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BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

SEP 17 2018

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

)

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)

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Nebraska
Public Service Commission

**POST-HEARING 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,
HAMILTON TELEPHONE COMPANY, HERSHEY 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, Hamilton Telephone Company, Hershey
Cooperative Telephone Company, Inc., The Nebraska Central Telephone Company and Rock
County Telephone Company (collectively the "Companies") submit these Post-Hearing
Comments in response to leave granted by the Nebraska Public Service Commission (the
"Commission")¹ following the public hearing to the Progression Order No. 3 in this proceeding
held on August 15, 2018 (the "Hearing"). The Companies appreciate the opportunity to provide
the following Comments to the Commission following the Hearing.

Since the Companies originally presented the NUSF Delivered Services Performance
Plan (the "Plan") in its July 19, 2018 Comments (the "July Comments") in response to the
Commission's June 19, 2018 Order Seeking Further Comments (the "June Order"), and

¹ See Procedural Order, Application No. NUSF-108 Progression Order No. 3, entered August 27, 2018.

subsequent to the Hearing,² the Companies have made modifications to the Plan to address issues raised by Parties participating in this Proceeding. The following are some of issues that have been raised and the corresponding changes made to the Plan that specifically address each issue. The Companies have also attached a revised price-out (the “Price-out”) as Attachment A that reflects the changes to the Plan.

Issue No. 1: Some companies would not receive Nebraska Universal Service Fund (“NUSF”) support under the Plan.³

In the Plan set forth in the July Comments, the distribution calculation developed by the Companies determined a carrier’s eligible NUSF support by subtracting its federal universal service support from its out-of-town (“OOT”) SBCM cost.⁴ In some cases a carrier’s federal universal service support was greater than its OOT SBCM cost, which caused the carrier not to be eligible for NUSF support.

The Companies later recognized that some portion of both legacy and A-CAM companies’ federal support is being received for census blocks with a cost less than \$65, the amount estimated to differentiate in-town from out-of-town census blocks. The Companies then

² For purposes of these comments, the Companies will reference matters included in the written transcript of the Hearing as “Tr.” and then the page, and line – Tr.:X; X.

³ See Tr. 73:24-75:1 and 118:14-19.

⁴ Out-of-town SBCM cost was estimated by summing the cost of census blocks that have a per location cost exceeding \$65. This cost per location was chosen because it resulted in the number of out-of-town locations consistent with the most recent distribution model published by the NPSC. The Plan implicitly addresses the issue related to partially funded census blocks and duplication of support because the Plan deducts the allocated OOT federal support from OOT SBCM cost in determining the maximum amount a company can receive from NUSF. Inclusion of the SBCM cost of partially funded census blocks not funded by the federal support in the calculation of NUSF eligible support is of critical importance to the A-CAM companies sponsoring this Plan.

modified the formula that calculates the amount of NUSF support to which a carrier is eligible. Specifically, a carrier's federal universal service support, be it legacy or A-CAM support, is allocated between in-town and OOT based on SBCM cost. Under the modified calculation, only a carrier's OOT federal universal service support is deducted from its OOT SBCM cost when determining the carrier's eligible NUSF support.

The modified calculation described above allocates less federal support to OTT areas than the previous calculation which in turn increases many legacy carriers' NUSF support amounts. In one case, the carrier's allocated OOT federal universal service support exceeds its SBCM cost, so the carrier is not eligible for NUSF support. While the Companies understand that the Commission wants most if not all carriers to receive NUSF support, this desire may conflict with another concern stated by the Commission: NUSF support should not duplicate federal support.⁵ Duplication of support can occur when the distribution methodology (the Plan or any other plan adopted by the Commission) provides NUSF support to a company for OOT locations that are already receiving federal support in excess of the carrier's OOT SBCM cost.

While a portion of SBCM cost is to reimburse a company for operating expenses, there may be a scale problem with the results for small companies. That is, for small companies with relatively few census blocks, the amount of operating expenses paid through SBCM might not be sufficient to pay for the management functions necessary to operate a small company. Therefore, the Companies added an input for operating expenses per company to recognize that there is a certain amount of administration and operational costs associated with running a company regardless of its size. This input can be adjusted as the Commission determines appropriate. The higher this input, the less the distribution mechanism is based on a company's

⁵ See Tr. 97:10-16.

performance in the provision of broadband, which is one of the objectives of the Performance Plan. Nevertheless, the Companies recognize that some fixed amount of operating expense per company may be reasonable on a transitional, if not a permanent basis.

Adjusting this input for operating expenses per company could be used to make a gradual transition to the Plan. For example, the Commission could make this per company input \$100,000 in year one, \$75,000 in year two and \$50,000 thereafter. The Companies see this input as a tool for the Commission to address the concern that a company will see too drastic a change in its NUSF as compared to previous years.

With the aforementioned changes to the Plan, coupled with an increase in the size of NUSF, most if not all companies will receive the same or more funding than they received in 2018. The Companies believe these revisions address Issue No. 1.

Issue No. 2: The reimbursement percentages set forth in the Plan allocate too much support to lower speed service levels.⁶

Each Nebraska carrier has Carrier of Last Resort obligations to provide voice service; thus, there should be some support level for the expenses necessary to maintain voice service. According to the SBCM, operating expenses are approximately 50% of total cost, and the Companies supporting this Plan believe that is an appropriate reimbursement percentage for the unserved (voice only) locations. There is, however, support for these unserved locations that falls into the “future performance” support amount, which means that support is provided to upgrade these locations to a higher broadband speed in the current year. As customers are

⁶ See Tr. 71:2-74:25.

upgraded, the Commission may change the reimbursement percentages to reflect the network evolution.

As discussed by the Companies' witness, Mr. Warren, the Plan is flexible. If the Commission believes that support for a particular level of service needs to be adjusted, then the percentages can be changed to comply with the goals of the Commission.⁷ If the Commission believes the Plan does not sufficiently incent build-out, the Commission can adjust the reimbursement percentages to accomplish that goal simply by decreasing the reimbursement percentages for lower speeds of broadband, which will shift more support dollars to "future performance" requiring a company to make larger capital investments.⁸

Changing the reimbursement percentages does not affect the allocation among companies; it only affects the amount of NUSF support a carrier receives that must be used for capital expenditures. For example, if the reimbursement percentages are lower, then lower amounts of support are paid for "past performance" and correspondingly higher amounts of support are paid for "future performance". Support paid for "past performance" can be used by the carrier for either recovery of expenses or for capital expenditures, but support paid for "future performance" can only be used for capital expenditures.

Issue No. 3: Since the Plan proposes the elimination of the EARN Form, some rate-of-return carriers will be allowed to earn a return in excess of that prescribed by the Commission.⁹

The EARN form has been ineffective in accomplishing the Commission's goals because it has failed to direct companies' investments toward end user broadband facilities and does

⁷ See Tr. 71:17-71:22.

⁸ See Tr. 77:20-25.

⁹ See Tr. 16:10-21.

nothing to keep companies' expenses reasonable. The Companies believe excessive earnings is a short-term issue and would only be applicable to a very few companies. The Plan itself should further mitigate this issue. The Companies do not believe that overearning will be a significant issue over the long term since broadband buildout will increase many companies' rate bases substantially. Because the Plan incentivizes broadband deployment in a transparent manner, and broadband deployment is the most important issue to policy makers and customers, the concern about companies earning more than the prescribed rate-of-return will be a nominal issue. Nevertheless, to address the *possibility* of a company earning too much, the Companies recommend that the Commission implement an earnings overlay in the Plan. Specifically, any company, which would otherwise receive Nebraska Universal Service Funding under the Plan and earns more than the prescribed rate-of-return, must spend all excess earnings on out-of-town facilities for end user broadband.

Issue No. 4: Companies that have built out and incurred debt would not receive adequate funding to pay down that debt under the Plan.¹⁰

The Plan is based on cost as determined by the SBCM. Included in the SBCM cost is a carrier's return on investment using an average weighted cost of capital. This cost of capital calculation inherent in SBCM recognizes and affords carriers the ability to pay off loans or provide a return to investors. NUSF funding methodologies should be neutral as to whether a company borrowed money or used internal sources to fund its broadband build out. In any event, it is important to remember that the Plan funds those companies that are built out at a higher level than if they had less capable facilities, so for companies that have done substantial broadband deployment there would be more funding available to finance past construction, no

¹⁰ See Tr. 75:11-16.

matter whether it was done with debt or equity. If a company believes that it will receive insufficient support, federal and state combined, to repay its debt, the Companies suggest that a waiver process be established by the Commission to examine the specific facts of the situation.

Issue No. 5: The Plan is too complex and changes the methodology too radically.

While some are concerned that the Performance Plan represents a radical change, it really isn't. Both the current NUSF distribution mechanism and the Performance Plan rely on an underlying cost models, the Benchmark Cost Proxy Model ("BCPM") and SBCM in the other. Under the current distribution mechanism, the reimbursement percentage is assumed to be 100% for all out-of-town locations, even for locations that are either unserved or underserved. The Performance Plan addresses the issue of varying deployment levels by adding reimbursement percentages associated with various broadband speed levels. While the Plan appears to have many moving parts, the result is quite simple. The reimbursement percentages determine what support amount can be used for operating expenses and what support amount must be used for capital expenditures. Regardless, a company will receive its OOT SBCM cost as adjusted for the NUSF budget. The great benefit to customers is that companies with lower built-out levels must invest a greater proportion of their NUSF to build out broadband.

The Companies believe the scrutiny that is going to be placed on the NUSF by the Broadband Task Force and others is going to result in a consumer base and public that is no longer satisfied with the status quo. Nebraskans want broadband and at higher speeds. Therefore it is important for the industry, as well as the Commission, to change the methodology from one that pays companies for "spending the money" or "earning a prescribed rate-of-return" to one where a company is paid based on what consumers' want.

The Companies recommend the Commission consider transitioning to the Plan over a three-year period to ease concerns regarding the transition. The Companies recommend two ways to accomplish this. One way would be to use the per-company input described above whereby a larger dollar amount could be used in year one and gradually reducing that dollar amount thereafter. Another way would be to use the Plan for distributing one-third of the ROR company's funding in year one,¹¹ two-thirds in year two and 100% in year three. Regardless of the approach, the Companies believe it is critical, politically and for the long-term viability of the fund, to move away from an earnings and expenditures metric to a delivered service metric.

Benefits of Plan

In summary, the Companies proposal has four components that are essential to the future success of NUSF:

1. Increased accountability for the current distribution based on a delivered services metric;
2. Incentivize higher broadband speed buildout based on a delivered services metric;
3. Move away from a prescribed earnings or spending the money approach; and
4. Distribute NUSF equitably among companies without regard to whether a company borrows or secures capital in another manner.

The Companies believe these four components are critical if the Commission, the industry and most importantly the consumers in Nebraska are going to be able to maintain the necessary political support for ensuring that NUSF is adequate and sustainable.

Attachment A contains a revised Price-out reflecting the changes contained in Issue No.

1. As in the July Comments, the Attachment includes the Companies' best estimates where service is available and the level of services offered by each company. Estimates of service

¹¹ The current support mechanism would provide the remainder of the company's NUSF support.

levels by company were based on general industry knowledge and should be updated with actual data to determine the Plan's impact.

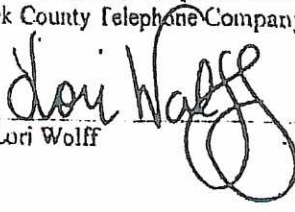
The Companies continue to urge the Commission to adopt the NUSF Delivered Services Performance Plan. The Companies appreciate the opportunity to provide these Post-Hearing Comments to the Commission, encourage the Commission to seek further input on the Plan, and look forward to continued participation in this docket.

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Dated: September 17, 2018.

The "Companies"

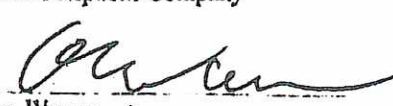
Arlington Telephone Company
Blair Telephone Company
Eastern Nebraska Telephone Company
Rock County Telephone Company

By: 
Lori Wolff

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

By: 
Wendy Thompson Felt

Hamilton Telephone Company

By: 
Gary Warren

Hershey Cooperative Telephone Company

By: 
Rex Woolley

The Nebraska Central Telephone Company

By: 
Andrew Jader

NUSF Delivered Services Performance Plan Summary

Description of Inputs	Inputs
Revenue Benchmark	\$ 52.50
OOT Proxy Cost	\$ 65.00
Rate of Return Budget	\$20,000,000
Unserved Reimbursement Percentage	50%
4/1 M Reimbursement Percentage	60%
10/1 M Reimbursement Percentage	75%
25/3 M Reimbursement Percentage	90%
FTTH Reimbursement Percentage	100%
NUSF OpEx per Company	\$ 80,000
SBCM Cost Factor	100%
Max Funding per Loc	\$ 999,999

Calculation of OOT Federal USF:

OOT SBCM = CB costs > \$65

OOT FUSF = FUSF x OOT SBCM / Total SBCM Cost

Company	Past Performance	Future Performance	25/3 Buildout	2018 NUSF	Dollar Change from 2018
ARAPAHOE TEL CO	\$ 714,864	\$ -	-	\$ 421,642	\$ 293,222
HARTMAN TEL EXCH INC	189,882	-	-	134,228	55,654
WAUNETA TEL CO	236,681	-	-	136,514	100,167
BENKELMAN TEL CO	226,210	-	-	221,027	5,183
COZAD TEL CO	80,000	-	-	95,828	(15,828)
DILLER TEL CO	247,821	-	-	158,088	89,733
GLENWOOD TEL MEMBER	675,449	-	-	522,727	152,722
KEYSTONE-ARTHUR TEL	244,609	-	-	206,096	38,513
GREAT PLAINS COMMUN	3,877,693	1,891,735	109	5,562,029	207,399
HEMINGFORD COOP TEL	271,182	-	-	236,185	34,997
HENDERSON CO-OP TEL	127,982	-	-	48,520	79,462
HERSHEY COOP TEL CO	194,445	28,611	2	68,479	154,577
HARTINGTON TEL CO	155,791	-	-	77,014	78,777
K & M TEL CO, INC	325,152	123,498	3	221,988	226,662
HAMILTON TEL CO	411,077	105,988	9	50,525	466,541
CLARKS TELECOM CO.	206,606	-	-	134,933	71,673
NORTHEAST NEBRASKA	1,217,185	-	-	1,043,434	173,751
PLAINVIEW TEL CO	134,634	-	-	113,687	20,947
CAMBRIDGE TEL CO -NE	180,650	-	-	167,304	13,346
PIERCE TEL CO	228,605	74,861	7	137,701	165,765
SODTOWN TEL CO	135,606	28,012	1	-	163,618
SE NEBRASKA TEL CO	311,143	-	-	235,673	75,470
STANTON TELECOM INC.	101,670	-	-	97,870	3,800
NEBRASKA CENTRAL TEL	1,414,729	429,619	24	1,432,639	411,708
THREE RIVER TELCO	457,018	-	-	408,247	48,771
HOOPER TEL CO	182,488	51,630	6	61,063	173,055
Huntel (ABB)	784,427	213,393	19	509,733	488,088
Consolidated	2,224,414	690,238	25	1,545,147	1,369,504
Elsie Dalton	561,727	242,674	7	51,737	752,664
	\$ 16,119,741	\$ 3,880,259	212	\$ 14,100,058	\$ 5,899,942

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1	NUSF Delivered Services Performance Plan (DSPP)																						
2																							
3																							
4																							
5	Scenario Inputs																						
6	Totals																						
7	Rate of Return Study Area																						
8																							
9	ARLINGTON TEL CO																						
10	BLAIR TEL CO																						
11	EASTERN NEBRASKA TEL																						
12	ROCK COUNTY TEL CO																						
13	ARAPAHOE TEL CO																						
14	HARTMAN TEL EXCH INC																						
15	WAUNETTA TEL CO																						
16	BENKELMAN TEL CO																						
17	CONSOLIDATED TELCO																						
18	CONSOLIDATED TEL CO																						
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20	CONSOLIDATED TELECOM																						
21	COZAD TEL CO																						
22	DILLER TEL CO																						
23	GLENWOOD TEL MEMBER																						
24	KEYSTONE-ARTHUR TEL																						
25	GREAT PLAINS COMMUN																						
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32	CLARKS TELECOM CO.																						
33	NORTHEAST NEBRASKA																						
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39	STANTON TELECOM INC.																						
40	NEBRASKA CENTRAL TEL																						
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43	DALTON TEL CO, INC																						
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46	Huntel (ABB)																						
47	Consolidated																						
48	Elise Dalton																						

CERTIFICATE OF SERVICE

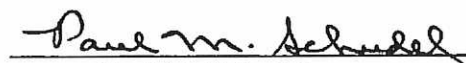
The undersigned hereby certifies that on this 17th day of September, 2018, an electronic copy of the foregoing pleading was delivered to:

Nebraska Public Service Commission

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Other Commenting Parties


Paul M. Schudel