Commission has authority pursuant to state law to issue regulations that conform with and advance the legislative policies of the NUSF.

As the Commission is aware, the structure of Section 254 of the 1996 revisions to the Communications Act of 1934, as amended (the “Act”) specifically provides for state authority to establish an SUSF⁹ provided that the state is granted authority by the state’s legislature. No serious question can exist with respect to the Commission’s statutory authority regarding the NUSF; the Commission’s authority is explicit.¹⁰ Likewise, the scope of authority granted to the Commission includes the authority to modify and update the NUSF, provided that such updating and modification conforms with and advances the underlying legislative intent for the NUSF.¹¹

⁹ See 47 U.S.C. §254(f).

¹⁰ For example, Neb. Rev. Stat. § 86-323(5) states:

There should be specific, predictable, sufficient, and competitively neutral mechanisms to preserve and advance universal service. Funds for the support of high-cost service areas will be available only to the designated eligible telecommunications companies providing service to such areas. Funds for the support of low-income customers, schools, libraries, and providers of health care to rural areas will be available to any entity providing telecommunications services, maintenance, and upgrading of facilities. The distribution of universal service funds should encourage the continued development and maintenance of telecommunications infrastructure. . . .

Likewise, Neb. Rev. Stat. § 86-325 states:

The commission shall determine the standards and procedures reasonably necessary, adopt and promulgate rules and regulations as reasonably required, and enter into such contracts with other agencies or private organizations or entities as may be reasonably necessary to efficiently develop, implement, and operate the [NUSF].

¹¹ For example, the Nebraska Supreme Court has stated that “[t]he power to regulate must be exercised in conformity with all the provisions of the act and in harmony with its spirit and expressed legislative intent. . . [i]n order to be valid, a rule or regulation must be consistent with the statute under which the rule or regulation is promulgated.” *City of Omaha v. Kum & Go, L.L.C.*, 263 Neb. 724, 730-31, 642 N.W.2d 154, 160 (2002).

The Court has further expressed that “delegation of legislative power is most commonly indicated where the subject to be regulated is highly technical or where regulation requires a course of continuous decision.” *Scofield v. State, Dept. of Natural Resources*, 276 Neb. 215,

2. The Commission can avoid creation of a conflict with the FCC by following the FCC's directives regarding the scope of a SUSF.

As a general matter then, the parameters regarding the Commission's jurisdiction over certain state universal service issues are well known and are informed by the Commission's experience with the FCC's *Kansas/Nebraska Declaratory Ruling*.¹² RIC need not recount the "twists and turns" that were involved in the FCC's determination of the Commission's authority to assess Voice over Internet Protocol ("VoIP") providers since the *Kansas/Nebraska Declaratory Ruling* provides ample discussion of that factual background.¹³

Based on the entirety of circumstances now confronting the Commission as discussed below, RIC respectfully submits that addressing any jurisdictional issue is absolutely necessary in an effort to ensure that any migration to a new NUSF contribution mechanism and methodology is not unintentionally derailed by after-the-fact claims that the Commission lacks the authority to approve such new mechanism and methodology.

Accordingly, in RIC's view, it is advisable for the Commission to utilize the *Kansas/Nebraska Declaratory Ruling* directives when addressing the jurisdictional issues outlined in the *July Briefing Order*. In particular, the FCC has declared that states can avoid preemption "so long as (1) the relevant state's contribution rules are consistent with the Commission's universal service contribution rules and (2) the state does not apply its contribution rules to intrastate interconnected VoIP revenues that are attributable to services

225, 753 N.W.2d 345, 354 (2008) (citing *Schumacher v. Johanns*, 272 Neb. 346, 722 N.W.2d 37 (2006) (finding in part that enactment of the Telecommunications Universal Service Fund Act was not an unconstitutional delegation of legislative authority to the Public Service Commission).

¹² See *Universal Service Contribution Methodology, Declaratory Ruling, Declaratory Ruling*, WC Docket No. 06-122, 25 FCC Rcd 15651 (2010) (the "*Kansas/Nebraska Declaratory Ruling*").

¹³ See *id.* at paras. 8-10.

provided in another state.”¹⁴ Provided that the following two directives are met, as a general matter, conflict with FCC jurisdiction should not exist: (1) The Commission’s rules are consistent with the FCC’s rules on contributions; and (2) Commission relies on intrastate telecommunications services as the basis for its contribution proposal.¹⁵

In addressing these two points, RIC notes the following. First, nothing has changed with regard to these FCC directives even though the Commission is advancing a new and much needed NUSF contribution reform proposal. Second, the FCC’s rules – relying on contributions from interstate and international revenues¹⁶ – have not changed.¹⁷ Third, nothing in Part 54 of

¹⁴ See *id.* at para. 11.

¹⁵ As noted in the Introduction above and as discussed in the response to Question 2 below, the FCC has found BIAS to be a telecommunications service (and such finding has been confirmed by the Courts (*see generally USTA v. FCC*, No. 15-1063, *slip op.* (June 14, 2016)). Nonetheless, the FCC has warned that, absent further action, efforts to assess BIAS by a state commission for SUSF purposes would be preempted. In this proceeding, however, the Commission has made clear that it does not intend to assess broadband. See *Order Opening Docket and Seeking Comments*, Application No. NUSF-100/PI-193, at 1 (Nov. 13, 2014 (the “November 2014 Order”). While the *Order Seeking Further Comments*, Application No. NUSF-100/PI-193, at 5 (April 5, 2016) (the “April 5th Order”) identifies Ubiquitous Broadband as a policy goal for this State, RIC is not aware that the Commission has departed from its position in the *November 2014 Order* that would suggest that NUSF contributions from broadband assessments are envisioned.

¹⁶ As the FCC has stated, “[f]ederal universal service contributions are currently calculated on the basis of the end-user revenues that contributors earn from their provision of interstate services; contributors are not assessed based on revenues from intrastate communications.” *Kansas/Nebraska Declaratory Ruling* at para. 7 (citing 47 C.F.R. § 54.706; *Tex. Office of Pub. Util. Counsel v. FCC*, 183 F.3d 393, 447 (5th Cir. 1999) (“TOPUC”). Moreover, according to the current publication of the e-CFR by the Government Publishing Office, Section 54.706 has not changed since the issuance of the *Kansas/Nebraska Declaratory Ruling*. See http://www.ecfr.gov/cgi-bin/text-idx?SID=418c01227278208e4d37885d0dcf154d&mc=true&node=se47.3.54_1706&rgn=div8

¹⁷ Although the decision has been appealed, RIC notes that, recently, the FCC has concluded that “broadband internet access service” is a “supported service.” *In the Matter of Lifeline and Link Up Reform and Modernization et al., Third Report and Order, Further Report and Order, and Order on Reconsideration*, WC Docket Nos. 11-42, et al., FCC 16-38, released April 27, 2016 at para. 30, *appeal pending*; see also 47 C.F.R. §51.101 (Introductory statement; subject to Office of Management and Budget approval).

the FCC Rules¹⁸ precludes a state from establishing its own contributions mechanism when it does not intrude upon the interstate/international contribution mechanism that the FCC has established.¹⁹

In light of these facts, RIC respectfully submits that adherence to the FCC's *Kansas/Nebraska Declaratory Ruling* directives will minimize, if not entirely avoid, any direct attacks based on the Commission overstepping its jurisdiction regarding NUSF contribution reform.

B. To the Extent that any Jurisdictional Issue Exists, the Resolution of that Issue is Found in the Explicit Text of 47 U.S.C. § 254(f), and the FCC's Existing Directives Isolating Interstate Versus Intrastate Services and Revenues.

Because, as noted above, the Commission's action is or should be consistent with the FCC's *Kansas/Nebraska Declaratory Ruling*, it appears that any jurisdictional tension that could exist is with respect to the requirements of 47 U.S.C. § 254(f).²⁰ However, for the reasons stated

¹⁸ See 47 C.F.R. 54.1, *et seq.*

¹⁹ In fact, the NRRI Study from May of 2015 provides a host of differing SUSF contribution methodologies that are not, to the best of RIC's knowledge, subject to challenge before the FCC. See generally *State Universal Service Funds 2015*, June 2015, National Regulatory Research Institute. Consistent with the measured and prudent approach of the Commission reflected in the *July Briefing Order*, RIC notes that to the extent the Commission can gain knowledge and avoid "reinventing-the-wheel" based on other states' experiences with contribution methodologies, coordination with the Commission's sister state commissions should be encouraged.

²⁰ Section 254(f) states:

A State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service. Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State. A State may adopt regulations to provide for additional definitions and standards to preserve and advance universal service within that State only to the extent that such regulations adopt additional specific, predictable, and sufficient mechanisms to

below, compliance with the directives of Section 254(f) can be achieved and the “federal/state partnership” envisioned by the FCC with respect to universal service will be advanced.²¹

support such definitions or standards that *do not rely on or burden* Federal universal service support mechanisms.

47 U.S.C. § 254(f) (emphasis added).

²¹ For example, recently, the FCC has indicated,

Finally, we note that the promotion of universal service remains a federal-state partnership. We expect and encourage states to maintain their own universal service funds, or to establish them if they have not done so. The expansion of the existing ICLS mechanism to support broadband-only loops and the voluntary path to model-based support should not be viewed as eliminating the role of the states in advancing universal service; far from it. The deployment and maintenance of a modern voice and broadband-capable network in rural and high-cost areas across this nation is a massive undertaking, and the continued efforts of the states to help advance that objective is necessary to advance our shared goals.

Connect America Fund, et al., WC Docket No. 10-90 *et al.*, *Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking*, FCC 16-33 (2016) (the “March 2016 Connect America Order”) at para. 184. *See also Federal-State Joint Board on Universal Service, Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order*, 18 FCC Rcd 22559, 22568 para. 17 (2003). (“The Act makes clear that preserving and advancing universal service is a shared federal and state responsibility.”)

The FCC has also recognized the important role of the states. Courts have also previously said that the Act “plainly contemplates a partnership between the federal and state governments to support universal service,” and that “it is appropriate—even necessary—for the FCC to rely on state action.” *In the Matter of Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing an Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up*, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WC Docket No. 10-90, *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 4554 (2011) (“CAF NPRM”), at para. 85 (citing *Federal-State Joint Board on Universal Service, Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order*, 18 FCC Rcd 22559, 22568 para. 17 (2003) (“The Act makes clear that preserving and advancing universal service is a shared federal and state responsibility.”) (citing *Qwest Corp. v. FCC*, 258 F.3d 1191, 1203 (10th Cir. 2001))); and *Qwest Communications Int’l Inc. v. FCC*, 398 F.3d 1222, 1232 (10th Cir. 2005). And, as noted above, courts have acknowledged the same. *Qwest Corp. v. FCC*, 258 F.3d 1191, 1203 (10th Cir. 2001); and *Qwest Communications Int’l Inc. v. FCC*, 398 F.3d 1222, 1232 (10th Cir. 2005).

1. Section 254's directive – "A State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service" – is not an issue in this proceeding.

Based on its experience to date in this proceeding, RIC respectfully submits that the course the Commission has set relating to contributions reform would be consistent with the directive from Section 254(f) that "[a] State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service."²² As indicated above, nothing in Part 54 precludes a state commission from adopting its own state universal service policies and mechanisms provided the directives as illustrated in the *Kansas/Nebraska Declaratory Ruling* are met. Likewise, since the Commission has made clear that, for now, BIAS will not be the subject of assessment with regard to a connections-based NUSF contribution mechanism,²³ both at the federal level and state level, the only defined "universal service" for high cost recovery is "voice" or, as the FCC states it, "voice telephony."²⁴ And since voice and non-broadband data

²² 47 U.S.C. § 254(f).

²³ See n. 16, *supra*.

²⁴ The federal USF contribution methodology is outlined in Part 54 of the FCC's Rules, and, in particular 47 C.F.R. §54.101. Section 54.101 of the FCC's Rules states in part:

Supported services for rural, insular and high cost areas:

- (a) *Services designated for support.* Voice telephony services and broadband service shall be supported by federal universal service support mechanisms.
 - (1) Eligible voice telephony services must provide voice grade access to the public switched network or its functional equivalent; minutes of use for local service provided at no additional charge to end users; access to the emergency services provided by local government or other public safety organizations, such as 911 and enhanced 911, to the extent the local government in an eligible carrier's service area has implemented 911 or enhanced 911 systems; and toll limitation services to qualifying low-income consumers as provided in subpart E of this part. . . .
- (b) An eligible telecommunications carrier eligible to receive high-cost support must offer voice telephony service as set forth in paragraph (a)(1) of this section in order to receive federal universal service support.

services are currently part of the contribution obligations under both the NUSF and FUSF, there is no conflict with the FCC's current contribution mechanism for the FUSF. Moreover, by continuing to rely on the intrastate business and special access revenues for NUSF contribution purposes, nothing has changed from the methodology currently in place at the FCC and the Commission.

Accordingly, RIC respectfully suggests that by isolating the portion of the connection used for *intrastate* traffic, the Commission's action would be entirely consistent with past practice by the FCC. Bolstering these conclusions is the fact that, as RIC understands the Commission's goals as stated in this proceeding, any action by the Commission to advance the sustainability of the NUSF also advances the underlying FCC policy regarding the "federal/state universal service partnership" to encourage universally available voice service through multi-use and broadband-capable networks.²⁵

2. **Section 254's additional constraints that SUSF actions can "not rely on or burden Federal universal service support mechanisms" is also inapplicable in this proceeding.**

47 C.F.R. §54.101.

²⁵ Approval by the FCC of the deployment of multi-use networks has been affirmed by the United States Court of Appeals for the Tenth Circuit.

More specifically, nothing in subsection (c)(1) expressly or implicitly deprives the FCC of authority to direct that a USF recipient, which necessarily provides some form of "universal service" and has been deemed by a state commission or the FCC to be an eligible telecommunications carrier under 47 U.S.C. § 214(e), use some of its USF funds to provide services or build facilities related to services that fall outside of the FCC's current definition of "universal service." In other words, nothing in the statute limits the FCC's authority to place conditions, such as the broadband requirement, on the use of USF funds.

USTA v. FCC, 753 F.3d 1015, 1046 (10th Cir. 2014).

So too, compliance with the second constraint found in Section 254(f) – the lack of any reliance or burden on the FUSF – can readily be achieved.²⁶ The FCC’s contribution mechanism relies solely on interstate and international revenues for purposes of federal USF contributions.²⁷ Moreover, RIC has outlined a method by which the “intrastate” component of a state connection can be isolated²⁸ (which as RIC has discussed is fully consistent with the FCC’s policies)²⁹

²⁶ Again, Section 254(f) states in part:

A State may adopt regulations to provide for additional definitions and standards to preserve and advance universal service within that State only to the extent that such regulations adopt additional specific, predictable, and sufficient mechanisms to support such definitions or standards that *do not rely on or burden* Federal universal service support mechanisms.

47 U.S.C. § 254(f) (emphasis added).

²⁷ See, e.g., 47 C.F.R. §54.706; see also n. 21, *supra* and accompanying text.

²⁸ With respect to FCC-developed “safe harbor” factors, in particular, RIC notes that the FCC first established, on an interim basis, a safe harbor percentage of revenues for cellular providers. The percentages that were established at that time were meant to “reasonably approximate the percentage of interstate wireless telecommunications revenues generated by each category of wireless telecommunications provider.” *In the Matter of Federal-State Joint Board on Universal Service, Memorandum Opinion and Order and Further Notice of Proposed Rulemaking*, CC Docket No. 96-45, 13 FCC Rcd 21252 at paras. 11-13 (1998). The FCC stated that “[w]ireless telecommunications providers that choose to avail themselves of these suggested percentages may assume that the Commission will not find it necessary to review or question the data underlying their reported percentages.” *Id.* at para. 11. In establishing an initial safe harbor of 15 percent the FCC based its determination “on the level of interstate traffic experienced by wireline providers.” *Id.* at para. 13.

When the issue of safe harbors was addressed again in 2002, the FCC reiterated its intention to reduce administrative burdens and provide an alternative to reporting actual interstate telecommunications revenues through the use of safe harbors. *In the Matter of Federal-State Joint Board on Universal Service, et al., Report and Order and Second Further Notice of Proposed Rulemaking*, CC Docket No. 96-45 et al., 17 FCC Rcd 24952 at para. 12 (2002). The FCC modified the safe harbor rates at that time for mobile wireless providers from 15 to 28.5 percent. *Id.* at paras. 19, 21-22, 24-25.

Again in 2006, the FCC increased its safe harbor percentages for wireless providers and in addition established universal service contribution obligations for VoIP providers. *In the Matter of Universal Service Contribution Methodology, Federal-State Joint Board on Universal Service, et al., Report and Order and Notice of Proposed Rulemaking*, WC Docket No. 06-122, CC Docket No. 96-45, et al., 21 FCC Rcd 7518 (2006), *vacated in part on other grounds by Vonage Holdings Corp. v. Federal Communications Comm’n*, 489 F.3d 1232 (DC Cir. 2007). In raising

coupled with the continued use for the time being of intrastate revenues for business and special access services.³⁰ Consequently, RIC respectfully submits that no “burden” or “reliance” on the FCC’s federal USF contribution mechanism is present under the RIC framework.

Provided the Commission isolates intrastate usage of a proposed connection, Commission action modernizing and updating the NUSF contribution mechanism can and should proceed. Such action, in RIC’s view, is entirely consistent with the Commission’s authority to preserve

the interim interstate safe harbor to 37.1 percent the FCC reiterated that “[t]he purpose of the interim wireless safe harbor . . . remains to give those providers that either cannot or choose not to determine their actual interstate end-user telecommunications revenues or approximate the revenues based on a traffic study another means of computing the necessary revenue information. *Id.* at paras. 24-27.

With regard to VoIP, the FCC established an interstate safe harbor of 64.9 percent finding that VoIP traffic was analogous to wireline toll service in terms of the nature of its use. *Id.* at para. 53. More recently the FCC concluded that “the application of state universal service contribution requirements to interconnected VoIP providers does not conflict with federal policies, and could, in fact, promote them.” *Kansas/Nebraska Declaratory Ruling* at para. 16. The FCC further concluded that “state universal service contribution requirements do not conflict with federal rules to the extent that states calculate the amount of their universal service assessments in a manner that is consistent with the rules adopted in the Interim Contribution Methodology Order.” *Id.* at para. 17. In elaborating on the issue the FCC stated:

As described above, the Commission’s rules give providers three options by which they can establish their federal universal service revenue base: (1) use a safe harbor under which 64.9 percent of their revenues are deemed to be jurisdictionally interstate (and therefore not intrastate); (2) conduct a traffic study to allocate revenues by jurisdiction; or (3) develop a means of accurately classifying interconnected VoIP communications between federal and state jurisdictions. Therefore, to avoid a conflict with the Commission’s rules, a state imposing universal service contribution obligations on interconnected VoIP providers must allow those providers to treat as intrastate for state universal service purposes the same revenues that they treat at intrastate under the Commission’s universal service contribution rules. This will ensure that state contribution requirements will not be imposed on the same revenue on which an interconnected VoIP provider is basing its calculation of federal contributions.

Id. at para. 7. RIC has suggested this same opportunity for purposes of the NUSF per-connection methodology.

²⁹ See, *June 2016 Comments*, pp. 12-16.

³⁰ See, *id.*, pp. 19-22 and *July 2016 Reply Comments*, pp. 10-11.

and advance universal service in the State of Nebraska.³¹ Therefore, in light of the federal/state universal service partnership, RIC respectfully submits the Commission should ensure that its actions are consistent with FCC action under Section 254 of the Act and that any action does not “burden” the FCC’s federal USF mechanism.

By relying on intrastate usage of a connection, FCC jurisdiction over interstate and international services is preserved and thus no burden exists. Likewise, when the Commission relies on intrastate usage for its SUSF contribution mechanism, it is, at best, difficult to understand how reliance on that intrastate usage can burden the federal mechanism, and the development by the FCC of the interstate “safe harbors” confirms that fact.

3. In the absence of the Commission isolating intrastate usage of a proposed connection, Commission action modernizing and updating the NUSF contribution mechanism could be subject to jurisdictional conflicts with the FCC.

For the reasons stated above, RIC respectfully submits that if the Commission does not concentrate its NUSF contribution reform efforts on only the intrastate aspects of the items under review – the intrastate portion of a “connection” and intrastate business and special access revenue – claims could be made that Commission reform action in this proceeding could be subject to jurisdictional conflicts vis-a-vis the FCC and Section 254(f) of the Act. At the same time, RIC also respectfully submits that it has provided a road map for avoidance of these pitfalls.

With this background, RIC also fully understands that any conflict that could arise is not necessarily a “death knell” to the Commission’s adoption of a new NUSF contribution methodology and mechanism because any such conflict would likely need to be a fact-based determination. Nonetheless, failure to identify and address potential conflicts now may very

³¹ See, n. 12, *supra* and accompanying text.

well increase the possibility of legal challenges, further delaying the implementation of much needed NUSF contribution reform. For example with regard to FCC preemption specifically and in light of the language of Section 254(f), the controlling legal proposition is that preemption is “not lightly to be presumed.”³² Likewise, when determining whether federal preemption exists, the “ultimate touchstone” inquiry is whether Congress intended the federal regulation to supersede state law.³³ A state law is an obstacle [to the accomplishment of congressional objectives] only “if it interferes with the methods by which the federal statute was designed to reach [its] goal.”³⁴

In the end, however, RIC respectfully submits that the a methodology that incorporates the intrastate portion of connections in establishing surcharge levels – such as the framework outlined by RIC – avoids these issues and should be adopted by the Commission.

- 4. In implementing any connections-based NUSF contribution mechanism, the Commission, in an effort to promote efficiency in data collection, should seek access to available FCC information and follow established FCC procedures to secure access to such data.**

³² *Greater Washington Bd. of Trade v. District of Columbia*, 948 F.2d 1317, 1320 (D.C. Cir. 1991); see also *Borbeau v. Jonathan Woodner Co.*, 549 F. Supp. 2d 78, 88 (D.C. Cir. 2008); *Missouri Bd. of Examiners for Hearing Instrument Specialists v. Hearing Help Exp., Inc.*, 447 F.3d 1033, 1035 (8th Cir. 2006) (citing *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 518-19 (1992)); *Qwest Corp. v. Scott*, 380 F.3d 367, 374 (8th Cir. 2004) (quoting *Calif. Fed. Sav. and Loan Ass'n v. Guerra*, 479 U.S. 272, 281 (1987)). *Wisconsin Public Intervenor v. Mortier*, 501 U.S. 597, 605 (1991) (“When considering pre-emption ‘we start with the assumption that the historic police powers of the State were not to be superseded by the Federal Act unless that was the clear and manifest purpose of Congress.’”) (quoting *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947)).

³³ *Altria Group, Inc. v. Good*, 555 U.S. 70, 76 (2008); *Gabarick, et al. v. Laurin Maritime (America) Inc., et al.*, 623 F. Supp. 2d 741, 749-50 (E.D. La. 2009); *Brodie v. Telecorp Communications, Inc.*, 836 So.2d 646 (5th Cir. 2002).

³⁴ *Cortez v. Nebraska Beef, Inc.*, 266 F.R.D. 275, 283 (D. Neb. 2010) (quoting *Int'l Paper Co. v. Ouellette*, 479 U.S. 481 (1987)).

Potential legal issues may arise should the Commission seek access to FCC-reported information using procedures different from those already established by the FCC. RIC respectfully suggests that such legal issues can and should be avoided in order not only to minimize contribution reform implementation costs but also to standardize and have available reported baseline information to which Nebraska-specific intrastate information can be compared.³⁵ RIC notes that processes are in place to allow information provided to the FCC to be shared with a state commission.

For example, a generic letter is available that provides the framework for the Commission to request sharing by the FCC of Form 477 data regarding connections (the “*FCC Form 477 Information Sharing Letter*”): <http://transition.fcc/form477/letter-of-agreement-format-2009.pdf>. Sharing of this information is consistent with the FCC’s Rules.³⁶

As the language in the *FCC Form 477 Information Sharing Letter* suggests, the legal issue is whether the Commission’s protection of information from public disclosure is consistent with federal Freedom of Information Act (“FOIA”) act requirements. Specifically, the *FCC Form 477 Information Sharing Letter* states:

Pursuant to Section 0.291 of this Commission’s rules, we grant you access to these data subject to your agreement to treat this information in accordance with procedural and substantive protections that are equivalent to or greater than those afforded under Federal confidentiality statutes and rules, including the Freedom of Information Act (*see* 5 U.S.C. § 552(b)), the Trade Secrets Act (*see* 18 U.S.C. § 1905), and Sections 0.457, 0.459, and 0.461 of the Commission’s rules (*see* 47 C.F.R. §§ 0.457, 0.459, 0.461), specifically including Section 0.461(d)(3). To the extent that Federal confidentiality statutes and rules impose a higher standard of

³⁵ *Feb. 2015 Comments*, pp. 10-11 and *June 2016 Comments*, pp. 22-25.

³⁶ *See* 47 C.F.R. § 1.700(d)(4)(i) (“The [FCC] shall make all decisions regarding non-disclosure of provider-specific information, except that the Chief of the Wireline Competition Bureau may release provider-specific information to: (i) A state commission provided that the state commission has protections in place that would preclude disclosure of any confidential information. . . .”

confidentiality than state law, the state is required to adhere to the higher Federal standard.³⁷

Courts have confirmed that the State FOIA should be read to be consistent with Federal FOIA requirements.³⁸ Like the Federal FOIA, the Nebraska Public Records Act permits trade secrets and other proprietary and commercial information to be withheld from disclosure to the public.³⁹ In addition, courts often look to other states for guidance on FOIA issues.⁴⁰

³⁷ *FCC Form 477 Information Sharing Letter* at 1.

³⁸ Where a state's FOIA is modeled after the federal FOIA, courts may "draw on the federal counterpart for judicial construction and legislative history." 37A Am. Jur. 2d Freedom of Information Acts § 4 (2016) (citing *Regents of University of California v. Superior Court*, 222 Cal App. 4th 383 (Cal Ct. App. 2013); *District of Columbia v. Fraternal Order of Police, Metropolitan Police Dept. Labor Committee*, 75 A.3d 259 (D.C. 2013). See also *Holt v. Howard*, 806 F.3d 1129, 1132-33 (8th Cir. 2015) ("The safety of others is a 'factor[] which [is] properly cognizable' by a legislative body when determining the limits of a state public records law.") (quoting *City of Cleburne, Tex. V. Cleburne Living Ctr.*, 473 U.S. 432, 448 (1985)).

³⁹ Neb. Rev. Stat. § 84-712.05 states:

The following records, unless publicly disclosed in an . . . open administrative proceeding, or open meeting or disclosed by a public entity pursuant to its duties, may be withheld from the public by the lawful custodian of the records: . . .

(3) Trade secrets . . . and other proprietary or commercial information which if released would give advantage to business competitors and serve no public purpose[.]

Similarly, the Federal FOIA states that the public disclosure requirements do not apply to matters that are "trade secrets and commercial or financial information obtained from a person and privileged or confidential[.]" 5 U.S.C. § 552(b)(4).

⁴⁰ "[C]ourts may look to federal case law for guidance as well as developments from other states." 37A Am. Jur. 2d Freedom of Information Acts § 4 (2016) (citing *Abdur-Rashid v. New York City Police Dept.*, 992 N.Y.S.2d 870 (N.Y. App. Div. 2014); *Powder River Basin Resource Council v. Wyoming Oil and Gas Conservation Com'n*, 320 P.3d 222 (Wyo. 2014); *Montenegro v. City of Dover*, 34 A.3d 717 (N.H. 2011); *Kenyon v. Garrels*, 540 N.E.2d 11 (Ill. Ct. App. 1989)).

In *Northwestern Bell Telephone Co., Omaha v. American Data Systems, et al.*, the Nebraska Supreme Court looked to the rationale employed by the Court of Appeals for the State of Kansas to determine whether cost and profit information could be classified as a trade secret and thus be withheld from the public. 223 Neb. 415, 419-421, 390 N.W.2d 495, 498-500 (1986). Such rationale provided as follows:

Furthermore, the Commission has the authority, which it routinely utilizes, to enter one or more appropriate protective orders to safeguard the confidentiality of information that comes into its possession.⁴¹

In any event, consistent with RIC's prior comments,⁴² RIC respectfully suggests that the Commission should begin discussions with the FCC necessary to ensure access to Nebraska-specific FCC Form 477 data to encourage not only consistent reporting of information but also accountability and auditability of carrier-reported connections-based information. As part of this discussion, RIC also respectfully requests that the Commission discuss similar access to FCC Form 499-A Nebraska-specific data regarding revenues to the extent that an interim reliance on

We hold that when deciding whether to publicly disclose information which the Commission has found to be relevant and necessary for its proceedings and which a party contends to be in the nature of a trade secret or confidential research, development or commercial information, the Commission should proceed as follows: First, it should determine whether the information is a trade secret or confidential commercial information. In considering this matter, the burden is on the party seeking to prevent disclosure. Secondly, the Commission should weigh the competing interests. In doing so, it should consider, *inter alia*, the financial or competitive harm to the party seeking to prevent disclosure; whether disclosure will aid the Commission in its duties; whether disclosure serves or might harm the public interest; and whether alternatives to full disclosure exist.

Id. at 420, 390 N.W.2d at 499 (quoting *Southwestern Bell Tel. Co. v. Kansas Corporation Commission*, 629 P.2d 1174, 1184 (Kan. Ct. App. 1981).

⁴¹ On May 10, 2016, the Commission adopted the Third Set of Proposed Rules including amendments to Title 291, Chapter 1, Rules of Commission Procedure. With regard to discovery procedures, the rules now state:

The Hearing Officer or a designee, at the request of any part or upon the Hearing Officer's own motion, may issue . . . protective orders in accordance with the rules of civil procedure except as may otherwise be prescribed by law.

291 Neb. Admin. Code § 1-002.14B (2016). Nebraska's rules of civil procedure specifically permit protective orders to be entered, if good cause shown ordering that "a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way[.]" Neb. Ct. R. Disc. § 6-326(c)(7).

⁴² See *June 2016 Comments* at 24-25.

the intrastate revenue data for business and special access is approved. In this way, access to data can be secured and the Commission's progress toward an NUSF connections-based contribution methodology will not be unduly delayed.

III. THE COMMISSION SHOULD RESOLVE THE LEGAL ISSUES RAISED BY QUESTION 2 IN THE MANNER OUTLINED HEREIN.

As noted above, the Commission's *July Briefing Order* stated the following second question for briefing:

- (2) What issues may be presented if a state connections-based USF contribution mechanism proposes to assess a regulatory surcharge on a connection through which only broadband Internet access service access is provided versus a connection where both broadband and voice is provided?⁴³

While RIC has developed in Section II, *supra*, many of the underlying concepts necessary to address this issue, RIC will focus on the ability of the Commission to assess broadband for NUSF purposes. In this regard, RIC respectfully submits that the Commission should, at this time, avoid the issue of assessing broadband whether it is on a stand-alone per connection basis or a mixed used per-connection basis where broadband and voice are provided over the same physical connection.

A. Assessing Broadband at this Juncture Would Create Risk and Uncertainty for the Commission's Efforts to Adopt a Connection-Based Contribution Methodology.

The FCC has made clear that currently it stands ready to address state commission efforts to assess broadband in the absence of further FCC action on contribution reform.

[W]e conclude that any state requirements to contribute to state universal service support mechanisms that might be imposed on such broadband Internet access services would be inconsistent with federal policy and therefore are preempted by section 254(f) – at least until such time that the Commission rules on whether to

⁴³ *July Briefing Order* at 1.

require federal universal service contributions by providers of broadband Internet access service. 47 U.S.C. § 254(f).⁴⁴

As a result, and to help ensure that the NUSF contribution reform methodology and mechanism is not subject to avoidable challenges and thus unpredictability, RIC respectfully submits that the Commission should focus its efforts in this proceeding on intrastate connections and intrastate business revenues as outlined herein and in RIC's *June 2016 Comments*. By so doing, RIC anticipates that the Commission will be able to implement future FCC actions if and when the FCC determines to allow SUSF assessments on BIAS.

B. Isolating the Use of a Connection for Intrastate Telecommunications and Relying on Existing Intrastate Revenue on an Interim Basis for Business and Special Access Services Would Address Connections Used for Broadband and for Voice.

To reiterate, RIC has outlined under Question 1 above the framework to address legal issues associated with the Commission's jurisdiction regarding the establishment of an NUSF connections-based (with an interim reliance on intrastate revenues for a discrete set of services – intrastate business and intrastate special access) contribution methodology. As a general matter, RIC respectfully submits that isolating intrastate usage (and relying on either actual usage or safe harbors as has been outlined in the RIC comments in this proceeding) is a rational and prudent approach to avoid unnecessary legal challenges to the Commission's jurisdiction.⁴⁵ RIC notes that, because rates for BIAS are provided under interstate tariffs for the RIC members, isolating broadband usage is not required at this time.

⁴⁴ *Open Internet Order*, para. 490, n. 1477.

⁴⁵ RIC notes that Local Exchange Carriers' ("LECs") intrastate telecommunication service connections are typically used for both local exchange service and intrastate long distance service. As a result, and in order to avoid the assessment of the intrastate long distance service twice – once by the LEC and a second time by the interexchange carrier serving the end user of that service – an adjustment of the LEC intrastate per-connection charge seems reasonable. RIC is currently evaluating how this adjustment can occur in an efficient manner.

IV. THE COMMISSION SHOULD RESOLVE THE LEGAL ISSUES RAISED BY QUESTION 3 IN THE MANNER OUTLINED HEREIN.

Finally, the Commission has sought comments on the following third issue:

- (3) How does a party that has identified a legal issue recommend that such issue be addressed by the Commission in order to minimize or eliminate the impact of such issue on the implementation of a connections-based contribution mechanism?⁴⁶

RIC agrees with the Commission that identification of any potential deficiencies in the Commission's jurisdiction at this time is unquestionably prudent as the Commission embarks on its efforts to reform the NUSF and to transition to a connections-based NUSF contribution methodology.⁴⁷ As indicated above, RIC believes it has provided the necessary information in response to Issues 1 and 2 to outline the legal issues that should be addressed in connection with the RIC contributions reform proposal and the method by which such issues can be minimized or eliminated. Rather than reiterate those positions, RIC refers the Commission to the discussion set forth in Sections I through III of this brief.

V. CONCLUSION

The RIC members appreciate the opportunity to provide this legal brief in response to the *July Briefing Order* and respectfully request that the Commission take action on the matters raised in response to such legal issues in a manner consistent with that discussed in RIC's previously filed comments and in this brief. RIC looks forward to continuing its participation in this docket by the filing of a reply brief.

⁴⁶ *July Briefing Order* at 1.

⁴⁷ In this regard, RIC is particularly pleased to see that, through Issue 3, the Commission agrees that parties raising jurisdictional issues should address actions that could be taken by the Commission to ameliorate any legal shortcoming that such party may raise. *See July Briefing Order* at 1 (Issue 3). Ultimately, the Commission should be fully informed as to a party's concerns (should they exist) with respect to Commission jurisdictional uncertainties. Where a party, in good faith, asserts that concerns exist, it is only rational and reasonable to expect that party to disclose the remedy it would propose to address that concern.

Dated: August 3, 2016.

Arlington Telephone Company, Blair Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hartington Telecommunications Co., Inc., Hershey Cooperative Telephone Company, Inc., K & M Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company, Rock County Telephone Company, Stanton Telephone Co., Inc., and Three River Telco (the "Rural Independent Companies")

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 3rd day of August, 2016, an electronic copy of the foregoing Reply Comments was delivered via electronic mail to:

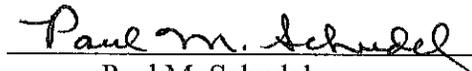
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