

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Commission,) Application No. C-2256/PI-38
on its own motion, to investigate)
and seek comment on cost model(s))
for the following: 1) unbundled)
network element (UNE) pricing;)
2) developing zones to de-average) ORDER OPENING DOCKET
rates on a geographical basis;) AND SEEKING COMMENT
3) determining zones for Universal)
Service Fund USF payments; 4))
establishing a permanent funding)
mechanism for USF payments; and)
5) to determine whether all sub-)
sidies have been removed from)
access prices.) Entered: March 28, 2000

BY THE COMMISSION:

The Nebraska Public Service Commission (NPSC or Commission) is faced with five tasks requiring the use of forward-looking cost models. The Commission must: (1) price unbundled network elements (UNEs); (2) develop zones to de-average rates on a geographical basis; (3) review models for possible use in establishing a permanent state funding mechanism for universal service (USF); (4) explore methods for creating de-averaged zones for universal service payments; and (5) determine if implicit subsidies have been removed from intrastate access charges.

In September of 1997, this Commission opened Application No. C-1633 to determine which forward-looking cost model it should recommend to the Federal Communications Commission (FCC) for determining federal universal service support for the non-rural carriers in Nebraska. The Hatfield 5.0 model and the BCPM 3.1 (also known as the Benchmark Cost Proxy Model) were proposed as alternatives for the Commission's consideration. Several hearings were held on the matter and numerous witnesses made appearances. On April 27, 1998, the Commission selected the BCPM 3.1 uncapped version as the platform to recommend to the FCC and issued an order stating:

"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."

The FCC ultimately developed and adopted its own cost model, the Hybrid Cost Proxy Model (HCPM) model, for determining federal universal service support payments to states.

In January of 1999, the NSPC issued an order establishing an interim state universal support mechanism for non-rural carriers. The interim fund called for reductions in access rates and used

state universal service support to replace losses in access revenues. That order alluded to the eventual development of a permanent state universal service fund. The permanent fund would not

replace foregone access revenues. Instead, it would be based on forward-looking costs. Now the Commission is entering into the process of examining forward-looking cost models for possible use in determining state universal service support payments at the end of the transaction periods set forth in Docket No. C-1628. Given that the HCPM model is now available to determine forward-looking universal service support, as well as the BCPM 3.1 and the ICM models, the Commission would like to examine both models to see how well they fit Nebraska's universal service funding needs. The Commission also believes that USF payments ultimately may vary across wire centers or may be de-averaged within a wire center. Both processes more closely target support to relatively high-cost customers on the network. Therefore, the Commission is also interested in determining how each model can be used to de-average universal support payments within a wire center.

With regard to unbundled network elements (UNEs), the Telecommunications Act of 1996 requires that UNEs be made available at wholesale prices and that those prices should reflect actual costs. The FCC realized, however, that the cost of providing network elements could vary across an incumbent's service territory. Therefore, the FCC published rule 51.507(f), requiring states to "establish different rates for elements in at least three defined geographic areas within the state to reflect geographic cost differences."

The FCC order to de-average UNE prices was stayed until six months after the FCC issued a non-rural high-cost universal service order. On November 2, 1999, the FCC released its order in CC Docket No. 96-45. In accordance with the FCC order, the geographical rate zones are supposed to be established by May 2000. Because of the complexity of this issue, and because further study needs to be done, this Commission has requested a waiver from the FCC deadline.

The Commission has two tasks before it related to UNEs, namely: (1) pricing UNEs and (2) creating UNE price zones. Currently, the Commission has three forward-looking cost models as alternatives for accomplishing these two tasks. The models are HCPM, BCPM 3.1 and US West's ICM. The Commission is interested in exploring how well each model will perform either or both of these functions.

Also, the Commission has required that non-rural ILECS remove all implicit subsidies from intrastate access charges by September 1, 2001. To calculate Commission review of non-rural ILEC access charges, the Commission will use a forward-looking cost model.

Such model should be able to both identify the various discrete elements of non-rural ILEC access charges and determine a subsidy free rate level for each identified element.

The Commission opens this docket to investigate which forward-looking cost model or models would be most appropriate for UNE pricing, to use in de-averaging UNE rate zones on a geographical basis, to determine zones for USF payments, to establish a permanent funding mechanism for state universal service fund payments and to determine if all subsidies have been removed from access prices. The Commission views these as separate, but related tasks. Therefore, the Commission seeks separate comments pertaining to each task.

I. Alternative Cost Models

As previously mentioned, the Commission has before it three forward-looking cost models for consideration to accomplish its purposes. However, the Commission does not want to limit consideration to only those models.

Therefore, the Commission will give all interested parties an opportunity to propose alternative models to be used for the Commission's purposes. For those wishing to submit an alternative forward-looking cost model, the Commission will accept those proposals for consideration until April 20, 2000.

II. Staff Proposal and Comments

On or about May 31, 2000 this Commission will release an initial staff proposal with respect to how each of the cost models can be used to accomplish the tasks described above. Once the staff proposal is released, the interested parties will then have an opportunity to submit separate sets of comments on the issues herein:

- **UNE Pricing** - The Commission
- will propose a separate
- methodology to use with each model for pricing unbundled
- network elements. The Commission requests comments on
- the commentor-perceived benefits and drawbacks of each
- cost model and proposed methodology. The Commission will
- also receive comments on possible new alternative methodologies associated with using each
- model.

- **UNE Zones** - The Commission
 - will propose a separate methodology to use with each model for creating unbundled
 - network element zones. The Commission requests comments
 - on the commentor-perceived benefits and drawbacks of each
 - cost model and proposed methodology. The Commission will
 - also receive comments on possible new alternative methodologies associated with using each
 - model.
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- **NUSF Funding** - The
 - Commission will propose a separate
 - methodology to use with each model for funding the Nebraska Universal Service Fund. The
 - Commission requests
 - a third set of comments on the commentor-perceived benefits and drawbacks of each cost model
 - and proposed
 - methodology. The Commission will also receive comments
 - on possible new alternative methodologies associated with
 - using each model.
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- **NUSF Zones** - The Commission
 - will propose a separate methodology to use with each model for creating zones to de-average
 - Nebraska Universal Service Fund payments. The
 - Commission requests a fourth set of comments on the
 - commentor-perceived benefits and drawbacks of each cost
 - model and proposed methodology. The Commission will also
 - receive comments on possible new alternative methodologies associated with using each model.
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- **Implicit Subsidy** - The
 - Commission will propose a separate
 - methodology to use with each model for determining
 - whether subsidies have been removed from access prices
 - pursuant to the Commission findings and conclusions entered in Docket No. C-1628 (January 13,

- 1999). The Commission requests a fifth set of comments on the perceived
- benefits and drawbacks of each cost model and proposed
- methodology. The Commission will also receive comments
- on possible new alternative methodologies associated with
- using each model.

III. Time for Comments

The Commission finds that initial comments on the staff proposals shall be filed no later than 5:00 p.m., on June 30, 2000. The Commission will then accept reply comments from interested parties after the June 30, 2000, deadline and on or before July 17, 2000, at 5:00 p.m.

Thereafter, the Commission staff shall have an opportunity to review the comments received. It will use those comments to revise its proposed methodologies for performing the above-mentioned tasks. The Commission staff shall present those revised proposals on or before September 29, 2000. Interested parties may comment in a manner similar to that described above by October 31, 2000. Reply comments will be due on November 17, 2000, by 5:00 p.m.

Thereafter, the Commission staff will review the second set(s) of comments, revise its proposed methodologies and prepare a final recommendation. The final recommendation will select one model and one methodology to perform each of the outlined tasks. The selected methodology and model may vary across tasks. However, there will be only one methodology and one model for each task.

On or about January 15, 2001, at a time to be later determined, a presentation will be given by the Commission staff and industry in the Commission hearing room to aid the Commission in rendering a final decision on the most appropriate model and methodology to use for each task. The staff will present its proposal first, thereafter, the industry will have an opportunity to ask questions and provide suggestions to the Commission.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that an investigation be commenced on the issue of finding the most appropriate cost model(s) for the five preceding tasks.

IT IS FURTHER ORDERED that all interested parties are invited to comment on the issues, concerns and recommendations they have

prior to the adoption of the appropriate cost model and methodology for each defined task in the manner prescribed above. Parties commenting shall file five hard copies and one electronic copy on disk in WordPerfect 5.0 or later format. Filings will not be accepted via facsimile.

MADE AND ENTERED in Lincoln, Nebraska, on this 28th day of March, 2000.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

ATTEST:

Executive Director

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