**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

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| In the Matter of the Nebraska Public Service | ) | |
| Commission, on its own motion, to Administer the | ) | Application No. NUSF-99 |
| Universal Service Fund High-Cost Program. | ) | |

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

In its October 15, 2014 *Order Opening Docket, Seeking Comment, and Setting Hearing*, the Nebraska Public Service Commission ("Commission") opened this docket to "consider certain modifications to the high-cost funding mechanism in the universal service fund program", and specifically modifications affecting federal price cap carriers.

Pursuant to the Commission's request, Citizens Telecommunications Company of Nebraska, Inc. ("Frontier") files the following Comments.

**Discussion**

The Nebraska Universal Service Fund ("NUSF") was created by the legislature, which gave this reason for the NUSF's creation, "The purpose of the Nebraska Telecommunications Universal Service Fund Act is to authorize the commission to establish a funding mechanism which supplements federal universal service support mechanisms and ensures that all Nebraskans, without regard to their location, have comparable accessibility to telecommunications services at affordable prices." The phrase "without regard to their location" means that all Nebraskans should have equitable access to telecommunications services, whether they are in a rural location or an urban location. But it also means that Nebraskans should have equitable access to telecommunications services whether they are in a location served by a price cap carrier or a rate of return carrier. Thus, as a fundamental principle, any changes that the Commission may make to the NUSF mechanism must treat all customers equitably, whether served by a price cap carrier or not.

The Commission achieves this "carrier-type equity" today by using the same funding methodology for both price cap and rate of return carriers. Maintaining that "carrier-type equity" becomes more difficult if the Commission decides to adopt different funding methodologies for price cap and rate of return carriers. Absent some showing that the existing funding methodology is broken, the Commission should be hesitant to adopt changes that may inequitably impact customers, depending upon whether their provider is a price cap carrier or a rate of return carrier.

The Notice notes that the Federal Communications Commission ("FCC") is in the process of modifying its support approach and programs to focus on broadband expansion, rather than voice services. The FCC is creating a new Connect America Fund ("CAF") to explicitly support the deployment of broadband service. The FCC is making this transition in stages; first, with a CAF I phase and subsequently, with a CAF II phase. The CAF I phase is in operation currently. The FCC is in the process of rolling out its CAF II phase.

As the Notice acknowledges, the NUSF and the CAF programs have different purposes. The NUSF is designed to support the ongoing provision of telecommunications (primarily, voice services) in high cost areas, while the CAF is intended to subsidize the construction of broadband networks in certain high cost areas. From Frontier's perspective, these are not conflicting programs, but rather complementary programs. The change in the FCC's approach to supporting services in high cost areas does not invalidate the need or focus of the NUSF. Indeed, the need for the NUSF funding is arguably greater now than in the past, since the focus of the FCC's efforts is moving away from supporting voice services (as the NUSF does) and turning to funding broadband services instead.

The Notice alludes to concerns that the current NUSF funding methodology somehow conflicts with the FCC's new CAF program. Based on its experience with CAF I funding, Frontier has not had difficulty in terms of coordinating NUSF and CAF I support. Based upon its understanding of the FCC's CAF II program, Frontier does not expect that there will be any coordination difficulties with that program.

**<u>Issues for Public Comment</u>**

1. Should the Commission consider revising the manner in which high-cost support is allocated to the price cap carriers? Why or why not?

Response)

As discussed above, using different methodologies to allocate high-cost NUSF support based on the type of carrier raises issues of equity. The Commission should carefully examine any proposed changes to ensure that all customers are treated fairly. At this point, it is unclear that there are any significant problems with the existing methodology. Additionally, based on its understanding of the FCC's new CAF II funding program, Frontier does not anticipate any conflicts of that program with the NUSF. Frontier does not recommend that the Commission move forward with any changes, absent a showing that the existing allocation methodology is flawed and a clear understanding of both the framework and funding outcomes of the CAF II program.

2. As it pertains to price cap carriers only, should the Commission stop utilizing the current method to allocate and distribute support?

Response)
No. Frontier does not recommend that the Commission move forward with any changes at this time, absent a showing that the existing allocation methodology is flawed and a clear understanding of both the framework and funding outcomes of the CAF II program. Frontier does not see any reason to bifurcate the current fund into two; one for price cap carriers and one for rate of return carriers.

3. How can the Commission revise the Nebraska universal service high-cost support mechanism for price cap carriers that would be complementary to the FCC's CAF Phase II funding for the same carriers?

Response)
Philosophically, the focus of the NUSF and the CAF are complementary today. NUSF funding is focused on the continued provision of voice services, and the CAF is focused on the expansion of broadband service. At this point, Frontier does not see any indication of conflict between the programs.

A proposal to convert the existing NUSF program into some kind of "CAF-lite" program for price cap carriers similar to the FCC's program would have the effect of abandoning support for voice services in the territories of price cap carriers. Under that approach, all support (both state and federal) would be devoted to the expansion of broadband networks, and no support would be directed to the maintenance of voice services. This approach would appear to directly conflict with the fundamental legislative directive for the NUSF; to ensure that all Nebraskans, without regard to their location, have comparable accessibility to telecommunications services at affordable prices.

January 12, 2015

Respectfully submitted,

Citizens Telecommunications Company of Nebraska, Inc. d/b/a Frontier Communications of Nebraska

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