

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska        ) Application No. NUSF-64  
Public Service Commission, on        )  
its own motion, seeking to         )  
investigate the use of expense       ) ORDER  
caps in the earnings                 )  
calculation for Nebraska             )  
universal service fund support.     ) Entered: June 23, 2009

BY THE COMMISSION:

O P I N I O N       A N D       F I N D I N G S

The Nebraska Public Service Commission (Commission) opened the above-captioned docket on December 19, 2006 to investigate the use of expense caps in the earnings calculation for Nebraska universal service fund support.

A hearing was held on March 4, 2008 in Lincoln. Testimony was offered at the hearing by Commission staff, Qwest Corporation, Embarq, and a group of Rural Independent Companies (RIC).

On June 3, 2008, the Commission entered an order adopting an expense caps mechanism. The Commission also sought further comment on the development of an inflation factor. The Commission staff proposed that an inflation factor be added to the expense cap model as a way to update the model rather than using actual expenditures of the companies each time an update is appropriate. The Commission sought comment on the following questions:

- 1) Should the Commission make adjustments for inflation?  
If so, should the Commission use the Chained Consumer Price Index (C-CPI) as suggested by RIC?
- 2) Should the Commission develop an annual productivity factor?
- 3) Should Supported Households be recalculated when the Commission updates this figure in the NUSF-26 model? Should it be re-run after the next United States census information is made available?

Comments were filed by interested parties on August 4, 2008. Qwest Corporation (Qwest), the Rural Independent Companies (RIC), the Rural Telephone Coalition of Nebraska (RTCN), and United Telephone Company of the West d/b/a Embarq (Embarq) filed written comments.

#### Inflation Factor

RIC, RTCN and Embarq recommended that the Commission modify the model to account for the effects of inflation. These commenters recommended using the Gross Domestic Product-Chained Price Index (GDP-CPI). RIC generally states that the GDP-CPI is a widely-accepted measure of general inflation in the United States and is used by government agencies in a manner similar to that contemplated by the Commission. The RTCN commented that the use of an inflation factor is a fair, predictable and administratively efficient way to make adjustments to the upper threshold. Embarq recommended updating the model annually using either actual expenditure data or an inflation factor. If an inflation factor is used, Embarq also recommended using the Gross Domestic Product Chained Price Index rather than the Chained Consumer Price Index. Qwest was the only commenter to recommend against adoption of an inflation factor. Qwest stated that inflation forces may differ by company, company size, or be different in western Nebraska versus other rural areas near Omaha or Lincoln.

Based on the comments and the recommendation of the Commission staff at the hearing, the Commission is of the opinion and finds that an inflation factor should be adopted. The Commission believes that using an inflation factor to update the model will be more administratively efficient than updating the model with specific data provided by the Nebraska eligible telecommunications carriers. The Commission further finds that it should use the Gross Domestic Product-Chained Price Index (GDP-CPI) to adjust the model. The GDP-CPI is an inflation measure used by the Federal Communications Commission and other government agencies. In addition, GDP-CPI is a publicly available indicator which is independently verifiable. Consistent with the comments filed by RIC and Embarq, the Commission finds that the inflation factor should be updated annually.

Productivity Factor

No commenter supported the use of a productivity factor. A productivity factor generally measures the actual rate of a particular carrier or class of carrier's productivity growth from year to year. The commenters suggested that developing a productivity factor would be time consuming and cost intensive. Based on the comments filed, the Commission does not have the information it would need to develop a productivity factor. Accordingly, the Commission will not develop a productivity factor for use in the expense cap mechanism at this time.

Supported Households

The Commission solicited comments on whether the supported household information should be updated in the expense cap mechanism when the Commission updates this figure in the NUSF-26 model. The Commission previously stated that after the new U.S. Census figures were available that the Commission would update this information for use in the NUSF-26 Support Allocation Methodology. All commenters supported the idea of updating the supported household information in the expense cap mechanism when such information was used in the NUSF-26 distribution model. We agree with the commenters and will update the supported household information in the expense cap mechanism when the Commission updates the NUSF-26 model to reflect the more recent U.S. Census figures.

## O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the findings herein be and they are hereby adopted.

MADE AND ENTERED at Lincoln, Nebraska this 23rd day of June, 2009.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Chairman

ATTEST:

Executive Director