

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Jay Scott Emler, Chairman
Shari Feist Albrecht
Pat Apple

In the Matter of an Investigation to Address)
CenturyLink's CAF II and KUSF Support.) Docket No. 16-GIMT-511-GIT

ORDER ADOPTING STAFF'S REPORT AND RECOMMENDATION

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed its files and records, the Commission finds:

1. On March 8, 2016, in the 16-GIMT-067-GIT Docket, the Commission issued an Order authorizing United Telephone Companies of Kansas d/b/a CenturyLink (CenturyLink) to receive \$10.9 million of Kansas Universal Service Fund (KUSF) support, effective March 1, 2016, subject to a Connect America Fund, Phase II (CAF II) support true-up.¹ The Commission also ordered the opening of a separate proceeding to address CenturyLink's CAF II support and the impact on the Company's KUSF support.²

2. Accordingly, on May 24, 2016, the Commission opened this Docket to review CenturyLink's CAF II support and its impact on the Company's annual KUSF support.³ In its Order Opening Docket to Address CenturyLink's CAF II and KUSF Support, the Commission directed CenturyLink to file its proposed model, revised CAF II support offset calculations, 2015 enabled locations reported to the FCC, and its preliminary 2016 enabled data by July 1, 2016.⁴

¹ Order Authorizing CenturyLink to Receive Certain KUSF Support and Opening of a Separate Docket to Address CenturyLink's CAF II and KUSF Support, 16-GIMT-067-GIT Docket, Mar. 8, 2016, Ordering Clause A.

² *Id.*, Ordering Clause B.

³ Order Opening Docket to Address CenturyLink's CAF II and KUSF Support, May 24, 2016, ¶ 5.

⁴ *Id.*, ¶ 6.

3. On June 30, 2016, CenturyLink filed a summary of its proposed CAF II model, its calculated CAF II and KUSF support, the locations it enabled broadband service during 2015 (2015 enabled locations), the locations where it will not deploy broadband service (2% giveback locations), and the locations it plans to enable broadband service in 2016.⁵

4. After discussions with Commission Staff (Staff), on August 16, 2016, CenturyLink filed a revised CAF II model, removing the “location adjustment” factor for the 2015 enabled locations and revised its KUSF support accordingly.⁶ CenturyLink’s CAF II support was reduced because it elected not to deploy broadband to 2% of the eligible CAF II locations in December 2015, in accordance with the FCC’s CAF II program. After updating the CAF II model to reflect the 2% giveback locations and the 2015 enabled locations, CenturyLink’s CAF II support, recognized in its KUSF support for March 2016 through February 2017 (Year 20), should be reduced by \$3,939, with its KUSF support increased by a corresponding amount.⁷

5. On August 22, 2016, Commission Staff (Staff) filed its Report and Recommendation in this Docket.⁸ Staff recommended the Commission adopt: (1) the CAF II model filed August 16, 2016; (2) a net \$41,044 reduction true-up to CenturyLink’s KUSF support for January 2015 through February 2017; (3) a \$6,841 monthly reduction in CenturyLink’s KUSF support, effective September 2016 through February 2017, to allow for recovery of the \$41,044 reduction true-up, resulting in the Company receiving \$905,202 of

⁵ CenturyLink’s Compliance Filing on CAF II and KUSF Support, Jun. 30, 2016.

⁶ CenturyLink’s Revised Compliance Filing on CAF II and KUSF Support, Aug. 16, 2016, p. 1.

⁷ CenturyLink’s Revised Compliance Filing on CAF II and KUSF Support, Aug. 16, 2016.

⁸ Staff’s Report and Recommendation (Staff’s R&R), Aug. 22, 2016.

KUSF support each month; and (4) a biannual CAF II and KUSF support true-up process.⁹ The Commission adopts Staff's Report and Recommendation.

6. CenturyLink is required to deploy broadband service to locations through 2020, in return for receiving CAF II support prior to deploying broadband service to a location. Therefore, CenturyLink included a location adjustment factor in its CAF II model to recognize some households will receive: (1) both KUSF and CAF II support; (2) KUSF support, but no CAF II support; and (3) CAF II support, but no KUSF support.¹⁰ The location adjustment factor is based on total CenturyLink lines in service and the number of households within its service area, as determined by the U.S. Census Bureau.¹¹

7. If CenturyLink deploys broadband service to fewer KUSF supported locations than estimated by the factor, the location adjustment factor will result in an overstated CAF II support offset.¹² Likewise, if CenturyLink deploys broadband service to more locations than represented by the factor, the location adjustment factor will understate the CAF II support offset.¹³

8. The Commission agrees with Staff's assertion that the location adjustment factor reasonably estimates the locations that will receive CAF II and KUSF support.¹⁴

9. The Commission adopts Staff's recommendation to accept the revised CAF II model, filed by CenturyLink on August 16, 2016, as the CAF II model to use to determine the CAF II support offset recognized in calculating CenturyLink's KUSF support. The Commission

⁹ *Id.*, p. 1.

¹⁰ *Id.*, p. 6.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

also finds the location adjustment factor should be removed from a census block once the annual enabled locations are known.¹⁵

10. Staff also explained CenturyLink needs to annually update its model to reflect the lines eligible for KUSF support, as of September 30 of each year, and the most recently enabled locations.¹⁶ Similarly, CenturyLink needs to file an update to the CAF II model to allow for a true-up in the Company's KUSF support each year subsequent to the Company filing its prior year's enabled location data with the FCC. While remapping the September 30, 2015 KUSF supported lines and the enabled locations to verify the lines were located in the correct KUSF wire center and zone, CenturyLink apparently correctly located the 2015 enabled locations, but may have inadvertently reported some KUSF supported lines in the wrong wire center and/or zone.

11. The Commission concludes the proposed biannual true-up approach will help ensure CenturyLink's KUSF support reflects the most current CAF II support offset available, minimizing each CAF II support offset true-up and the related KUSF support over or underpayment. In the annual update and true-up phases, Staff is directed to review the CAF II model and determine if any adjustments to the CAF II support offset and CenturyLink's KUSF support are necessary. Staff will also map the recent enabled locations and KUSF supported lines to verify whether CenturyLink should receive KUSF support and determine if any line location adjustments are necessary to the KUSF model. Staff and CenturyLink are directed to work together to identify and resolve any issues that arise. At the end of the true-up phase, Staff is directed to submit a report to the Commission, with its recommendations on: (1) CenturyLink's data, (2) the CAF II support offset, and (3) any adjustment to CenturyLink's

¹⁵ *Id.*

¹⁶ *Id.*, p. 7.

KUSF support.¹⁷ Staff should file a separate report to cover any adjustments to CenturyLink's KUSF support arising from incorrectly mapped or reported line locations in the appropriate annual KUSF docket.

12. CenturyLink shall submit an updated CAF II model modified to reflect its 2016 enabled locations and preliminary 2017 enabled locations, its CAF II support offset, and KUSF support calculations, for the annual KUSF calculation and the subsequent biannual true-up in this Docket. CenturyLink shall file its CAF II related data for the annual KUSF calculations by October 19, 2016,¹⁸ CenturyLink shall file its updated CAF II model and all related data in this Docket with the Commission by May 1, 2017.¹⁹

13. The \$11.4 million cap on CenturyLink's KUSF support requires the CAF II support true-up mechanism to reflect only the calendar months included in a KUSF Year to ensure the CAF II support recognized captures the locations to which broadband service was deployed.²⁰ Since the support for January and February 2015 was transitioned to CAF II monies, Staff determined the difference between the Federal Universal Service Fund support recognized for January and February 2015 in the original KUSF Year 18 calculations and the KUSF Year 19 calculations. In total, CenturyLink received \$44,983 more in CAF II support for these months than was recognized in the calculation of its KUSF support.²¹ Therefore, CenturyLink received \$10.9 million of KUSF support for Year 18; less than the \$11.4 million cap, and its CAF II support true-up must be recognized as a reduction in the Company's KUSF support.²²

¹⁷ *Id.*

¹⁸ *Id.*, p. 9.

¹⁹ *Id.*, pp. 10-11.

²⁰ *Id.*, p. 8.

²¹ *Id.*

²² *Id.*

14. For KUSF Year 19, CenturyLink received \$11.4 million of KUSF support due to the cap. Staff determined CenturyLink received \$269,899 more in CAF II support than it received in FUSF support; however, after recognizing the FUSF and CAF II support offset true-up, CenturyLink's KUSF support would exceed the \$11.4 million cap, with no change in the Company's KUSF Year 19 support.

15. For KUSF Year 20, beginning March 2016, CenturyLink was authorized to receive \$10.9 million of KUSF support.²³ This amount recognized CenturyLink would receive an estimated \$3.1 million in CAF II support for 2016. But, its CAF II support must be reduced by \$3,939 than the estimated amount due to updating the CAF II model to reflect the 2% giveback locations and the 2015 enabled locations, resulting in a \$3,939 increase to CenturyLink's KUSF Year 20 support.²⁴

16. By implementing the CAF II support transition retroactive to January 2015, CenturyLink's KUSF support needs to be reduced by a net \$41,044 for January 2015 through February 2017.²⁵ Therefore, CenturyLink's current monthly KUSF support of \$912,043 must be reduced by \$6,841, to \$905,202 each month from September 2016 through February 2017.

THEREFORE, THE COMMISSION ORDERS:

- A. CenturyLink's CAF II model, filed August 16, 2016, is adopted.
- B. The annual true-ups proposed by Staff, resulting in a net \$41,044 reduction to CenturyLink's KUSF support for January 2015 through February 2017, and a \$6,841 monthly reduction in the Company's KUSF support, effective September 2016 through February 2017, with the Company receiving \$905,202 of KUSF support each month, is approved.

²³ Order, Docket 16-067, March 8, 2016.

²⁴ *Id.*, p. 9.

²⁵ *Id.*

C. CenturyLink shall file its updated CAF II model, CAF II offset, KUSF support calculations, and supporting documentation based on the number of lines on September 30, 2016 in this Docket by October 19, 2016.

D. CenturyLink shall submit an updated CAF II model, reflecting its 2016 enabled locations and preliminary 2017 enabled locations, and CAF II support offset, to the Commission in this Docket by May 1, 2017.

E. The parties have 15 days from the date of electronic service of this Order to petition for reconsideration.²⁶

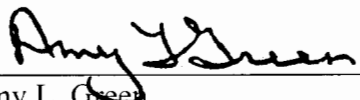
F. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders as it deems necessary.

BY THE COMMISSION IT IS SO ORDERED.

Emler, Chairman; Albrecht, Commissioner; Apple, Commissioner

Dated: OCT 11 2016

BGF/sc



Amy L. Green
Secretary to the Commission

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OCT 11 2016

²⁶ K.S.A. 66-118b; K.S.A. 77-529(a)(1).

CERTIFICATE OF SERVICE

16-GIMT-511-GIT

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of

Electronic Service on OCT 11 2016

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