APR 14 2023

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSIONReceived & Scanned

| In the Matter of the Nebraska |) | Application No. NUSF-131 |
|--------------------------------------|---|--------------------------|
| Public Service Commission, on its |) | Progression Order No. 1 |
| own Motion, to establish reverse |) | |
| auction procedures and requirements. |) | |

COMMENTS OF THE NEBRASKA RURAL INDEPENDENT COMPANIES

The Nebraska Rural Independent Companies ("RIC")¹ submit these Comments in response to the Order Seeking Comment entered by the Nebraska Public Service Commission (the "Commission") in this docket as Progression Order No. 1 on March 14, 2023.² RIC appreciates the opportunity to provide these Comments and looks forward to continuing its participation in this docket regarding the reverse auction process and how such process might be improved in the future. In the below Comments, RIC will first set forth the topic on which comments are requested and the questions presented by the Commission in *Progression Order No. 1* followed by RIC's responsive comments.

1. Minimum Bidding Units

In *Progression Order No. 1* the Commission indicated that "minimum bidding units ("MBUs") were designated on the census block group level" and sought "guidance on whether it should revise its designation of MBUs." The Commission asked: "Should the MBUs made

¹ Arlington Telephone Company, Blair Telephone Company, Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, LLC, 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, Sodtown Communications, Inc. and Three River Telco.

² In the Matter of the Nebraska Public Service Commission, on its own Motion, to establish reverse auction procedures and requirements, Application No. NUSF-131, Progression Order No. 1, Order Seeking Comments (Mar. 14, 2023) ("Progression Order No. 1").

available in the 2022 Auction be subdivided? If so, by how much? What geographic or other considerations should the Commission take into account in revisiting the size of MBUs?"³

Response: As the Commission's records in Application No. NUSF-131 reflect, Great Plains Communications, LLC, Hamilton Long Distance Company and Northeast Nebraska Telephone Company constituted three of the four entities approved by the Commission to participate in the Commission's 2022 reverse auction.⁴ Each of these entities is a member of RIC or an affiliate of a RIC member. As such, RIC is well positioned to respond to the above-quoted inquiries by the Commission.

RIC recommends that the size of each MBU should be reduced from the MBU size in the 2022 reverse auction. RIC further recommends that insofar as possible each MBU should consist of a contiguous geographic area. In response to the Commission's question whether the MBUs should be subdivided into smaller units, the RIC members submit that prior designations of MBUs were too large. ⁵ Further, to the extent that MBUs were previously non-contiguous, the reserve prices set for the MBUs did not address the costs to deploy middle mile facilities needed to serve the entire MBU. Consequently, in many instances the reserve prices for MBUs were insufficient to meet the deployment obligations presented and failed to provide a rational business case for participating in the reverse auction. (Please refer to the additional discussion of this topic in Section 2 below.)

³ Progression Order No. 1, p. 1.

⁴ In the Matter of the Nebraska Public Service Commission, on its own Motion, to establish reverse auction procedures and requirements, Application No. NUSF-131, Order Issuing List of Qualified Bidders (July 26, 2022).

⁵ See, Section 2, infra.

As a result of this experience, RIC respectfully recommends that the Commission define MBUs on the basis of smaller geographic areas, and to the extent possible, define MBU areas that are contiguous. This fine-tuning by the Commission of its policies for establishing geographical areas of MBUs should result in greater participation in future reverse auctions. Increased reverse auction participation should, in turn, result in successful redeployment of already allocated Nebraska Universal Service Fund ("NUSF") broadband deployment dollars⁶ to benefit rural consumers residing in such MBUs through the provisioning of 100/100 Mbps broadband service.

2. Reserve Price for MBUs

The Commission noted in *Progression Order No. 1* that in its 2022 reverse auction, it relied on the State Broadband Cost Model ("SBCM") in setting the reserve prices for MBUs and further, that the Commission "has received informal feedback that these reserve prices were not sufficient to generate participation in the reverse auction process." Therefore, the Commission asks: "Should the Commission, therefore, increase the reserve prices for MBUs in future auctions? If so, by how much? Would an approach of placing the reserve price for each MBU at three times the SBCM pricing be an appropriate starting point for a future auction? If not, what other methodology can the Commission use in setting the reserve price for MBUs?"

Response: As an initial matter, and as reflected in RIC's response to Section 1 above, RIC agrees with the Commission's observation that the MBU reserve pricing requires

⁶ Unless otherwise specifically noted, RIC notes that its references to the "NUSF" in these comments are to the NUSF High Cost Program.

⁷ Progression Order No. 1, pp. 1-2.

⁸ *Id.*

modification. While properly defining the geographic area of MBUs should address to some extent the lack of prior participation in the 2022 reverse auction, increasing the SBCM-based reserve prices of revised MBUs should also hold promise for greater reverse auction participation and award of reverse auction support for build out of MBUs.

Whether the Commission's suggestion that the reserve price be revised to three times the SBCM investment for all eligible locations within an MBU is the "right price" is a subjective judgment. The objective goal of the Commission should be to establish reserve prices that approximate the actual fiber-based investments required to provide broadband service to the MBUs. While utilizing the SBCM model alone did not establish reserve prices for the 2022 reverse auction that incented bidder participation, the Commission's suggestion that the reserve price be revised to three times the SBCM cost appears to be reasonable based on the issues experienced with the 2022 reverse auction. However, RIC believes that its price-setting process proposed below considers several relevant factors and appropriate methodology that the Commission can utilize to set reserve prices for MBUs. The subjectivity of such process could be lessened if additional empirical data is gathered with respect to the amount of investments required to build out the proposed MBUs, thus allowing fine tuning of the reserve prices prior to conduct of the next reverse auction. That fine tuning, in turn, should provide interested parties with a more informed basis to determine the economic viability of participation in the reverse auction. Although admittedly this approach would require additional time to prepare for the next reverse auction, providing improved cost information should minimize the "trial and error" associated with the use of subjective reserve prices.

As part of the process for setting the reserve prices for the MBUs, RIC respectfully submits that any such effort should include at least the following three (3) steps. First, SBCM

cost model results should be updated for inflation. In this regard, if a macroeconomic inflation indicator is utilized, a data-based increase in the reserve price of at least 60% is supportable. This factor reflects an additional 30% increase in overall inflation results which was suggested by the Congressional Budget Office ("CBO") study as to the different inflation impacts between urban and rural areas. Further, a Bank of America study reflected similar results. Application of this inflation framework would increase reserve prices by 1.6 times the SBCM investment amount.

Second, RIC respectfully submits that a reasonable additional increase in reserve prices should be adopted due to increases in the prices of the specific materials and labor required to build out broadband networks over and above general inflation levels. Such cost differentials are, in RIC's view, supported by the CBO and Bank of America studies cited above. As such, setting revised reserve prices for MBUs of at least a two times the SBCM investment to build out MBU broadband networks should be supportable.

Finally, based on its members' prior experiences, RIC submits that the process for the establishment of "reserve prices" for MBUs should also be subject to additional upward adjustment for those MBUs that are not comprised of contiguous geographic areas since the

⁹ RIC has used the GDP CPI (also known as the GDP deflator) to adjust for inflation. The reason for choosing this inflation measure is that this is the measure the FCC has used when adjusting various costs for inflation. Alternative inflation adjusters are the CPI or the PPI, if use thereof would be preferred by the Commission. For reference purposes, the GDP deflator's annual numbers for the years 2018 through 2022 were, 1.8%, 2.2%, 1.8%, 1.2%, 4.2%, 7.96%.

 $^{^{10}\ \}underline{https://www.cbo.gov/system/files/2022-01/57794-Smith.pdf}.$

¹¹ https://www.cbsnews.com/news/inflation-rural-households-non-college-grads-hardest/.

¹² As a reminder, *Neb. Rev. Stat.* § 86-330(2) requires that funding subject to reverse auction "shall be utilized in the exchange area for which the funding was originally granted."

build out of non-contiguous MBUs generally requires the successful bidder to lease or construct middle mile network facilities to connect the non-contiguous portions of the MBU. This middle mile requirement represents additional investments required to avoid stand-alone "broadband" islands while, at the same time increasing the costs for the successful bidder to establish broadband service at 100/100 Mbps speeds for all locations within an MBU. Consequently, setting the reserve price for non-contiguous MBUs at three times the SBCM investment, as suggested in *Progression Order No. 1*, may ultimately be reasonable.¹³

3. Participation by Providers Who Returned Support or from Whom Support Was Withheld

In *Progression Order No.* 1, the Commission has proposed to remove the restriction used in 2022 that "carriers who turned back NUSF support, or did not file projects to claim the allocated support, were not allowed to bid in the auction" and proffers that, if "the reserve price for MBUs is increased, . . . it may be possible for the incumbent provider in the service area to serve the area with increased funding, and that the provider should be afforded the opportunity to competitively bid for that MBU." ¹⁴ In addition to seeking comments on these aspects of eligibility to engage in the reverse auction, the Commission also seeks comment on the following items: "Is it appropriate to allow a provider from whom support was withheld to participate in the reverse auction for said support? Is removing this restriction likely to minimize overbuilding and increase efficiency, and will it increase participation in reverse auctions? Are any alternative approaches available which the Commission should consider?" ¹⁵

Response: RIC has not identified a reason, as a general matter, the Commission-

¹³ Progression Order No. 1, p. 2.

¹⁴ *Id*.

¹⁵ Id.

designated Eligible Telecommunications Carrier ("ETC") to which NUSF support was allocated but later returned to the Commission should be precluded from participating in a subsequent reverse auction. Similarly, if a recipient of grant support from a program such as the Nebraska Broadband Bridge Program (the "NBBP Program") determines on the basis of changed circumstances that the NBBP Program grant recipient needs to return such support to the Commission, such recipient should not be precluded from participating in a reverse auction that includes such area. RIC expects that increasing the potential of qualified reverse auction participants would, in turn, increase the potential for a successful auction of available support.

At the same time, however, RIC also respectfully submits that certain factual circumstances may form the basis for a lack of eligibility to participate in future reverse auctions. For example, if return of NUSF support by an ETC was required by the Commission based on some conduct by the ETC otherwise found by the Commission to be inconsistent with the public interest, such ETC should not be eligible to participate in future reverse auctions absent a demonstration of changed circumstances. RIC's proposed standard – the "demonstration of changed circumstances" – reflects the importance of providing NUSF funding to entities that reflect the qualifications necessary for the Commission to have confidence in their commitment to providing broadband to Nebraska rural consumers at speeds required by the Legislature.

4. Participation by Fixed Wireless Providers

With respect to fixed wireless providers' participation in reverse auctions, the Commission asks whether, in "order to fairly evaluate fixed wireless providers against wireline providers," the Commission should "require that fixed wireless providers submit supplemental information to the Commission in order to be authorized as a qualified bidder? If so, what

information should be provided?"¹⁶ The Commission proposes that fixed wireless providers must receive ETC designation prior to participation in a reverse auction and that fixed wireless providers should be required to submit speed test data demonstrating the ability to meet the speed requirements of the program.¹⁷ In conjunction with this framework, the Commission queries whether this "approach is appropriate"; "[w]hat should the Commission consider in evaluating this planned approach?"; and "[s]hould any other information be required to be submitted?"¹⁸

Response: First, Neb. Rev. Stat. § 86-330(2) provides that if the Commission redirects withdrawn funding through a reverse auction, it must be "to another eligible telecommunications company." This requirement of ETC status for a reverse auction participant is mirrored in the Commission's Reverse Auction Rules. ¹⁹ Consequently, no question should exist that ETC status must be granted to a reverse auction participant prior to issuance of any reverse auction award.

Second, any fixed wireless provider participating in a reverse auction must be capable of providing infrastructure capable of delivering a minimum of 100/100 Mbps speeds.²⁰ Following project deployment, speed testing should be required to confirm that the facilities constructed by the fixed wireless provider do, in fact, deliver minimum speeds of 100/100 Mbps. Consistent with the existing rules for reverse auctions, such a demonstration at the application phase must

¹⁶ Progression Order No. 1, p. 2.

¹⁷ *Id.* p. 3.

¹⁸ *Id*.

¹⁹ See, Reverse Auction and Wireless Registry Rules and Regulations, Title 291, Chap. 16, Sec. 001.04(C)(iii).

²⁰ See, In the Matter of the Nebraska Public Service Commission, on its own Motion, to establish reverse auction procedures and requirements, Application No. NUSF-131, Order Establishing Reverse Auction Procedures and Scheduling Workshop, p. 23 (Feb. 1, 2022).

include a certification that, among other information, the factual assertions associated with the speed offerings of 100/100 Mbps can be met.²¹ In this way, the requirement of a "scalable" broadband network reflected in *Neb. Rev. Stat.* § 86-324.01²² can be demonstrated.

Third, fixed wireless providers participating in reverse auctions should be required to comply with all aspects of the Nebraska Capital Projects Fund Program Guide and Grant Application form. These requirements include, but are not limited to, provision of the information required to be included in Attachment Letter K, K1 (tower locations), and K2 (propagation data).²³ RIC endorses the Commission's proposal to formally adopt the requirements of the Capital Projects Funds applicable to fixed wireless providers to equally apply to reverse auctions.²⁴ Similarly, the Commission should require that fixed wireless providers provide with their tower coverage shapefiles, the propagation maps and information

To the extent that an applicant plans to use licensed or unlicensed spectrum to offer its voice and broadband services in the area or areas subject to Reverse Auction, a demonstration that it has the proper authorizations to use such spectrum, that use of such spectrum will not cause any interference with existing users, and that the spectrum resources will be sufficient to cover peak network usage and deliver the minimum performance requirements to serve the Fundeligible area or areas defined in the Reverse Auction, and certify that it will retain its access to and the use of the spectrum for at least 10 years from the date of the Support authorization

²¹ Reverse Auction and Wireless Registry Rules and Regulations, Title 291, Chap. 16, Sec. 001.04(C)(vii), which states:

²² See, Neb. Rev. Stat. § 86-324.01("Beginning on January 1, 2022, the commission shall ensure that funds distributed from the Nebraska Telecommunications Universal Service Fund for construction of new broadband infrastructure shall go to projects that provide broadband service scalable to one hundred megabits per second or greater for downloading and one hundred megabits per second or greater for uploading. . . .")

²³ See, CPF-1 Order, p. 6.

²⁴ C-5484 Order, p. 4.

necessary to reproduce the coverage area calculated in these maps, including descriptions of the software used as well as the methodology, inputs, and assumptions used.

5. Ongoing Support

The Commission is considering a range of approaches in order to increase participation in future reverse auctions. One approach under consideration is to allow for successful bidders in a reverse auction to receive ongoing support, comparable to the support withheld from the incumbent price cap carrier for that area, in order to maintain the network. The Commission seeks comment on whether this approach is feasible, and whether current processes should be revisited. If ongoing support is provided, what factors should be considered when calculating how much ongoing support to provide, if ongoing support is provided for the purpose of ensuring a network will be adequately maintained in the long term?

Response: To place its comments in perspective, RIC notes that NUSF is purposed to provide broadband service to high cost areas of the State for which no private business case exists to warrant such deployment absent NUSF support. Or, put another way, the area can only rationally sustain one network, and then only with state (and federal) funding.

With this context in mind, RIC respectfully submits that provision of NUSF support for ongoing expenses to a successful bidder in a reverse auction is a policy issue that is closely tied to the Carrier of Last Resort ("COLR") issues associated with Section 6 below. As a matter of public policy, RIC believes that NUSF support for ongoing expenses in a given geographic area should only be provided to the COLR for that geographic area. Further, there should only be a single COLR in any given geographic area.

The Commission asks whether the level of ongoing expense support should be

comparable to the support withheld from the incumbent price cap carrier for that area?²⁵ RIC submits that there is not a rational basis to continue to provide ongoing expense support at the same level provided to the former incumbent price cap carrier to the reverse auction bidder that successfully deploys broadband in an MBU.

The Commission should use the existing SBCM methodology to determine ongoing expense support amounts until the Commission approves an update to such methodology that reflects reduced broadband deployment needs (due to the increasing percentage of broadband build out in the State), and concomitantly reflects the increased need to allocate NUSF support to the operating expenses associated with the expanded broadband network.

6. Carrier of Last Resort

The Commission poses a series of questions seeking comments as to whether there should be a linkage between COLR obligations and the receipt of NUSF operating expense support that may be provided to a successful bidder for one or more MBUs.

Would the winning bidder necessarily be held to the COLR obligations previously held by the incumbent price cap carrier for that MBU? Are the processes set forth in the Commission's regulations and in the FCC's Section 214 process sufficient for carriers seeking to adjust or withdraw their COLR obligations? If a winning bidder provides fixed wireless or other non-wireline services, could an analysis similar to that adopted by the FCC in 2016 be adopted by the Commission? Would such an analysis be sufficient to evaluate whether that winning bidder can meet COLR obligations? At what stage in the reverse auction process should an analysis of a provider's ability to meet COLR obligations be performed?

Response: As stated in Section 5 above and as a matter of public policy, RIC believes that NUSF support for ongoing expenses in a given geographic area should only be provided to

²⁵ For price cap carriers, the division of NUSF High Cost support has been 10% for ongoing expenses and 90% for broadband deployment support. *See, i.e., In the Matter of the Nebraska Public Service Commission, on its own Motion, to administer the universal service fund High-Cost Program,* Application No. NUSF-99, P.O. #2, Order Authorizing Payments, p. 3 (Jan. 24, 2023).

the COLR for that geographic area. If a reverse auction of NUSF support for an MBU results in the distribution of such support to a successful bidder other than the existing COLR in that area (the incumbent local exchange carrier), RIC recommends that COLR obligations for the geographic area constituting the MBU should be transferred to the successful bidder.²⁶

The incumbent local exchange carrier with COLR responsibilities should initiate an application pursuant to Neb. Rev. Stat. § 86-134 seeking Commission approval to abandon or otherwise discontinue its service as the COLR in the geographic area constituting the MBU in question. At the hearing on the application, as required by Section 86-134(1)(a), the carrier seeking to discontinue service must establish "that one or more other telecommunications companies or communications providers (i) are furnishing comparable wireline telecommunications service, including voice over Internet protocol service, to the subscribers in such local exchange area or (ii) have been designated as eligible telecommunications carriers in such local exchange area at the time of discontinuance or abandonment." Further, the withdrawing carrier must demonstrate that it has provided timely notification to its subscribers of the discontinuation of service and has refunded any prepaid subscriber charges as required by Section 86-134(b). Commission approval of the discontinuation of service by the incumbent local exchange carrier should occur in conjunction with the designation of the successful MBU bidder as the successor COLR for the area in question as well as such bidder's entitlement to receive future NUSF ongoing expense support attributable to such area. RIC believes that the process provided by Section 86-134, implemented in conjunction with the reverse auction

²⁶ As discussed in Section 5 above, *Neb. Rev. Stat.* § 86-330(2) provides that if the Commission redirects withdrawn funding through a reverse auction, it must be "to another eligible telecommunications company" and the Commission's Rules also set forth this requirement (*see*, fn. 17 above).

directives of *Neb. Rev. Stat.* § 86-330 and the Commission's Reverse Auction Rules and Regulations provide a sufficient basis for carriers seeking to adjust or withdraw their COLR obligations.²⁷

In the 2016 and 2018 FCC decisions cited in *Progression Order No. 1* at footnote 4, the FCC clearly finds that "[o]ur rules governing the discontinuance process do not preempt state requirements regarding the discontinuance of intrastate services" and acknowledge that the discontinuance process provided in 47 U.S.C. § 214

is not intended to preempt or displace carrier of last resort (COLR) or other service obligations that states may impose on incumbent LECs. Section 214 authority to discontinue an interstate switched access service does not carry with it relief from any COLR or other state law obligations that require a carrier to provide local service.²⁹

While the Commission may wish to consider FCC discontinuance processes being addressed by the FCC in its *Second R&O* and *Declaratory Ruling*, and procedures, the Commission is in no manner governed thereby as the FCC's specific language reflects.³⁰

To avoid any issue regarding the Commission's jurisdiction to implement its COLR requirements under applicable Nebraska law, RIC respectfully requests that, as

²⁷ RIC acknowledges that Sections 11-17 of AM 1142 to LB 683 pending before the current session of the Legislature could result in changes to the discontinuance of service process.

²⁸ See, In the Matter of Accelerating Wireline Broadband Deployment by Removing Barriers to Infrastructure Investment, Second Report and Order, WC Docket No. 17-84, FCC 18-74 (released June 8, 2018) (the "Second R&O") at \P 6, n.10.

²⁹ In the Matter of Technology Transitions, et al., Declaratory Ruling, Second Report and Order, and Order on Reconsideration, GN Docket No. 13-15, et al., FCC 16-90 (released July 15, 2016) (the "Declaratory Ruling") at \P 52 (footnote omitted).

³⁰ The FCC's section 214(a)'s discontinuance obligations only apply to interstate voice and data telecommunications services and to interconnected VoIP service to which the FCC has extended section 214(a) discontinuance requirements. *See, Second R&O* at \P 6, n.10.

part of a reverse auction participant's application, the applicant must explicitly acknowledge and commit to undertake COLR obligations for the MBU area if that applicant is the successful bidder and if the ILEC seeks to discontinue the COLR responsibility. In this way, the Commission and consumers within the MBU area are not left without an entity to provide the services required of the COLR.

7. Other Issues

The Commission also seeks comment on other ways in which the process for future reverse auctions might be improved from the 2022 Auction. In this regard, the Commission poses the following questions: "What issues or barriers to participation did carriers face in the 2022 Auction? Are there other approaches the Commission should consider to increasing engagement in future reverse auctions? Alternatively, are there other mechanisms for distributing withheld support which the Commission should consider?" ³¹

Response: As set forth in the preceding responses to the Commission's inquiries (particularly in the Section 1 and 2 responses), RIC believes that the primary barriers to participation in the 2022 reverse auction were:

- The areas constituting the MBUs in the 2022 auction were not contiguous;
- The reserve prices set by the Commission for the MBUs were too low and thus, were insufficient to accomplish build out of the MBUs; and
- The issue regarding provision of NUSF ongoing expense support to successful MBU bidders had not been resolved by the Commission.

RIC believes that its preceding comments have addressed methods to increase engagement in future reverse auctions to the extent that RIC has comments on this subject.

RIC respectfully directs the Commission's attention to RIC's previously filed comments

³¹ Progression Order No. 1, p. 4.

addressing the "rural-based plan" alternative for distributing withheld NUSF support.³² RIC has no other distribution alternative to recommend to the Commission for consideration.

II. CONCLUSION

As stated above, the Rural Independent Companies appreciate the opportunity to provide these Comments in response to Progression Order No. 1. RIC looks forward to participation in the hearing in this proceeding.

Dated: April 14, 2023.

Arlington Telephone Company, Blair Telephone Company, Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, LLC., 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, Sodtown Communications, Inc. and Three River Telco (the "Rural Independent Companies")

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³²In the Matter of the Nebraska Public Service Commission, on its own motion, seeking to establish Title 291, Chapter 16, to adopt Reverse Auction and Wireless Registry rules and regulations in accordance with Nebraska Legislative Bill 338 [2021], Rule and Regulation No. 207, Comments of the Nebraska Rural Independent Companies (Nov. 11, 2022).

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 14th day of April 2023, an electronic copy of the foregoing pleading was delivered to the Nebraska Public Service Commission at psc.nusf@nebraska.gov and to the parties of record in this proceeding.

Paul M. Schudel