

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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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

APR 21 2017

REPLY TESTIMONY OF EDIT KRANNER ON BEHALF OF THE NEBRASKA RURAL INDEPENDENT COMPANIES

Nebraska Public Service Commission

I. INTRODUCTION - WITNESS BACKGROUND

Q. Please state your name, employer, business address and telephone number.

A. My name is Edit Kranner. I am employed with Consortia Consulting ("Consortia"). My business address is 233 South 13th Street, Suite 1225, Lincoln, Nebraska, 68508.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Rural Independent Companies ("RIC").¹ Each of the RIC member companies provides local telephone exchange, exchange access and broadband access services in rural areas of Nebraska subject to the jurisdiction of this Commission.

Q. What is your current position?

A. I am a Consultant at Consortia and my specialty is Economics.

Q. Are you the same Edit Kranner who filed direct testimony in the above captioned docket on March 24, 2017?

A. Yes, I am.

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

Q. Have you reviewed the pre-filed direct testimonies filed by other interested parties in this docket on March 24, 2017?

A. Yes, but I have primarily focused on those portions of the filed testimonies that address the subjects to which I am responding in this reply testimony.

Q. Have you also reviewed the direct and reply testimonies that have been or are being filed in this docket by Rural Independent Companies' witnesses Ken Pfister and Dan Davis?

A. Yes.

Q. What is the purpose of your testimony?

A. I will provide testimony in response to the pre-filed testimonies of other interested parties relating to several of the subjects presented by the Commission in its February 22, 2017 Order and Order Seeking Further Comments and Setting Hearing (the "February Order"). In addition, I will provide testimony relating to rate design Alternatives 1 through 3 attached to the pre-filed direct testimony of Commission Staff witness, Cullen Robbins.

II. QUESTIONS PRESENTED IN THE FEBRUARY ORDER ON WHICH THE COMMISSION REQUESTED PRE-FILED TESTIMONY

Q-II.1 Does RIC have responses to the reactions of interested parties provided in their pre-filed direct testimonies in response to the question: "How should the high-cost fund size be determined in light of funding that has already been made available through the federal universal service fund program?"

Q. In the testimony of CTIA's witness, Mr. Price, at pages 19-20, he expresses concern that the budget for the Fixed Broadband Program is overstated or otherwise flawed. Do you have comments on these concerns?

A. My initial comment in response to Mr. Price's stated concern is that as stated by Mr. Pfister in his pre-filed reply testimony, this docket is *not* about the establishment of 2018 NUSF Program budgets that might be implemented with regard to a connections-based contributions mechanism. Rather, as the caption of this docket clearly states, the Commission opened this docket, on its own motion, "*to consider revisions to the*

universal service fund contribution methodology.”, That being stated, in Attachment Two to my pre-filed direct testimony, I reflected the total State Broadband Cost Model (“SBCM”) cost above the \$52.50 benchmark for broadband build-out. From that amount I subtracted total known or estimated federal USF support for Nebraska carriers. If, in the future, additional federal USF support is provided to Nebraska for broadband build-out pursuant to Connect America Fund (“CAF”) Phase II auction and/or the Remote Areas Fund (“RAF”), RIC supports the netting of such support against the total costs produced by the SBCM. Of course, this would have the effect of reducing the unfunded balance for potential funding through the NUSF.

Q. Is it premature for the Commission to consider and to establish the level of support to be provided by the Fixed Broadband Program for broadband build-out?

A. Subject to the caveat stated at the beginning of my preceding response, it is not premature to give consideration to the level of support that may ultimately be provided by the Fixed Broadband Program, at least for 2018, because the delta between federal universal service fund (“USF”) funding and SBCM costs is in excess of \$152 million for the State of Nebraska. Even if the amounts of additional support produced by the CAF Phase II auction for Nebraska and the RAF are known in time to be included in 2018 budgeting, it is highly unlikely absent significant changes in the budgets by the Federal Communications Commission (“FCC”) for the CAF and current FCC policies regarding the level of RAF funding, that such amounts will be more than a small portion of the \$152 million delta. Therefore, Mr. Price’s concern is essentially “academic” in nature.

Q. Do you have a comment on the alternative methods of assessing the connection charge as proposed in Cullen Robbins pre-filed direct testimony?

A. Yes, I do. RIC does not endorse Alternatives 1 and 2. The method applied in the development of Alternative 3 is more consistent with RIC’s proposal as it was outlined in

Attachment One to Mr. Pfister's pre-filed direct testimony. Therefore, RIC is generally supportive of the Alternative 3 methodology with some possible modifications.

In all of Mr. Robbins' alternative proposals one of the guiding principles appears to be the 40/60 percentage split of total NUSF remittances between wireless and wireline technologies, i.e. 40% of NUSF remittances in each of Mr. Robbins' three alternatives is proposed to originate from wireless customers while 60% is proposed to originate from wireline customers. RIC's proposal is not confined by the 40/60 percentage split between the technologies. The 40/60 percentage split does not reflect the technology make-up of total connections reported on FCC Form 477 for Nebraska. For example, in December, 2015 wireless connections represented more than 65% of all connections in Nebraska.

Further, while RIC generally favors Alternative 3 of Mr. Robbins' proposals, RIC disagrees with the use of the same per connection surcharge amount for residential and single line business customers for two reasons. First, charging the same surcharge amount for residential and single line business connections is contrary to long-standing telecommunications policy. Generally, businesses have a higher usage of their telecommunication service than households do. For a business, telephone service is an essential tool and is part of the regular cost of operations. Telephone service directly contributes to generating higher business revenues. This leads to the second reason for RIC's disagreement of charging the identical rates for business and residential customers. Businesses have a much lower elasticity of demand for telephone service than residential customers do. If the price of the telephone service rises, businesses will retain the service while the current trend of decreasing wireline connections for residential customers will only speed up due to the higher price elasticity of demand in case of the residential

customers. Thus, RIC favors a rate design that is consistent with that set forth in Attachment One to Mr. Pfister's pre-filed direct testimony.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF NEBRASKA)
) ss.
LANCASTER COUNTY)

Edit Kranner, being first duly sworn on oath, states he has read the foregoing Testimony, is familiar with the contents thereof, and that such contents are true and correct to the best of her information and belief.

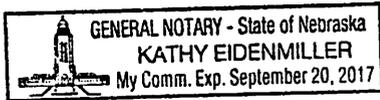


Edit Kranner

Subscribed and sworn to before me, a Notary Public in and for such State and County, this 21st day of April, 2017.



Notary Public



CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 21st day of April, 2017, an electronic copy of the foregoing Pre-Filed Testimony was delivered via electronic mail to:

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All Other Commenting Parties


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