BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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.	)	

REPLY 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.

Initial comments on the matter were filed January 14, 2015. Citizens Telecommunications Company of Nebraska, Inc. ("Frontier") files the following Reply Comments in response to those initial comments.

Distinction between NUSF and CAF II funding

Several commenters touched on the new Connect America Fund ("CAF") that the Federal Communications Commission ("FCC") is implementing. The CAF program is a new approach that the FCC is embarking upon with the goal of subsidizing the expansion of broadband availability and speeds through construction of new broadband infrastructure. The program ultimately results in elimination of FCC support of voice service thereby increasing the importance of the NUSF in supporting voice communications service in high-cost areas of Nebraska. The first phase of the CAF program ("CAF I") is in place today. The FCC is in the process of rolling out the second phase ("CAF II").

As Frontier noted in its initial comments, the purpose of the CAF and the NUSF are different. The NUSF funding supports the continuing provision of voice services in high cost areas. The CAF is intended to provide funding for the construction and deployment of new broadband facilities for the expansion of availability and increase in speeds. CAF funding must explicitly be used for this purpose. The comments of several parties seem to confuse the purposes of these two programs, and erroneously conclude that they duplicative.

Essentially, the NUSF supports voice services in high costs areas by measuring the actual costs of providing the supported voice service to the revenues derived from that service, and identifying any shortfall. This measurement is accomplished through the annual EARN forms submitted by carriers, which include both the revenues and expenses associated with providing voice service. Neither expenses nor revenues associated with broadband services are part of this computation. NUSF funding is not explicitly directed to fund future capital investment; rather, it is computed by looking at actual incurred expenses and realized revenues. In short, the NUSF process looks at a prior year's financial results for providing voice service, and provides additional support in a current year when those actual financial results were are below a threshold return. Other than the separate NUSF-92 program established by the Commission, the NUSF funding does not support either the deployment or operation of broadband networks and service.

The CAF II approach is entirely different. It is explicitly targeted to fund the future installation of new network facilities that will enable the provision of broadband service where it does not currently exist[1]. Those funding amounts are not intended to compensate for the on-going operational costs that companies experience in those areas. Indeed, high costs areas that have access to broadband service at FCC designated speeds will get no federal funding, no matter how costly it is to provide service there.

The CAF II funding amounts are calibrated by the FCC so as to be just sufficient to pay for the new facilities required to bring broadband service to areas without broadband service that meets the FCC's designated speed level. The CAF II program demands that carriers receiving funding provide broadband service throughout the area being supported, and imposes specific deployment schedules that must be met. Carriers will not be able to divert this funding to defray operational costs for voice service in high-cost areas, but will need to direct it toward the installation of the new broadband facilities.

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[1] "Specifically, we adopt the following methodology for providing CAF support in price cap areas. First, the Commission will model forward-looking costs to estimate the cost of deploying broadband-capable networks in high-cost areas and identify at a granular level the areas where support will be available.", *Connect America Fund et al, WC Docket No. 10-90 et al., Report and Order and Further Notice of Purposed Rulemaking*, released November 18, 2011, paragraph 166.

Some commenters questioned whether carriers that receive CAF II funding should remain eligible for NUSF funding[2]. However, NUSF funding and CAF II funding are not duplicative. The NUSF funding is intended to address the high operation costs of high cost areas, while the CAF II funding is intended to finance the construction of new broadband facilities. The two programs are not designed to pay for the same things, and CAF II recipients must use those funds to make new investments in broadband infrastructure. Concluding that because a carrier receives CAF II funding, it should therefore get no NUSF funding is akin to saying to a grocer that there is no need to pay for the oranges in my cart because I just paid you for the apples in my cart. Receipt of CAF II funding should not exclude a carrier from eligibility for NUSF.

Predictability of support

As Congress noted in its 1996 *Telecommunications Act*, Federal and State mechanisms to support universal service should be predictable. This predictability is important to carriers, and allows them to make plans for the operation and expansion of their networks and services. Unspecified changes in the state support framework for price cap carriers as suggested in this Docket raise issues of predictability. Windstream's suggestion of fixing support for price cap carriers at 2015 allocation levels is certainly one way of addressing predictable support.

February 6, 2015

Respectfully submitted,

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[2] For example, Charter Fiberlink-Nebraska, LLC (page 12); Cox Nebraska Telecom, LLC (page 3); The Rural Independent Companies (page 3).