**Direct 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

March 24, 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. What is your position and what are your areas of responsibility for Frontier?**

A. I am a manager of government and external affairs for the central region of the Frontier Communications companies. I have responsibility for state regulatory issues including: local service tariffs; regulatory compliance; regulatory policy; and state universal service matters.

**Q. Please summarize your educational background.**

A. I received a B.S. in Mining Engineering from the University of Missouri-Rolla (currently, Missouri University of Science and Technology).

**Q. Please summarize your background in the telecommunications industry.**

A. I was a member of the staff of the New York Public Service Commission, beginning in 1985 and continuing until 1998. In 1998, I joined Citizens Communications, predecessor to Frontier Communications. At Frontier, I have handled state regulatory affairs in several states, including Nebraska.

**Q. In its February 22, 2017 Order in this docket, the Commission stated that it desired to develop an NUSF funding mechanism that was: competitively neutral, stable, easy to administer, and adaptable to future Federal Communications Commission contribution decisions. Does the "per connection" approach proposed by the Commission in that February order achieve those four goals?**

A. In theory, moving to a "per connection" assessment basis could be done in a way that would satisfy those goals. A "per connection" approach could provide a more stable and reliable basis for funding. If the surcharge was consistent between the various carriers offering service and various technologies used by those carriers, then the movement of a customer from one provider to another, or from one technology to another, would not have adverse impacts on the NUSF funding. However, the way that the Commission is proposing to implement a "per connection" assessment raises concerns about whether that approach will satisfy all four goals.

**Q. What are your concerns regarding the assessment framework proposed in the February 22, 2017 Order?**

A. Appendix A of the February 22 Order gave some explanation of how the Commission proposes to develop and apply per-connection surcharges to various types of connections. The way that the Commission proposes to implement that change, as shown in Appendix A, raises concerns about competitive neutrality and ease of administration. In addition, from a practical perspective, I have concerns about the mathematical and computational approach taken in Appendix A.

**Q. Can you expand on your concerns regarding competitive neutrality?**

A. I have concerns regarding the philosophical approach taken in Appendix A to develop different surcharge amounts for residential wireless connections as opposed to residential wireline connections, as well as the development of surcharges for wireline business connections based on billed revenue tiers. These decisions will result in a significant difference in how much of the overall NUSF funding burden each carriers' customers will bear. For example, a wireless residential customer would pay $1.29 per line per month under the proposal, while a wireline residential customer would pay $1.24 per line per month. A wireless business customer would pay $1.29 per line per month, while a wireline business customer would pay at least $3.11 per line per month.

**Q. Can you expand on your concerns regarding ease of administration?**

A. The proposal would assess wireline business services on a different basis than other services, with the surcharge being related to the total local service billing for voice service of a particular business customer. Frontier's billing system, and perhaps other carriers' as well, is not currently able to make these customer-by-customer evaluations and surcharge applications.

**Q. What are your concerns regarding the mathematical and computational approach taken in Appendix A?**

A. The upper part of the Appendix is labelled "Fixed Voice and Mobile Voice Split" and the lower part is labelled "Residential & Business Fixed Voice Split". For both the "Fixed Voice and Mobile Voice Split" and the "Residential & Business Fixed Voice Split" sections of the Appendix, columns A through D are used to develop a figure that the Appendix terms "Adjusted Connections". However, the "Fixed Voice and Mobile Voice Split" and the "Residential & Business Fixed Voice Split" sections each use a different methodology to compute the "Adjusted Connections" figure. I do not believe that logic and approach taken to compute those "Adjusted Connections" figures are appropriate.

**Q. Can you explain your understanding of how Appendix A computes the "Adjusted Connections" figures for the "Fixed Voice and Mobile Voice Split" section?**

A. Yes. The Appendix starts in column A with the number of Nebraska connections for both fixed (that is wireline) and mobile (that is wireless). Column B displays a factor termed "Assumed collectible". Presumably, this factor is to reflect the collectability of billed revenue. A factor termed "Adjustments (Households)" is shown in column C. The Appendix derives this factor differently for wireline and wireless connections, but in both cases the factor is described as representing connections per household. Finally, the Appendix multiplies column A (connections) and column B (Assumed collectible), and then divides that product by column C (Adjustments households) with the result being the "Adjusted Connections" figure.

**Q. What are your concerns regarding that computation algorithim?**

A. If the "Assumed collectible" term is intended to reflect the collectability of billed revenue, it would seem more reasonable to use that factor in relation to a billed revenue figure rather than a connection count figure. The choice of the values to be used for the "Adjustment household" factor is puzzling. Rather than use the Nebraska-specific figures which the Appendix uses elsewhere, a decision is made to employ some other value based on World Bank or other nationwide estimates. I do not believe it is appropriate to use those non-Nebraska values in this context, especially when Nebraska-specific information is available. Finally, the decision to divide by the "Adjustment (Household)" factor is unexplained, and results in an "Adjusted Connections" figure that does not appear logical. The units of the "Adjustment (Household)" factor are connections per household, or alternatively 'connections / household'. Dividing the number of connections by that factor simply yields a result that is the number of households. The only effective "adjustment" achieved by this approach is to divide the number of households by the "Assumed collectible" factor, which doesn't seem to be a useful measure in this context.

**Q. How does Appendix A use this "Adjusted Connections" figure?**

A. The Appendix uses that figure as a basis upon which to develop the per connection surcharges. But the use of this "households divided by collectible revenue" figure as a basis for compute surcharges per connection does not seem reasonable.

**Q. Can you explain your understanding of how Appendix A computes the "Adjusted Connections" figures for the "Residential & Business Fixed Voice" section?**

A. Yes. The Appendix starts in column A with the number of Nebraska connections for fixed (that is wireline). Column B displays a factor termed "Assumed collectible". Presumably, this factor is to reflect the collectability of billed revenue. A factor termed "Adjustments (Dollars)" is shown in column C. This factor is a measure of estimated local revenue. Residential service is given an estimated revenue amount of $20. For business services, the Appendix arbitrarily creates five tiers of business customers (based on the total end user retail rates charged for voice grade business service) and assigns an average revenue figure to each tier. Finally, the Appendix multiplies all three of these items together to result in the "Adjusted Connections" figure for each tier. I would note that the labeling in the Appendix indicates that columns A and B are multiplied, and this product is then divided by column C, but that approach does not result in the numbers shown in the Appendix. Rather, the computation used in the Appendix is "A*B*C", not "A*B/C".

**Q. What are your concerns regarding that computation string?**

A. The Appendix's use of the term "Adjusted Connections" here is a misnomer. What this computation actually results in is collectible billed revenue.

**Q. How does Appendix A use this "Adjusted Connections" figure?**

A. The Appendix uses that figure as a basis upon which to develop what it terms a "Base Connection Fee per $", based on a percentage assessment per dollar of revenue. This is essentially the framework currently used in the NUSF. Finally, the Appendix applies that percentage assessment amount to each tier's assumed average revenue and connection count to develop the per connection surcharge for the tier. However, representing this resulting surcharge as a per-connection surcharge is questionable since it is essentially derived based on a percentage of collectible billed revenue.

**Q. Do you have concerns regarding the tiering of business lines based on categories of billed local revenue?**

A. Yes. Frontier's billing system cannot segregate or sort business customers into the five revenue tiers being proposed. To do so, the system would have to be modified to be able to separately identify only those revenues associated with voice grade business service for each business customer each month, and then slot that particular customer into the surcharge array for that month. I do not know how much time or resources would be required to achieve that, assuming it could be done. I have no idea how the distribution of our business customers actually compares to the revenue categories proposed in the Appendix. The Appendix notes that design of the categories is unsupported by data, and only for illustrative purposes. It is entirely possible that the actual facts regarding the billed revenues and connection counts of business customers in Nebraska is far different than the assumptions incorporated in Appendix A.

**Q. Would this proposed tiering approach require any additional reporting?**

A. The Commission noted in the Order that use of connections as a basis of assessment would eliminate the need for the Commission to collect additional information that it does not currently collect and audit. It appears that pursuing this tiered approach would require the Commission to collect and review all customer-by-customer billing information for businesses, at least for audit purposes. This would be a significant increase both in the reporting that carriers would have to submit to the Commission and in the Commission's review.

**Q. Is there a more straightforward approach to determining surcharges per connection than that used in Appendix A?**

A. Yes. The Commission has the number of connections by type, as shown on page 22 of the order. On page 25 of the order, the Commission notes that it is targeting a total NUSF size of $71M. Using an iterative process, it would be a relatively simple matter to find a set of per-connection surcharges that yielded $71M in annual revenue. For example, a $2 surcharge for fixed residential connections and wireless connections, coupled with a $4 surcharge for fixed business connections would yield approximately $71.5M annually.

**Q. The Commission proposes a fund size of approximately $71M going forward, and sought comment on that decision. Do you believe that proposed fund size is reasonable at this time?**

A. Yes. As the Commission noted in the order, a preliminary review indicates that deploying broadband throughout the state would require funding of approximately

$255M annually. And that effort is only one of several important programs that the Commission seeks to support through the NUSF. Obviously, a balance must be found between the desire to fund various programs included in the NUSF and the ability and willingness of customers to support those funding demands. The proposed fund size is nearly a doubling of the funding disbursed in 2015, and hence a doubling of the assessment burden shouldered by customers. This is a significant increase, but even this increase does not fully fund the priorities that the Commission has discussed. However, the support of this level of funding will necessitate increases to customer assessments, the impact of which will likely be noticeable to customers. The proposed fund size of $71M seems to be a reasonable approach to addressing the competing interests.

**Q.** **Does this conclude your testimony?**

**A.** Yes, it does.