

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska) Application No. C-1633
Public Service Commission, on)
its own motion, to conduct an)
investigation to determine which) ORDER
cost study model should be recom-)
mended to the FCC for determining)
federal universal service support.) Entered: May 22, 1998

Appearances:

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BY THE COMMISSION:

The Nebraska Public Service Commission (NPSC or Commission) opened Application C-1633 on September 23, 1997, to determine which cost study model it should recommend to the Federal Communications Commission (FCC) for determining federal universal service support for the non-rural carriers in Nebraska.

All certificated carriers were made a party to the docket, and notice was sent to all such carriers on September 25, 1997. In addition to these carriers, The Nebraska Independent Telephone Association (NITA) was also made a party to these proceedings pursuant to its petition for formal intervention. Parties submitted two cost models for the Commission's consideration. US West Communications (USW) and Sprint Communications Company, LP (Sprint) sponsored the Benchmark Cost Proxy Model (BCPM), while AT&T Communications (AT&T) and MCI Communications (MCI) supported the Hatfield Model (now known as the HAI 5.0a model).

On October 9 and 10, 1997, the Commission held a workshop in which proponents of each of the cost models were given an opportunity to present their models to the Commission.

The Commission then held a prehearing conference on March 9 and 11, 1998, to determine procedural matters pertaining to this docket. A Commission order entered March 16, 1998, set out the decisions resulting from that conference.

Pursuant to the time frames established in the prehearing order, the Commission's staff economist, Dr. David Rosenbaum, filed his recommendation for a cost proxy model on March 24, 1998. Dr. Rosenbaum recommended the HAI Model. The Commission convened a hearing on March 31, 1998, to allow interested parties to ask Dr. Rosenbaum clarifying questions concerning his recommendation. At the hearing, Dr. Rosenbaum gave an oral summary of his recommendation and then answered questions from parties.

The March 31 hearing was reconvened on April 14, 15, and 16, 1998, to give parties an opportunity to respond to Dr. Rosenbaum's recommendation and to present evidence. At the hearing, AT&T, MCI, USW, and GTE presented testimony. The Commission allowed each witness to be available for cross examination for a total of one hour. After all parties had an opportunity to present their case, Dr. Rosenbaum offered his rebuttal testimony.

On April 27, 1998, the Commission voted to select the BCPM 3.1 uncapped version as the platform to recommend to the FCC. The Commission then scheduled a hearing to determine what inputs should be used in that model. Notice of a hearing on the inputs was faxed to parties on April 27, 1998. A notice rescheduling the hearing to May 11, 1998, was faxed to parties on May 4, 1998. The hearing began in the afternoon of May 11 and concluded on May 12, 1998. By May 15, parties were to file any additional comments and objections they had to exhibits that had not been admitted into evidence at the close of the hearing. Appearances were made as shown above.

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

In a May 8, 1997 Report & Order, in CC Docket No. 96-45, the FCC concluded that states could submit a forward-looking economic cost study as the basis for calculating federal universal service high cost support for non-rural carriers in lieu of using a federal mechanism. On February 27, 1998, in Public Notice DA 98-217, the FCC directed that along with the selection of a cost study, interested states should submit supportive materials, including spreadsheets and text documents, to enable the agency to determine whether a state's recommended model should be approved. The FCC directed further that interested states must also demonstrate that the cost study selected fulfills ten criteria set out in the notice. The text of this order identifies the areas in which the NPSC deviates from the Nebraska-specific BCPM default inputs and explains our rationale for doing so. A spreadsheet identifying the actual deviant inputs used is attached to, and made a part of, this order. Nebraska's answers to the ten criteria set out by the FCC are also attached hereto and made a part of this order.

In the course of our proceedings in this docket, we conducted an extensive review of two cost models that estimate the forward-looking costs of providing telecommunications and information services to rural, insular and high cost areas of the state. Upon review, we determined that the BCPM 3.1 uncapped model best estimates these costs. In our April 27, 1998, order selecting the BCPM we stated:

While HAI appears more efficient, it achieves this status by assuming a network of lesser quality. It is our opinion that it is more prudent to select a platform that we are confident will ensure a quality network in high cost areas of our state that is technically comparable to the network found in urban areas. The objective of universal service is to ensure that like services are available at similar costs, no matter where the subscriber resides. The record in this matter consists of volumes of exhibits, pre-filed testimony, and oral evidence. Upon review of this evidence, BCPM appears to bring us closer to the objectives of universal service. Therefore, the Commission finds that we should recommend the FCC utilize the BCPM when determining federal universal service support for Nebraska.

The cost estimates generated by the BCPM are greatly influenced by the assumptions, parameters, and inputs that are used in the model. In this order, we identify the inputs that should be utilized in the BCPM.

On May 11 and 12, 1998, we convened a hearing to determine what inputs and parameters should be used in the BCPM to most accurately reflect the universal service needs for Nebraska. Due to the proximity of the hearing to the FCC's filing deadline, we gave parties until May 15, 1998, to file additional comments and objections to exhibits that had not been admitted into evidence by the close of the hearing. After reviewing all objections and comments filed, the hearing examiner admitted all the exhibits into evidence, and each were afforded the appropriate amount of weight in our decision making process. After review of all evidence in this matter we issue this order setting out the inputs that we feel best meet

the needs of Nebraska. While we understand that we currently are not under any mandate to make a recommendation, we feel we have an obligation to present our best estimate as to Nebraska's specific needs. After extensive hearing and study of the issues in this docket, we would neglect our responsibility to the citizens of Nebraska if we were to default to a FCC model that is currently nonexistent. The FCC examines these issues from a federal perspective. Since the FCC's selection has not been released, we cannot be sure that a federal perspective will meet the specific needs of a rural state like Nebraska. So within the time frames imposed upon us, we make this recommendation. We undertake this task knowing that as we explore the development of an intrastate fund, and as the FCC releases its model, that our opinions on the issues may change. Hence, we may adopt a different approach in the future.

Selected Inputs

BCPM contains thousands of default inputs and parameters. These inputs were developed from a nationwide perspective. At the hearing, USW, GTE, and AT&T proposed specific inputs to be used in the BCPM. USW proposed Nebraska specific forward-looking alternatives to the more general default inputs utilized in the BCPM. We are persuaded that USW's Nebraska specific forward-looking numbers are more accurate and useful in our state than generalized, nationwide inputs. Therefore, we adopt these inputs as a starting point for inputs in the BCPM model. These inputs are contained in an electronic file provided to the NPSC by USW. The inputs were marked "confidential" at the hearing and, therefore, have not been made a public portion of this order.

We then reviewed other information in the record to see if it was appropriate to deviate from the USW values to reflect forward-looking costs of a new entrant. We also reviewed the USW inputs to ensure that they met the FCC's ten criteria. The text of this order identifies where we deviate from the USW Nebraska-specific parameters and explains our rationale for doing so. We specifically identify the inputs in a spreadsheet attached to, and made a part of, this order.

We adopt the modifications to USW's state-specific proposed inputs explained below.

Sharing - Structure sharing refers to the allocation of costs among the incumbent local exchange carrier (ILEC) and other providers that may share space on the ILEC's structures. Among other things, these structures include poles and the placing of cable. The NPSC finds the majority of the structure sharing percentages recommended by USW are reasonable. However, contrary to USW's recommendation, we are unpersuaded that there will be no structure sharing in the "0-5" density zones. Even in these more remote regions of the state, there will be some opportunities for sharing as new homes and businesses are constructed.

Switching - The cost of switching is, in part, contingent upon the percentage of local and toll calls that a provider carries. While the majority of USW's switching inputs appear reasonable, we find their figures for the ARMIS percentages of local and toll calls are not reflective of the state average for non-rural LEC's. NPSC records

demonstrate that the state average for local and toll calls are 81 percent and 19 percent respectively. GTE's proposed percentages for local calls and toll calls are closer to these statewide averages. Therefore, we find that the state averages in these categories are much more accurate, and we adopt them accordingly. For the other switching inputs, we accept the figures generated by USW.

For the reasons indicated below, we did not adopt either the BCPM default parameters or USW's proposed inputs for the following categories:

Loop Material Costs - Upon review of the evidence, we conclude that GTE's cost per foot of fiber cable and 26 gauge copper cable is more reflective of purchase prices in a competitive environment. One purpose of competition is to force carriers to become more efficient. The cable costs presented by GTE demonstrate greater efficiency than do the USW figures. For that reason, we adopt GTE's proposals for the cost per foot of fiber cable and for 26 gauge copper cable. GTE did not suggest inputs for the cost of 24 gauge copper cable. To maintain consistency with the other figures in this category, we have calculated the difference between GTE's 26 gauge cable costs and that proposed by USW. We then reduced USW's cost per foot of 24 gauge cable by these same percentages to reach what we determine to be a competitively reasonable cost per foot for 24 gauge copper cable.

Depreciation - USW and GTE each propose specific economic lives and net salvage values for the various depreciation categories. The FCC has also provided a range that these values should fall within. In some instances, we have already established economic lives and salvage values for Nebraska's non-rural companies. Where reasonable, we have chosen to adopt these economic lives and salvage values or have adjusted them so that our values fall within the FCC-prescribed range.

The NPSC does not prescribe any economic life or net salvage value for "Land," and so we set an input value of "0" in these categories.

For each of the following categories, the NPSC previously adopted an economic life that falls within the FCC range. Therefore, our values should replace the default values for:

Special Purpose Vehicles

Garage Work

Other Work

Furniture

Conduit

For several categories, the NPSC has previously prescribed an economic life that falls below the FCC's prescribed range. For these categories, we elevate our prescribed economic lives to the bottom of the FCC range so that they will be appropriate for use in the BCPM:

General Purpose Computers

Switching

Circuit/DLC

Pole

Aerial Copper

Aerial Fiber

U/G Copper

U/G Fiber

Buried Copper

Buried Fiber

For the following depreciation categories, we have previously approved different economic lives that fall at various points within the applicable FCC range. For these categories, we have modified the prescribed lives to reflect the center of applicable ranges:

Motor Vehicles

Buildings

Office Support

For each of following categories, the NPSC previously adopted a net salvage value that falls within the FCC range, and is, therefore, appropriate for use in the BCPM:

Other Work Equipment

Buildings

Switching

Aerial Copper

Aerial Fiber

For several categories, the NPSC has previously prescribed a net salvage value that falls below the FCC's prescribed range. For these categories, we elevate our previously- prescribed salvage values to coincide with the bottom of the FCC range:

Motor Vehicles

Furniture

Office Support Equipment

General Purpose Computers

Circuit/DLC

Pole

U/G Copper

U/G Fiber

Buried Copper

Buried Fiber

Conduit

Finally, due to the nature of Nebraska telephone operations, the inputs for the following categories are inconsequential and so are given a salvage value of "0":

Air Craft

Special Purpose Vehicles

Garage Work Equipment

Operator Systems

Radio Systems

Submarine Cable

In considering the Tax Life of the various depreciation categories, we adopted the Nebraska specific inputs recommended by USW:

Cost of Money - The FCC has determined that a company's rate of return must either be the authorized federal rate 11.25 percent, or the state's prescribed rate of return for intrastate services. With this in mind, we adjust USW's proposed "debt ratio," "cost of equity," and "cost of debt" to enable us to reach the FCC's prescribed rate of return.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the Nebraska-specific inputs and parameters set forth in this order and attachments thereto be utilized in the Benchmark Cost Proxy Model 3.1 uncapped version to determine federal universal service support for Nebraska.

MADE AND ENTERED at Lincoln, Nebraska, this 22nd day of May, 1998.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Vice Chairman

ATTEST:

Executive Director

DISSENT OF COMMISSIONER LOWELL JOHNSON:

I respectfully dissent from the decision made by my colleagues in this docket. At the time of the cost model adoption, I expressed my very uncomfortable feeling about the direction of our action. My feeling has not subsided and only been enhanced by studies of other state commissions' refusals to adopt and submit a cost study model. Not only the commissions, but also telephone company associations, have urged that no action be taken with regard to a specific model for federal universal service fund purposes. One of the basic concerns is the obvious conclusion that any cost methodology selected for federal universal service fund purposes must likewise be utilized for a state universal service fund.

By forwarding our selection to the FCC, our Commission could be burdened with limitations on future actions. This will eliminate flexibility in our decisions and may not be in the interest or protection of Nebraska subscribers and providers.

I do not feel that actions in our limited time and attention provide us with a preponderance of wisdom which outweighs the collective knowledge, understanding and good judgement by the over 35 state commissions (+70 percent) who have rejected the FCC invitation to submit a cost model.

I vote no on forwarding a recommendation to the FCC.

Commissioner Lowell Johnson

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