BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Commission, on its own motion, to make adjustments to the universal service fund mechanism established in NUSF-26.	)	Application No. NUSF-50
	)	PROGRESSION ORDER NO. 1
	)	Entered: January 18, 2006

BY THE COMMISSION:

1. The Nebraska Public Service Commission (Commission) opens this proceeding on its own motion pursuant to Neb. Rev. Stat. § 86-324(2)(b)(2004 Supp.) to consider certain adjustments to the permanent universal service fund mechanism established in NUSF-26.

2. On December 6, 2005, the Commission sought comment on some modifications to the permanent NUSF mechanism, which will continue independent of this inquiry.

3. In this progression order, the Commission seeks comment on how the mechanism should be modified in light of the Commission's decision to reduce the NUSF surcharge from 6.95 percent to 5.75 percent of intrastate retail revenues on telecommunications services.

4. First, the Commission seeks comments on how to make reasonable cuts to the distribution mechanism. The Commission questions whether it should simply cut the size of the base support allocation? Currently, the size of the base support allocation is $66.5 million per year. Including transitional funds, the NUSF currently distributes approximately $74 million per year. In order to keep the fund financially sound, the Commission is looking at ways to cut the amount of support distributed to eligible carriers. The Commission seeks comments on how this could be accomplished. If the amount allocated each year is cut across the board, the Commission seeks comments on whether this is a fair and balanced approach or if such an approach unfairly impacts certain carriers more than others. The Commission seeks comments on the timeframe for implementation of any changes. Further, the Commission seeks comments on whether the funds distributed would still remain sufficient if the amount allocated is reduced. At what level does the funding become insufficient? Carriers should offer suggestions for an appropriate way to cut the base allocation amount.

5. In addition, the Commission seeks comment on whether it should reduce the rate of return for carriers. Currently the rate of return cap is set at 12 percent. If the Commission reduces the rate of return, what is the appropriate rate of return? If the Commission lowers the rate of return to 10 or 8 percent, what effect would that have on the carriers? Would carriers make reductions in their operational expenses and/or network investments? How would the carriers make adjustments to their networks or operations? Would these reductions/adjustments be contrary to the purpose of the federal and state universal service statutes? Would carriers be able to make up for any reductions through other means? If so how? If investment is reduced as a result, where would the reduction take place?

6. Another way to make reductions would be through modification of the way the Commission calculates earnings. Should the Commission modify the manner in which it calculates carrier earnings? If so, what modifications would be appropriate? How should the Commission implement such modifications?

7. Further, the Commission requests comment on the manner in which to adjust NUSF support amounts for carriers that, over time, increasingly exceed the rate of return cap. If, in the current year, a carrier exceeds the rate of return cap, in excess of the amount in the previous year, should the NUSF support adjustment be equal to the current year amount exceeding the rate of return cap, the current year amount in excess of the previous year, or calculated via another method?

8. In order to offset the cuts to the funds distributed, the Commission could make other modifications to the NUSF high cost program. The Commission could raise the local rate benchmark for carriers who desired to offset these support reductions. We seek comment on whether to increase the benchmark to $18.50 from $17.50. Carriers in this instance would be permitted to, but not required, to charge $18.50 for basic local exchange service. Carriers should comment on the propriety of raising the local rate benchmark, both as a matter of policy and as it relates to relevant statutory requirements.

9. In addition, the Commission seeks comments on whether to change the transitional support mechanism. This may be

an easy short term fix, but it does not account for changes over the long term. The Commission could accelerate the transitional mechanism, which would result in bringing carriers to where they would be at the end of the transition period. The Commission questions whether making changes to the transitional mechanism would be appropriate or beneficial.

10. Carriers could also make adjustments to rates for services other than supported rates. Should the Commission give consideration to the carriers' ability to adjust rates for broadband services or vertical services? If reductions are made, are carriers likely to modify these rates? Since broadband services and vertical services are competitive services in some markets, is there a disincentive to change the rates for these non-supported services? If not, please explain.

11. If NUSF support amounts are reduced, should the Commission allow carriers to increase their access rates? If so, how should the Commission establish this process and what mechanism should the Commission use to review the access rate modifications?

12. The Commission also seeks comments on the timing of the proposed modifications. It is likely that this decision will take time as heavy consideration must be given to each of the proposals. It is also likely that carriers will need time to adjust for any changes the Commission decides to make. How quickly can carriers react to each of the alternatives described herein? Are some easier to implement than others?

13. The Commission seeks comment on whether adopting these alternatives would satisfy the Commission's obligation to ensure that the NUSF funding mechanism is predictable and sufficient. The Commission seeks comment on whether raising the benchmark or whether approving an access rate increase would be contrary to the Commission's obligation to ensure that rates are affordable and reasonably comparable across the state?

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that this docket be, and it is hereby, opened for public comment.

IT IS FURTHER ORDERED that comments responsive to this order shall be filed by interested parties on or before February 24, 2006 and that reply comments be filed on or before March 27, 2006.

MADE AND ENTERED at Lincoln, Nebraska this 18th day of January, 2006.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Chairman

Attest:

Executive Director