

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska Public) Application No. NUSF-139
Service Commission, on its own Motion,)
to consider appropriate modifications to)
the high-cost distribution and reporting)
mechanisms in its Universal Service Fund)
program in light of federal and state)
infrastructure grants.)

PREPARED DIRECT TESTIMONY OF PAT MCELROY

My name is Pat McElroy. I am employed with Northeast Nebraska Telephone Company or NNTC. My business address is 110 East Elk Street, Jackson, Nebraska. I am the CEO of NNTC. I have been in the Telecommunications and Broadband business since graduating from Briar Cliff College in 1989. NNTC was one of the first companies in the state to convert to fiber to every location within its service territory.

Although I am a member of the Rural Independent Companies or RIC, there is one section of the RIC testimony that NNTC offers testimony that is different than that of RIC. The purpose of my testimony is to offer NNTC’s testimony on Section 5.

Section 5: According to Section 5 of Attachment A, the Commission Staff would continue to utilize the NUSF EARN Form process to determine earnings caps for Rate-of-Return carriers in 2025. NNTC Recommends against retaining the EARN Form in 2025 and in the years after 2025. NNTC especially opposes retaining the EARN Form for 2025 if the Staff foresees its discontinuance after 2025. NNTC sees no rationale for the staff to retain the NUSF EARN Form for one additional year only to eliminate it beginning in 2026.

NNTC has had a positive earnings variance since 2022 which has had the effect of limiting or capping NNTC’s NUSF distribution. NNTC’s NUSF distribution in 2021 was \$1,114,827, dropping to \$446,708 for 2024. Some of the positive earnings variance was caused

by an increase in our federal support received through the FCC's ACAM, but it is also caused because NNTC operates very efficiently, which keeps our expenses at a very efficient level. Had NNTC experienced higher levels of expenses, NNTC's earnings variance would have been lower, which in turn may have increased our NUSF distribution amount. Although our NUSF distribution has decreased significantly, NNTC continues to be in the process of paying off RUS loans through 2035, and we continue to replace our first generation FTTH equipment so that our customers still have the best Internet service and experience possible.

If the Commission finds that it should retain the EARN FORM, NNTC recommends for the Commission to increase its rate of return from 9.75% to 11.75%.

The Commission began its transition from a rate of return of 12% to 9.75% in NUSF-108 in its Findings and Conclusions back in March of 2017. In its Findings, the Commission stated it should review the rate of return on an annual basis after seeking comments from interested parties. The 10-year US Treasury rate in March of 2020 was approximately .75%. Most recently the yield was approximately 4.2%. This significant increase in yields during the last 4 years certainly provides justification for the Commission to increase its NUSF EARN Form rate of return, and I recommend the Commission do so if the EARN Form is retained.

In addition, if the NUSF EARN form is retained after 2025, I would recommend for the Commission to revert back to its previous policy of allowing each carrier to have a one-time opportunity to select submitting the EARN Form based on annual data or based on the three-year average. This opportunity should allow carriers to select the option which is best for their situation and could soften the negative impacts associated with retaining the EARN Form.

I appreciate the opportunity to submit this pre-filed direct testimony for consideration by the Commission and look forward to continued participation in this proceeding.

Dated: August 6, 2024.

Northeast Nebraska Telephone Company

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 6th day of August, 2024, an electronic copy of the foregoing pleading was delivered to the Nebraska Public Service Commission at psc.telecom@nebraska.gov and was electronically served on Cullen Robbins, Director of Communications, Shana Knutson, legal counsel for the Commission and on legal counsel for all interested parties that have appeared in this docket.

Alyssa Arens for Pat McElroy
Pat McElroy