

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: April 27, 1998

Appearances:

For the Nebraska Public
Service Commission:

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For MCI:

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For the Benkelman, Cozad,
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BY THE COMMISSION:

The Commission opened Application C-1633 upon its own motion on September 23, 1997, to determine which cost study model it should recommend to the Federal Communications Commission (FCC) for determining the 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 interexchange and local exchange carriers on September 25, 1997. A copy of this notice was made a part of this record as Exhibit 1. 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. The parties submitted two cost models for consideration by the Commission. US West Communications (USW) and Sprint (Sprint) sponsored the Benchmark Cost Proxy Model 3.1 (BCPM), while AT&T and MCI supported 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 that 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. A copy of his recommendation was entered into the record as Exhibit 2. 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 handouts and slides utilized by Dr. Rosenbaum at that proceeding were marked as Exhibit 3.

The March 31 hearing was continued to April 14, 15, and 16, 1998, to give all parties an opportunity to respond to Dr. Rosenbaum's recommendation and to present evidence. At the hearing, parties orally presented pre-filed testimony in an abbreviated form, along with any rebuttal testimony. The Commission also allowed each witness to be available for cross examination for a total of one hour per witness. After all parties had an opportunity to present their case, Dr. Rosenbaum offered his rebuttal testimony. Appearances at the hearing were made as shown above.

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

One of the main objectives behind the establishment of a Universal Service Fund is to ensure:

Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services . . . that are reasonably comparable to those services in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas." 47 U.S.C. 254(b)(3).

In the course of our proceedings in this docket, we conducted an extensive review of two cost models that attempt to estimate the forward-looking cost of meeting this universal service objective. Each model makes certain assumptions about the creation and operation of a hypothetical network. The cost estimates generated by each model are greatly influenced by the assumptions, parameters, and inputs that are used in the respective models. For the reasons detailed below, we recommend that the FCC use BCPM to determine the level of federal universal service support in Nebraska. At a later date, we will conduct a separate hearing to determine the specific inputs that should be used in BCPM.

Our expert gave the HAI model only a slight advantage based upon efficient design of telephone loop plant. At page five of his written recommendation, Dr. Rosenbaum stated:

It could be argued that from a more cautious approach, BCPM's overbuilding more reliably ensures that plant will be in place to provide telephone service. However, in my opinion, [HAI] estimates adequate plant. It provides voice, video and graphics grade service to all customers. I do not endorse this cautious approach. (p. 5., Exhibit 2).

We appreciate Dr. Rosenbaum's work in this complex area and place great trust in his judgement. However, on this point we reach a different opinion. 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

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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.

Additionally, we recognize our responsibility to the ratepayers of Nebraska to ensure that universal service funds are, indeed, used for the placement and maintenance of quality networks in high cost areas. Accordingly, we fully intend to audit the application of universal service funds by eligible communications carriers.

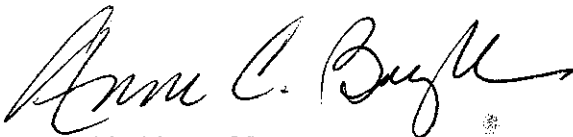
O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the Benchmark Proxy Model 3.1 be, and it is hereby, selected as the preferred platform upon which to determine federal universal service support for Nebraska.

MADE AND ENTERED at Lincoln, Nebraska, this 27th day of April, 1998.

COMMISSIONERS CONCURRING:

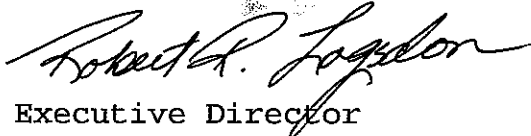
NEBRASKA PUBLIC SERVICE COMMISSION



//s//Lowell C. Johnson
//s//Rod Johnson
//s//Frank E. Landis
//s//Daniel G. Urwiller


Chairman

ATTEST:


Executive Director