BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska Public Service Commission, on its own Motion, to make adjustments to its high-cost distribution mechanism and to make revisions to its reporting requirements.

) Application No. NUSF-108
) Progression Order No. 3

COMMENTS OF ARLINGTON TELEPHONE COMPANY, BLAIR TELEPHONE COMPANY, CONSOLIDATED TELEPHONE COMPANY, CONSOLIDATED TELCO, INC., CONSOLIDATED TELECOM, INC., THE CURTIS TELEPHONE COMPANY, EASTERN NEBRASKA TELEPHONE COMPANY, GREAT PLAINS COMMUNICATIONS, INC., HAMILTON TELEPHONE COMPANY, HERSEY COOPERATIVE TELEPHONE COMPANY, INC., THE NEBRASKA CENTRAL TELEPHONE COMPANY and ROCK COUNTY TELEPHONE COMPANY IN RESPONSE TO ORDER SEEKING FURTHER COMMENTS

Arlington Telephone Company, Blair Telephone Company, Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hershey Cooperative Telephone Company, Inc., The Nebraska Central Telephone Company and Rock County Telephone Company (collectively the “Companies”) submit these Comments in response to the Progression Order No. 3 issued by the Nebraska Public Service Commission (the “Commission”) in this proceeding on June 19, 2018. The Companies appreciate the opportunity to provide the following Comments to the Commission.

The Commission initially sought comments in NUSF-108, Progression Order #3 (the “Order”) on December 19, 2017. In the Order, the Commission sought comment on proposed changes to the Nebraska Universal Service Fund (“NUSF”) high-cost distribution mechanism and to consider revisions to the Commission’s reporting requirements relative to rate of return (“ROR”) carriers.

In the Order, the Commission asked a series of questions, including:
1. Should the Commission reform the distribution mechanism for ROR carriers by making specific allocations for broadband buildout in ROR areas?

2. Should the Commission consider ongoing operations expenses?

3. Should the Commission coordinate the use of state high-cost support with federal support particularly for those ROR Carriers that have elected to take model support?

4. Is the NUSF EARN form appropriate to determine or limit the allocation of support for carriers that have already deployed broadband throughout their footprint.

5. How does the Commission account for ROR carriers that have built out to 100 percent of their subscribers and have extensively borrowed for plant investment?

The Nebraska Rural Independent Companies ("RIC") submitted comments on March 5, 2018 in response to the Commission’s Order. In those comments, RIC reported that it had invested considerable time and effort to develop a distribution and accountability plan applicable to ROR carriers. Further, the plan would be aimed at providing NUSF High Cost Program support to ROR carriers for the deployment and operation of broadband-capable networks. RIC informed the Commission that when its work on the plan was finalized, it would present it to the Commission for consideration.

RIC formulated and considered multiple plans. One plan that was developed is described below. The Companies have named the plan the “NUSF Delivered Services Performance Plan” (the “Plan”). Since there was not consensus for the Plan among RIC members, it is not being submitted as a RIC plan; however, the Companies believe it should be considered by the Commission as an alternative means of achieving the goals described by the Commission in its Order Seeking Further Comments entered on June 19, 2018 (the “Further Order”).

In its Further Order, the Commission sought comment on and proposed modifications to reform the high-cost program distribution mechanism for ROR carriers. The Companies believe the Plan is consistent with the Commission’s effort described in the Further Order, by reforming the ROR carrier distribution mechanism and improving its reporting requirements. In addition to
providing incentives to deliver higher broadband speeds to customers, the Companies believe
the Plan will enhance the Commission’s ability to track and report progress towards delivering
those speeds and connecting unserved customers. Further, the Plan will optimize the use of state
universal service support, and account for the receipt of targeted federal support.

The Companies believe the Plan conforms to the Commission’s “Strategic Plan”
announced in its April 2016 Order, which included the following goals:

1. Ubiquitous Broadband
2. Preserve and Advance Affordable Voice Service
3. Deployment of Fiber-based Network Everywhere
4. Accountability
5. Stability of the Program
6. Timeframe for Implementation

In addition, the Companies believe the Plan aligns with and focuses on carrying out the policies
set forth in Nebraska Statute Section 86-323 including:

- Quality telecommunications and information services should be available at just,
  reasonable and affordable rates;

- Access to advanced telecommunications and information services should be provided in
  all regions of the state;

- There should be specific, predictable, sufficient, and competitively neutral mechanisms
to preserve and advance universal service; and

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1 The Plan provides additional level of NUSF support for providing increased levels of
broadband speed. Thus, the Plan provides carriers with the incentive to deploy fiber facilities
closer to if not to the subscriber location.

2 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, Order Seeking Further Comments, pp. 5-6 (April 5, 2016).
• Funds for the support of high-cost services areas will be available only to the designated eligible telecommunications carriers providing service to such areas.

The objective of the Plan is to change the paradigm from one in which companies are provided support based on “money spent” to one based on “making services available to customers.” Companies receive support based on the number of locations where service is available and the level of services offered, not on what the company spends or earns. The Plan pays companies minimum levels of support for maintenance of voice. As the company upgrades its broadband network to end user customers, the company is paid a higher level of support. Support levels for companies that have not and continue to not build plant capable of higher speeds will receive lower levels of support. The Companies believe that, just as networks continue to evolve, so should the speeds at which the supports amounts are based upon.

Therefore, the Commission is encouraged to revisit the defined speeds and reimbursement percentages set forth in the Plan on an ongoing basis to ensure that they are aligned with the Commission’s goals.

One of the accountability measures built into the Plan is that a company’s support is limited to its out-of-town (“OOT”) cost, as determined by the State-Based Cost Model (“SBCM”), regardless of whether the company’s federal USF is based on A-CAM or legacy rules. The SBCM is a cost proxy model that estimates cost to deploy and maintain Fiber-To-The-Premise (“FTTP”) networks, which is similar to the proxy model vetted and adopted by the Federal Communications Commission (“FCC”). Under the Plan, a company’s combined state and federal support for OOT locations is limited to its cost, including on-going maintenance expense, as calculated using the SBCM and further limited by whatever budget the Commission determines is available for ROR high-cost support. If a company’s federal support exceeds the SBCM costs for OOT locations, no NUSF support will be available. Under the current NUSF
distribution system for ROR carriers, the EARN form effectively negates the Commission’s objective to only support the cost of OOT locations because the EARN form includes all company costs, including costs for in town locations, and the EARN form allows a company to receive more than its SAM allocation.

The Plan also appropriately recognizes where a company is in its investment cycle. Companies that have upgraded their networks to reach end users with broadband will increase their level of support compared to companies that have done less so. Under the Plan, different levels of broadband deployment, measured by available speeds, will receive different levels of support. The broadband speed levels in the Plan were selected based on the speeds recognized by the FCC for deployment objectives.\(^3\) Obviously, FTTP facilities are the most costly to deploy and the most valuable to the end user and, as a result, companies that deploy them should receive the highest level of support. Those customers that are near a node and can receive Very-high-bit-rate Digital Subscriber Line (“VDSL”) service at speeds of 25/3 Mbps receive the next highest level of support. While the FCC does not differentiate between FTTP and VDSL facilities, in the Plan these service speeds receive a different level of support because the cost to deploy FTTP is much higher than to upgrade a node to VDSL capability and in the long-term, we believe it is beneficial to the consumer to incent Companies to upgrade to FTTP physical plant. Those customers served at speeds of 10/1 Mbps are next most costly. The cost of a network capable of 10/1 Mbps was estimated using Benchmark Cost Proxy Model (“BCPM”). On average for Nebraska, BCPM costs are 75% of SBCM costs. Those customers served at speeds of 4/1 Mbps are served with the least costly broadband facilities, even though the facilities were likely

\(^3\) The proposed speed tiers reflect both current technology and the FCC’s deployment objectives. However, the Commission is encouraged to revisit the defined speeds and reimbursement percentages on an ongoing basis as both networks and technology continue to evolve.
upgraded from voice-only facilities. Finally, companies with unserved customers still need support for operating expenses to fulfill their Carrier of Last Resort ("COLR") obligations.

The Plan pays companies for past deployment, as well as providing support for future investment. Companies will annually report the number of locations served and the speed capability of the plant. The compensation for a company’s past deployment is calculated using the reported percentage of customers at specified speed level times the OOT locations times a reimbursement percentage associated with each speed level. The reimbursement percentage is higher for higher speeds. For FTTP facilities, the reimbursement percentage is 100%. After a company’s past deployment has been calculated, the result is compared to a company’s SBCM OOT cost. If the company has deployed FTTP facilities to all of its OOT locations, then the SBCM OOT cost equals its calculation of compensation for past deployment. For those companies with lesser amounts of deployment, the calculation of compensation for past deployment will be less than the company’s SBCM OOT cost. Remaining SBCM OOT cost, in excess of the calculation of compensation for past deployment, is to be used for capital investment. The number of FTTP locations that must be built annually can be determined by the amount available for capital investment divided by the average cost per OOT location as calculated using SBCM. Alternatively, under the Plan a company may deploy facilities capable of 10/1 Mbps instead of FTTP and the corresponding number of 10/1 locations to be deployed is 1.5 times (or 50% higher) than the number of FTTP locations.

Under the Plan, there would be no per-location buildout cap, in recognition of the Legislature’s goal for all rural customers to receive broadband. Specifically, LB 86-324 identifies that the Nebraska Telecommunications Universal Service Fund was created to support the “high-cost areas from the fund.” To limit a company’s support to a specific, arbitrary amount
will mean that some high-cost, rural customers will never receive comparable service to that offered in less costly areas of the state. Further, the Nebraska fund is intended to supplement the federal fund by providing additional support to areas that are extremely costly and thus are not supported by the federal fund. To impose a per-location buildout cap would negate the purpose of the fund.

The Plan does not consider a company’s capital structure — its relative balance of debt and equity — in its determination of a company’s support. Decisions on capital structure are made by management and reflect a company’s risk tolerance. Some companies have chosen to reinvest cash flows in their networks, rather than take out loans to do so. Either is a valid choice and a company should not be penalized just because it chose to use equity financing rather than debt financing, or vice versa.

The Plan will be transparent in articulating progress made in bridging the “Digital Divide” and will make companies more accountable for how Nebraska Universal Service Funds are used. Under the current Nebraska universal service system, companies’ distributions are limited to their SAM allocation and further restricted to a specified earnings level. While this current distribution method may limit a company’s draw from the fund, it doesn’t require a company to invest in facilities that brings broadband to more customers and does not reward companies for efficient operations. Because of the accountability measures implicit within the NUSF Delivered Services Performance Plan — buildout requirements, adjustments to SBCM costs for broadband speed levels lower than FTTP and the adjustment of a company’s state support based on the federal support received — there is no need for an earning test.

The Companies provide the following step-by-step description of the Plan:
1. In-town census blocks will not be eligible for support; the Plan initially proposes to use a SBCM cost of $65 per location as an estimate of the cost for in-town locations. Census blocks with average per location cost less than $65 would be ineligible for NUSF support.

2. The Plan also uses a $52.50 per-location revenue benchmark, the same as used in the federal Connect America Fund (“CAF”) programs and also implemented by this Commission,\(^4\) which is applied to each eligible location’s costs.

3. Based on the SBCM average per location census block cost, a determination will be made as to which of a company’s out-of-town census blocks are not being funded by federal USF. To make this determination, each company’s census blocks with a cost over $65 per location would be ordered from least costly to most costly. Then, the company’s federal universal service support is offset against the cost of the census blocks, until the federal universal service support is depleted. Some census blocks are fully funded by federal support, leaving the remaining higher-cost census blocks to constitute a company’s pool of blocks eligible for NUSF support. This calculation can be done for both legacy and A-CAM companies to put the two types of companies on equal footing. For some companies, their federal universal service support may completely offset the company’s SBCM cost; thus, these companies will not be eligible for NUSF support.

4. The SBCM cost to be funded by NUSF is then divided by the company’s out-of-town locations to determine a SBCM Cost per OOT Location.

5. To meet the constraints of the NUSF budget, this SBCM cost per OOT Location is reduced proportionally by multiplying the SBCM Cost per OOT Location by the actual NUSF budget divided by the total of all companies’ SBCM cost to be funded by NUSF. The resulting amount is the Budget Controlled SBCM Cost per OOT Location.

6. This Budget Controlled SBCM Cost per OOT Location is multiplied by a reimbursement percentage to calculate the amount a company would receive for providing a specified level of broadband service. The following table shows the broadband speed and associated reimbursement percentage:

\(^4\) See In the Matter of the Nebraska Public Service Commission, on its own Motion, to make adjustments to its high-cost distribution mechanism and make revisions to its reporting requirements, Application No. NUSF-108, Order Seeking Further Comment and Releasing Proposed 2017 Distribution Calculation (“NUSF-108 December 2016 Order”), Dec. 20, 2016, at 4.
<table>
<thead>
<tr>
<th>Broadband Speed</th>
<th>Reimbursement Percentage</th>
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<tr>
<td>FTTP</td>
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<tr>
<td>25/3 Mbps</td>
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<td>10/1 Mbps</td>
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<tr>
<td>4/1 Mbps</td>
<td>60%</td>
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<tr>
<td>Unserved</td>
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No cost proxy models estimate the cost to build a 25/3 Mbps network or a 4/1 Mbps network, so these reimbursement percentages are assumed.

7. Annually, each company would submit the percentage of its locations at each speed tier. (Note: The Plan can be modeled at the company level or at a more accurate exchange level. If the model is calculated at the exchange level, then the company would submit the percentage of its locations at each speed tier in each exchange.) The support amount for each speed tier is equal to the following:

\[
\text{Number of OOT Locations} \times \text{Percentage of Locations at the Specified Speed Tier} \times \text{Budget Controlled SBCM Cost per OOT Location} \times \text{Reimbursement Percentage for the Speed Tier}
\]

8. If the company’s on-going support based on the previous calculation is less than the company’s SBCM cost to be supported by NUSF, then the remaining SBCM cost can be distributed to the company for use in capital projects. Thus, for a company that is 100% FTTP, the company would receive 100% of its Nebraska universal service funds for past performance, which could be used to support the expenses of the company, ongoing capital expenses for growth or routine plant replacement, or to repay debt or equity investors. For a company that has a significant amount of build-out yet to be accomplished, a larger portion of its funding would be for capital projects and could be subject to additional constraints, such as project specific funding.

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5 SBCM is a proxy model designed to calculate the cost of FTTP networks; therefore, the SBCM cost per household above $52.50, represents the cost to deploy FTTP and the reimbursement percentage is 100%.

6 BCPM is a proxy model designed to calculate the cost of a 10/1 Mbps DSL network. On average for Nebraska, BCPM out-of-town costs are 75% of SBCM costs. Thus, the estimated cost per location to deploy 10/1 Mbps is 75% of the SBCM cost per household above $52.50 making the reimbursement percentage 75% for 10/1 Mbps locations.

7 Companies continue to have COLR obligations even for locations without broadband; thus expense reimbursement is appropriate. Given that expenses are approximately 50% of the SBCM cost, the reimbursement percentage for locations without broadband is 50%.
9. A company's minimum number of locations to be built to with NUSF funds will be determined each year by taking the capital expense portion of support and dividing it by the average cost of NUSF-funded locations. Each company's buildout requirement would be based on the number of locations capable of a speed of 25/3 Mbps, or a conversation to a higher number of 10/1 Mbps locations; the Plan proposes the number of 10/1 Mbps locations would 1.5 times the number of 25/3 Mbps locations that would otherwise be required. The buildout required of companies will be in addition to federal-prescribed buildout required under A-CAM or legacy rules; thus, any locations already built to with federal support will not be eligible for meeting the state buildout requirement.

The Companies have attached two possible results of the Plan for the Commission's review as Attachments A and B. Both Attachments include the Companies' best estimates, based on industry knowledge, for the number of locations where service is available and the level of services offered by each company. Attachment A uses actual 2018 NUSF high cost support for ROR companies, $14,100,058. Attachment B uses $20,000,000 as the NUSF high cost support for ROR companies, which the Companies believe is somewhat closer to the size of fund necessary for the Commission to accomplish its "Strategic Plan," restated above.

The Companies urge the Commission to adopt the NUSF Delivered Services Performance Plan. The Plan meets the Commission's stated goals and objectives, incent broadband deployment by increasing funding amounts for carriers that deploy broadband with higher speeds, and provides the Commission with increased accountability in return for increased funding levels.

Dated: July 19, 2018.

The "Companies":

Hamilton Telephone Company

By: [Signature]
John Nelson
Vice President
Arlington Telephone Company
Blair Telephone Company
Eastern Nebraska Telephone Company
Rock County Telephone Company

By: [Signature]

Janet Sutherland
Regulatory Manager

Consolidated Telephone Company
Consolidated Teleco, Inc.
Consolidated Telecom, Inc.
The Curtis Telephone Company

By: [Signature]

Wendy Thompson Fast
President

Great Plains Communications, Inc.

By: [Signature]

Kurt Pfister
Vice President Strategic Policy

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By: [Signature]

Andrew Jader
Vice President Administration
Hershey Cooperative Telephone Company, Inc.

By: [Signature]
Rex Woolley
General Manager/CEO
CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 19th day of July, 2018, an electronic copy of
the foregoing Comments was delivered to:

Nebraska Public Service Commission

Cullen.Robbins@nebraska.gov
Brandy.Zierotti@nebraska.gov

Other Commenting Parties

[Signature]
Paul M. Schudel
### NUSF Delivered Services Performance Plan

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<th>Service Area</th>
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<th>Budgeted</th>
<th>Variances</th>
<th>Support at Enacted Time</th>
<th>Budget Variances</th>
<th>As of 1/7/2023</th>
<th>Budget Variances</th>
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## NSU Delivered Services Performance Plan

### 1. Rates of Return by Area

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### 2. Revenue Expenditures

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### 4. Financial Statements

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### 5. Financial Ratios

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### 6. Future Planning

- Increased investment in infrastructure
- Enhanced customer service initiatives
- Expansion into new market segments