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 mechanisms and make revisions to its reporting requirements.

Application No. NUSF-108

COMMENTS OF QWEST CORPORATION d/b/a CENTURYLINK QC AND UNITED TELEPHONE COMPANY OF THE WEST d/b/a CENTURYLINK

The Nebraska Public Service Commission ("Commission") opened the above referenced docket on September 27, 2016 to "consider certain modifications to the high-cost funding mechanism in the universal service fund program."\(^1\) Interested parties filed comments and reply comments on October 27, 2016 and November 14, 2016 respectively and a hearing was held on November 29, 2016. On December 20, 2016, the Commission issued an Order Seeking Further Comment and Releasing Proposed 2017 Distribution Calculations. In this Order, the Commission proposes to allocate 100% of the Nebraska Universal Service Fund ("NUSF") high cost distributions for price cap companies to broadband investment. The Commission also proposes two other changes that would impact the distribution of support for all carriers. Qwest Corporation d/b/a CenturyLink QC and United Telephone Company of the West d/b/a CenturyLink (collectively, "CenturyLink") respectfully provide these comments in response to the Commission's request.

In regards to the Commission's proposal to allocate 100% of the NUSF high cost distributions for price cap carriers to broadband grant projects, support is still needed to help offset the ongoing maintenance and operating costs of the network in high cost rural areas of the state, costs that the companies are unable to recover through existing rates. Neb. Rev. Stat. 86-143(1) states in part that "[t]he fund shall provide the assistance necessary to make universal access to telecommunications

\(^1\) 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 Number NUSF-108, Order Opening Docket and Seeking Comments, Page 1.
services available to all persons in the state consistent with the policies set forth in the Nebraska Telecommunications Universal Service Fund Act” (emphasis added). The statute further states that “[a] telecommunications company that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended” (emphasis added). While the Nebraska Legislature has clearly stated that capital expenditures to upgrade facilities and services are an appropriate use of NUSF support, it is also legislative policy that NUSF support can be used for the ongoing maintenance and operating costs of the network. Requiring price cap carriers to use all NUSF high cost support for broadband deployment not only violates Nebraska statute, it also impedes the ability of those companies to continue to provide telecommunications and advanced services to their customers in high-cost rural areas at reasonable rates.

Price cap carriers are working hard to expand broadband into rural areas Nebraska; however the high costs associated with operating and maintaining the network have not declined and, in fact, have increased on a per line basis due to competitive pressures. Under the Commission’s proposal, support would be provided one time in high cost areas that meet the Commission’s criteria for broadband deployment; however support also would be withdrawn in the remaining high cost areas that were built based on the promise of future support, areas that are otherwise uneconomic to serve at rates comparable to urban areas. These are areas that the Commission’s own model and funding processes have always identified as high cost and in need of support for the maintenance of service and continued availability at reasonable rates. Allocating money to help with the substantial upfront costs to extend broadband to new high cost areas is an appropriate use of the funding, but it does not and cannot replace the need for ongoing support for the other high cost areas, including those where companies have enabled broadband. The Commission’s proposal will result in expanded broadband in some places but also rising prices and reduced investment in high cost areas that no longer receive NUSF support, including those where broadband currently exists. In addition, a well funded network in all high cost
areas will more likely lead to further broadband expansion than one that is abandoned and left with no support.

Should the Commission choose not to provide support for the ongoing maintenance and operating costs of the network for price cap carriers, those carriers should be relieved of the carrier of last resort and other obligations associated with the receipt of high cost support in Nebraska. It would be inappropriate for the Commission to hold price cap carriers to the obligations that go with accepting NUSF support when those carriers are prohibited from using any of that support for the ongoing operating and maintenance costs. CenturyLink recommends the Commission continue to allocate a portion of NUSF high-cost support for the ongoing operating and maintenance costs. Rather than using the SAM model, along with complicated and confusing adjustments, to determine the amount of support that price cap companies must use for broadband deployment, a calculation that may result in distributions that vary significantly from year to year, CenturyLink recommends the Commission simply make a determination that a certain portion of the distribution should be used for broadband deployment, as it did with the 2016 distributions. Further, CenturyLink recommends that the Commission allocate no more than 50% of the high cost distributions for price cap companies to broadband deployment until such time that cost studies can be performed to determine a more appropriate allocation.

The Commission also asks whether it should consider a reduction in the rate of return to 11 percent and a change in the benchmark rate to $52.50, similar to the rate of return and benchmark rate adopted by the Federal Communications Commission (“FCC”). These changes would apply to all carriers, not just price cap carriers. CenturyLink does not oppose a reduction in the rate of return to 11 percent, as long as the Commission adopts a reasonable transition period for the change. CenturyLink also does not oppose a change in the benchmark rate to $52.50, but notes that the FCC’s use of $52.50 includes
broadband revenues, to which the Commission has no jurisdiction. In addition, the FCC’s $52.50 benchmark represents a cost item, not a rate item, as the FCC only funds those costs above $52.50.

Finally, CenturyLink would like to address the issue of the Commission’s use of the SAM model. In its Order Opening Docket and Seeking Comment in this proceeding, the Commission stated that the use of the SAM model “will provide a more stable, predictable and transparent calculation of support.” As CenturyLink has noted in prior comments, use of the SAM model results in distributions that are neither stable nor predictable from year to year. This can be seen clearly from the Commission’s proposed 2017 distributions for the four price cap carriers. If the Commission moves forward with these distributions, two companies will see decreases in support received while the other two companies will see increases. Significant swings in the amount of support received each year will make it difficult for companies to budget and plan for capital projects. CenturyLink begins it budget process for capital projects as early as June or July of the previous year while the Commission generally does not publish the NUSF distributions until several months later. Ensuring that CenturyLink has enough broadband projects to utilize all of the NUSF support allocated for broadband, and ensuring that it will have all the necessary resources available to complete those projects, becomes increasingly difficult when it does not know until late into the budget process the amount of support that will be available.

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1 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 Opening Docket and Seeking Comments, entered September 27, 2016, page 2.

2 "Under the SAM process, one carrier’s over or under earnings situation...could have a significant impact on the distributions all other carriers receive. Moreover, with only four companies in the price cap pool, there could be significant swings in the distribution calculations from year to year for individual companies, swings that cannot be predicted or budgeted."

3 CenturyLink (Embarq) and Windstream will see a 7.15% and 11.0% increase respectively while Citizens and CenturyLink (Qwest) will see a 10.0% and 12.8% decrease respectively while the overall budget for price cap carriers decreased by 3.99%.
Dated this 20th day of January, 2017.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 20th day of January, 2017, a true and correct copy of the foregoing was delivered to the following as indicated below:

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