BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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**

Rebuttal Testimony

of

William F. Kreutz

April 21, 2017

REBUTTAL TESTIMONY OF
WILLIAM F. KREUTZ
APPLICATION NO. NUSF-100, PI-193

Q. Please state your name and business address.

A. My name is William F. Kreutz. My business address is 4001 Rodney Parham Road, Little Rock, Arkansas 72212.

Q. By whom are you employed and in what capacity?

A. I am employed as the Senior Advisor—Policy and Strategy for Windstream Communications.[1]

Q. Have you previously presented testimony in this case?

A. Yes. I filed direct testimony on March 24, 2017.

---

[1] In this testimony, I will refer to following entities as collectively as "Windstream:" McLeodUSA Telecommunications Services, LLC, PAETEC Communications, Inc., Windstream Communications, Inc., Windstream IT-Comm, LLC, Windstream KDL, Inc., Windstream Norlight, Inc., Windstream NTI, Inc., Windstream of the Midwest, Inc., Windstream Systems of the Midwest, Inc., Business Telecom, LLC, DeltaCom, LLC, and EarthLink Business, LLC.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to the direct testimony filed by other parties in this case. In particular, I will provide my evaluation of the proposals submitted by the Nebraska Public Service Commission's Staff ("Staff").

Q. Please summarize the direct testimony filed by other parties in this case.

A. Most parties to this case support a connections-based funding mechanism for the Nebraska Universal Service Fund ("NUSF"), but they found the specific mechanism proposed by the Commission—especially the multi-tiered business surcharges--to be problematic. In addition to raising many questions about how the surcharge was intended to be applied, the parties found it to be arbitrary, discriminatory, not competitively neutral, and difficult to administer and bill.

Q. What is your understanding of the alternatives proposed by Staff?

A. Staff proposes three alternative connections-based surcharge mechanisms that differ in the relative burden borne by different types of customers: residential, mobile, single-line business, and multi-line business. Under each of the alternatives, the customer would pay a flat, per-connection surcharge. Although the distinction between single-line and multi-line businesses is borrowed from the federal subscriber line charge ("SLC"), it does not appear that Staff's proposal is otherwise modelled after the SLC.

Q. What is your general assessment of Staff's approach?

A. Staff provides a good model for discussing the potential impacts of a connection-based surcharge methodology on different customer groups. However, Staff's approach, like the Commission's proposal, is based on several assumptions, and therefore it can only be evaluated as a hypothetical model. Windstream and the other parties must have the opportunity to review and comment on a comprehensive Commission proposal before it is adopted.

Q. In your view, how should the universal service burden be spread among the various customer groups?

A. The guiding principle in distributing the universal service burden should be technological neutrality. Therefore, if one were designing a surcharge rate design for the first time and in a perfect world, a TDM landline (whether a residential or single line or multi-line business), a wireless line, and a VoIP line should be assessed the same amount. However, the reforms adopted by the Commission in this proceeding will have to consider the past practices of certain classes of customers being charged differently for similar services. In particular, the historical landline rate-setting practices of charging businesses higher rates than residential customers because of the relative value of telecommunications to businesses is a reality. Now that the Commission is embarking on moving to a connection-based contribution mechanism, should it adopt the past practices of having businesses pay a higher amount than residential customers? Or should it attempt to make all connections the same, regardless of the class of customers? These are difficult decisions which should not be made without accurate estimates of what the actual surcharge amounts will be so we can weigh the impacts on individual customer groups. Moreover, the class of customer distinction should also be technologically neutral. In other words, all other things being equal, a landline TDM business customer should be assessed the same amount as a wireless or VoIP business customer. However, all Staff's alternatives include a "one size fits all" wireless rate that does not differentiate between residential and business customers.

Q. What observations do you have regarding Staff's alternatives?

A. Staff should be commended for taking the lead in putting forth a range of contribution surcharge alternatives. The new alternatives are clearly better than the business tiered revenue approach set forth in the Order Seeking Further Comments and they are moving in the right direction. As discussed in my testimony and that of others, the Commission's proposal would have been confusing and administratively difficult to adopt. Overall, Staff's three alternatives each have some attractive components and also some items that cause concern.

Observations:

- All three alternatives result in estimates that wireless customers will contribute 40% ($28M) of the $71M proposed budget, whereas the wireless connections represent 72% of the connections. So, none of the three alternatives use a simple parity approach where all connections pay the same, regardless of technology or customer class.
- Both Alternative 1 and 2 have the same surcharge amount ($1.29) for both Mobile Voice and Fixed Residential Voice. This is a step in the right direction.
- All three proposals within the Fixed Voice category retain the traditional practice of assessing business customers at a higher rate than residential customers, thus maintaining a value of service

concept in the surcharge design. The Commission should consider whether the decades-old practice of charging businesses higher should be maintained.

- None of the three proposals adopt a business weighting in the Mobile Voice category, like that incorporated in all three of the Fixed Voice category alternatives. The Commission should consider whether the Mobile Voice business customers should have a higher surcharge amount than the Mobile Voice residential customers. If the business weighting concept is appropriate for the Fixed Voice customers, why is not also appropriate for Mobile Voice customers?

- The proposed surcharges for single-line business and multi-line business, compared to the residential surcharge, seem out of line. Taking into account the SLC design referenced in Staff's proposal, the residential and single line business SLC caps are the same. However, Alternative 1 would have a single line business customer's surcharge be 5.7 ($7.35/$1.29) times larger than the residential surcharge. Additionally, the multi-line business SLC cap is $9.20 compared to the residential and single-line business SLC cap of $6.50, or 41% higher, whereas the proposed surcharge for multi-line business customers is 8.1 ($10.40/$1.29) times larger than the residential surcharge. Similar disparities in the business line surcharges compared to residential surcharges are also incorporated into Alternative 2 and 3, although to lesser degrees.

Q. Do you have questions about the administrative ease of implementing a connections-based surcharge?

A. There needs to be absolute certainty on what is counted as a connection and how connections should be counted. On the mobile side, is every phone with a number counted as a connection so that family plans with three numbers are counted as three and not one for the family connection? How are PBX accounts counted? We recommend that not all of the stations behind the PBX should be counted; instead only the SLC-equivalent should be assessed. In addition, the surcharge amounts should not be based on input assumptions. Instead, actual connections data should be collected and analyzed to determine the exact surcharge amounts and how much funding they will generate. Finally, changing to a connections-based mechanism will require adequate time for billing system changes and testing to occur before implementation. Considering that all telecommunications providers will be impacted by such a change, a six-month transition period would be desirable.

Q. Please summarize your testimony.

A. Windstream supports the Commission's proposal to convert to a connections-based approach to contributions. However, in moving to a connections-based approach, there will likely be disruptions to individual customers and customer groups compared to the current revenue-based method of assessing contributions. As always, there are some policy-related threshold questions that the Commission needs to decide when making a conversion. Should all connections be assessed in a technology neutral manner, whereby each connection regardless of type of technology is assessed the same? Or should business customers be assessed a higher surcharge on their connections since the connections to the telecommunications network are more valuable to the business customers? These are rate design questions that have policy and practical impacts to individual customers depending upon what the Commission decides. And, inevitably, under the alternatives presented by Staff, whenever one customer class surcharge changes another customer class surcharge changes in the opposite direction, resulting in a sort of "whack-a-mole" effect.

Q. Does this conclude your rebuttal testimony?

A. Yes.

<u>/s/ William F. Kreutz</u>

Certificate of Service

The undersigned hereby certifies that on this 21st day of April, 2017, an electronic copy of the foregoing was emailed to the following:

Nebraska Public Service Commission:

Sue.vanicek@nebraska.gov
Brandy.zierott@nebraska.gov
Psc.nusf-filings@nebraska.gov

CenturyLink:

Jgettman@gettmanmills.com

norm.curtright@centurylink.com

Association of Teleservices Int'l:

motternmann@mcgrathnorth.com
nniemann@mcgrathnorth.com

Cox:

deonnebruning@neb.rr.com

CTIA:

BAron@ctia.org
MDeTura@ctia.org

Rural Telecom Coalition:

apollock@remboltlawfirm.com
tkirk@remboltlawfirm.com

Rural Independent Companies:

pschudel@woodsaitken.com
jovercash@woodsaitken.com
tmoorman@woodsaitken.com

Charter:

kwoods@fh2.com
Michael.moore@charter.com

/s/ Sandra Skogen