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 make revisions to its reporting requirements.	))))	Application No. NUSF- 108

REPLY COMMENTS OF
CITIZENS TELECOMMUNICATIONS COMPANY OF NEBRASKA
D/B/A FRONTIER COMMUNICATIONS OF NEBRASKA

On September 27, 2016, the Nebraska Public Service Commission (the "Commission") issued its *Order Opening Docket and Seeking Comment* ("September 27 Order"), opening the above-captioned proceeding to consider certain modifications to the high-cost funding mechanism in the Nebraska Universal Service Fund ("NUSF"). In the September 27 Order, the Commission proposed several modifications to the distribution and reporting processes of the NUSF, and sought comment from parties regarding those proposals. Comments were filed by several parties on October 27, 2016. Citizens Telecommunications Company of Nebraska, Inc. d/b/a Frontier Communications of Nebraska ("Frontier") files the following Reply Comments in response to the October 27 comments.

In its October 27 Comments, Frontier identified certain aspects of the Commission's proposals that were unclear to Frontier or raised questions, and also identified proposals that could have undesirable consequences. Other commenters raised similar points.

NUSF Budget

The September 27 Order described a plan to maintain two separate support budget amounts (one for price cap carriers and one for rate of return carriers), with the budget levels initially set at the 2016 support levels for both categories of carriers.[1] In its Comments, Frontier noted it was unclear what this decision to set the budgets at the 2016 support level meant in terms of each price cap company's support. In its Comments, Qwest Corporation d/b/a

[1] NUSF-108, September 27, 2016 *Order Opening Docket and Seeking Comment*, page 2.

CenturyLink QC and United Telephone of the West d/b/a CenturyLink (collectively, "CenturyLink") also expressed uncertainty regarding how the budgets would be set initially and how the budget might change going forward[2]. Windstream Nebraska, Inc. ("Windstream") also questioned how the NUSF-7 support would or could impact the overall budgets[3]. Consistent and sufficient levels of NUSF support are necessary for carriers to maintain service in high-cost areas. Further clarification from the Commission regarding its designs for the budgets would be helpful.

<u>Reported earnings adjustments</u>

The Commission proposes to incorporate three "adjustments" to the NUSF-EARN Form: an imputation of revenue as an attempt to reflect competitive losses, a reduction of the rate of return factor to 9.75%, and reflection of CAF II support. In its Comments, Frontier noted that all three adjustments were problematic, as proposed. In their Comments, CenturyLink and Windstream both highlighted problems associated with those three adjustments. In short, all three changes would most likely result in a significant reduction in the support available to maintain affordable and reliable service in the high cost areas of rural Nebraska.

Competitive losses)

CenturyLink describes how the proposed imputation of competitive losses would result in a double hit to the resources available to price cap carriers to maintain and preserve affordable and reliable service[4]. As CenturyLink notes, the loss of "low-cost to serve" customers to competitors reduces the resources available to the price cap carriers to support service in high-cost areas. That reduction in resources has been experienced by all three price cap carriers. The Commission's proposal to impute some amount of revenue related to these lost customers in the EARN Form would further reduce the NUSF support available to carriers to maintain service in high-cost areas.

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[2] CenturyLink Comments, page 3.

[3] Windstream Comments, page 2.

[4] CenturyLink Comments, page 4.

Windstream also addresses this imputation proposal, noting that it would effective punish price cap carriers (and their customers in high-cost areas) for losing customers to competitive carriers[5]. With the advent of local competition, the ability of customers to move from the incumbent provider to competitors was a goal cherished by regulators, and a natural outcome of a competitive market. The imputation proposal would function as a punishment applied to the price cap carriers, and ultimately their customers, without warrant.

Rate of return)

The Commission proposes to reduce the rate of return used in the NUSF-EARN Form from the current level of 12% to 9.75%, relying upon recent Federal Communications Commission ("FCC") decisions. As CenturyLink[6] and Windstream[7] note, that FCC decision was not a flashcut to the 9.75% factor, but rather a phasedown over a period of time. If the Commission adopts the 9.75% factor as has the FCC, then it should also incorporate the phasedown approach as the FCC has adopted.

CAF II)

In their Comments, CenturyLink[8] and Windstream[9] argued against the use of CAF II support as revenue in the EARN form computations. Both rightly note the effect of such treatment would be to depress the amount of NUSF support for high-cost areas, at a time when that support is desperately needed.

Conclusion

If adopted as proposed, the modifications described in the September 27 Order would lead to negative impacts to the NUSF support available to support the continued provision of affordable and reliable service to high-cost areas served by the price cap carriers, and ultimately the customers in those areas. Frontier urges the Commission to reconsider and revise the

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[5] Windstream Comments, page 4.

[6] CenturyLink Comments, page 5.

[7] Windstream Comments, page 6.

[8] CenturyLink Comments, page 6.

[9] Windstream Comments, page 7.

framework proposed in the September 27 Order, and looks forward to working with the Commission to find a funding and distribution framework that will provide a sustainable foundation for the continued provision of service in high cost areas.

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Respectfully submitted,

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d/b/a Frontier Communications of Nebraska

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