Reply Testimony

Of

Scott Bohler

For

CITIZENS TELECOMMUNICATIONS COMPANY OF NEBRASKA

d/b/a FRONTIER COMMUNICATIONS OF NEBRASKA

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

April 21, 2017

Q. Please state your name and business address.

A. My name is Scott Bohler. My business address is 2378 Wilshire Boulevard, Mound, Minnesota, 55364.

Q. On what company's behalf is this testimony submitted?

A. This testimony is submitted on behalf of Citizens Telecommunications Company of Nebraska, d/b/a Frontier Communications of Nebraska ("Frontier").

Q. Have you previously filed testimony in the docket for Frontier?

A. Yes, I filed direct testimony in the March 24, 2017 round.

Q. Have you reviewed the direct testimony filed by other parties in the March 24, 2017 round?

A. Yes, I have.

Q. Are there matters in those filings to which you would like to reply?

A. Yes, I would like to address the topic of the proposed tiered revenue approach for business connections, and to reply to the filing of the Commission Staff and the new alternatives they present.

Q. What was the reaction of parties to the tiered revenue approach for setting the fixed wireline business connection surcharge that the February 22 Order proposed?

A. In my direct testimony, I indicated that the tiered revenue approach for setting the fixed wireline business surcharges was problematic for Frontier. Several other parties also voiced their concern with that approach in their testimony. CenturyLink, Windstream, Level 3 Communications, and the Rural Independent Companies noted that the implementation of that approach could result in discriminatory impacts upon certain business customers. In addition, CenturyLink, Windstream, and Cox Nebraska Telecom noted that companies could experience difficulties interpreting and implementing the tiered approach in their billing systems. It seems clear that the Commission should adopt a simpler approach to business lines instead of the tiered revenue approach.

Q. Please summarize your understanding of the Commission Staff's direct testimony.

A. In the Staff's direct testimony, Mr. Robbins briefly describes the methodology used by the Staff to develop the proposed surcharges that were offered in the Commission's February 22 Order in this docket. Further, the Staff offers three additional variations of the proposed surcharges in its direct testimony.

Q. In your direct testimony, you noted several concerns with the methodology used to develop the proposed surcharges in the February 22 Order. Does the explanation of that methodology in the Staff's direct testimony allay your concerns?

A. No, the concerns I raised regarding the logic and computation of the surcharges remain.

Q. Can you further explain your concerns?

A. Yes. Page 3, lines 12 and following of the Staff's testimony summarize the methodology and computation procedure used to develop the proposed surcharges in the February 22 Order. The Staff indicates that they proposed to use "the estimated connections per household for both wireline (residential and business) and mobile wireless. These values are estimated at 0.7 fixed connections per household and 2.73 mobile wireless connections per household respectively." Those two factors (0.7 fixed connections per household and 2.73 mobile wireless connections per household) were drawn by Staff from World Bank and Federal Communications Commission sources, based on nationwide projections. However, there is no need or rationale for Staff to turn to the World Bank and FCC to estimate these factors, since the February 22 Order clearly identifies on page 2 of Appendix A that there were 820,925 Nebraska households in 2015, along with 728,000 fixed wireline connections and 1,886,000 wireless connections. Thus, the data in the February 22 Order shows that the appropriate factors for use in this docket are 0.89 fixed connections per household (728,000 connections divided by 820,925 households) and 2.30 mobile wireless connections per household (1,886,000 connections divided by 820,925 households).

Q. How does using these Nebraska-specific factors impact the figures shown in Appendix A to the February 22 Order?

A. Replacing the "Adjustment (Households)" factors in Column C on page 1 of Appendix A results in the "Adjusted Connections" figure in Column D being

797,857 for both Line 2.02 (Fixed Voice) and Line 2.03 (Mobile Voice). The 797,857 figure is simply the number of Nebraska households (820,925) multiplied by the "Assumed Collectible" factor (97.19%). It is not clear why this deflated household count would be an appropriate basis for computing a per-connection surcharge.

Q. On page 3, Line 20 of Staff's testimony, they note that a 60/40 split was used in its computations, so that 60% of the NUSF revenue was to be generated by fixed wireline services and 40% was to be generated by wireless services. Do you agree with this premise?

A. No. There are over 2 ½ times as many wireless connections as wireline connections. The adoption of a requirement that wireline services generate 50% more NUSF revenue than wireless services results in per-connection surcharges for wireline connections that are effectively more than 3 times the wireless surcharge. It is unclear what rationale supports a requirement that wireline services generate 60% of the NUSF funding requirement.

Q. In its testimony, Staff proposes alternatives to the surcharges laid out in the February 22 Order. Can you comment on those three alternatives?

A. Yes. At the outset, I will note that the underlying computation framework that the Staff uses for these three new alternatives is almost the same as the framework used in the February 22 Order. As I have discussed, that approach is flawed and is not an appropriate algorithm for developing a per-connection surcharge. Regarding the philosophical approaches taken by the new alternatives, I do not believe any of them should be adopted by the Commission. However, none of the three maintains the tiered revenue approach for business customers and that change is an improvement over the original proposal.

Alternative 1 would set the mobile and residential fixed voice surcharge at the same figure of $1.29. This attempt at parity between the two is a step forward. However, the $7.35 surcharge for single line fixed wireline business connections and $10.40 surcharge for multiline fixed wireline business connections that this alternative develops are exorbitant. As Staff notes, an assumption is made that 60% of business connections are for single line and 40% for multi-line. However, Staff has no data to support this split, and it is entirely possible that reality diverges from this 60/40 assumption. Under this alternative, business customers with many lines would be bearing an unreasonable burden. This would be a powerful incentive for such business customers to find alternatives to fixed wireline voice service, and imposes a heavy anti-competitive penalty for wireline carriers.

Alternative 2 maintains the mobile and residential fixed wireline surcharge at the same figure of $1.29, while assessing all fixed wireline business connections an $8.57 per-connection surcharge. This is marginally better for multiline business than Alternative 1, but still loads a heavy burden on business customers, and would impose a stiff anti-competitive penalty for wireline carriers.

Alternative 3 results in more reasonable fixed wireline business surcharges of \$4.63 for single line and \$6.55 for multiline. However, the same caveat about the reliability of the assumed 60/40 split between single line and multiline business connections remains. The main objectionable feature with this alternative is that it would set the fixed wireline residential surcharge at \$4.63, while retaining a \$1.29 surcharge on all wireless lines. There is no rationale given for setting the residential wireline surcharge at more than 3 ½ times the residential wireless surcharge. This approach would effectively hang a \$3.34 per month handicap on all fixed wireline residential prices, with the likely result of driving more customers to abandon their wireline services purely as a result of governmental action. Over the past several years, there has been a trend for customers to move from wireline connections to wireless connections. Under this Alternative 3 approach, for every customer making this transition there would be a \$3.34 monthly reduction in NUSF funding.

Q. You noted earlier that you did not believe the Commission should adopt any of these three new alternatives, as proposed. Are there any components of the three alternatives that the Commission should adopt?

A. Yes. The parity between wireless and wireline connection surcharges, as suggested in Alternatives 1 and 2, is a wise approach which the Commission should include in any plan it finally adopts. This would hold the NUSF harmless in terms of funding when customers switch between wireline and wireless connections. In addition, such an approach would promote a level playing field between wireline and wireless technologies. The three new alternatives do not incorporate a tiered revenue approach for business connections. The Commission should follow that lead in its final decisions and opt for a more simple connection-based approach for business connections.

Q. Does this conclude your testimony?

A. Yes, it does.