

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

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

In the Matter of the Audit of Consolidated)
Communications Enterprise Services, Inc.)
by the Kansas Universal Service Fund (KUSF)) Docket No. 18-COSC-045-KSF
Administrator Pursuant to K.S.A. 2016 Supp.)
66-2010(b) for KUSF Operating Year 20, Fiscal)
Year March 2016-February 2017.)

ORDER ACCEPTING AND ADOPTING GVNW CONSULTING, INC.'s
AUDIT REPORT AND RECOMMENDATIONS

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and determination. Having examined its files and record, and being duly advised in the premises, the Commission finds and concludes as follows:

1. On August 1, 2017, the Commission directed GVNW Consulting, Inc. (GVNW) to perform an audit of Consolidated Communications Enterprise Services, Inc. (CCES) for Kansas Universal Service Fund (KUSF) purposes.

2. On February 23, 2018, GVNW filed its Audit Report, including Attachments A and B, dated February 22, 2018, indicating its finding that CCES is current with its KUSF obligations. GVNW's Audit Report identifies and describes in detail two reporting deficiencies, including the applicable reporting standards. GVNW's findings and recommendations include the following:

Audit Finding No. 1:

Standard: Carriers are to report gross revenues prior to recognizing any customer discounts for KUSF reporting purposes through June 30, 2016.¹ Effective July 1, 2016, companies are authorized to report revenues to the KUSF net of discounts.

¹ Docket No. 14-GIMT-105-GIT (Docket 14-105), January 23, 2014 Order Adopting KUSF Assessment Rate for Year Eighteen of KUSF Operations.

Finding: CCES reported revenues to the KUSF after deducting discounts to customers. The discounts reduced CCES's Kansas intrastate revenues reported to the KUSF, resulting in the company under-paying its KUSF assessments by \$5,910.74 for the period of March through June 2016.

Recommendation: The company should be directed to submit Audit True-ups for the period March through June 2016 and pay the additional \$5,910.74 to the KUSF within 30 days of the Commission's issuance of an Order in this Docket.

Audit Finding No. 2:

Standard: VoIP providers are to report their revenues to the KUSF Administrator using the same revenue identification methodology as that used for Federal USF purposes.² If a company identifies revenue using either a traffic study or direct assignment, the company is to submit a pleading, updated at least annually, advising the Commission of the methodology; provide the intrastate factor, if applicable, and relevant time period(s) for each factor; and verify this same methodology is used for federal and KUSF purposes. An affidavit, signed by an officer of the company is to accompany the pleading.

Finding: The company has not submitted an annual update to the KCC or the required affidavit signed by an officer of CCES to verify that the company is using this same methodology to allocate its VoIP toll service revenues for both Federal and Kansas USF purposes, since 2014. On August 13, 2014, CCES the parent company of SureWest filed, in Docket 14-105, a Motion, accompanied by an affidavit signed by an officer of the company, requesting the Commission authorize the company to modify its current KUSF allocation for VoIP/Local/Toll consistent with the capabilities of its new billing system. The Commission granted SureWest's request and directed the company to "provide updates to its traffic factors derived from such methodology on an *annual basis* in the KUSF assessment docket for which the factors apply.

GVNW adds that the company began using an annual traffic study in April 2015 after a billing conversion made it possible to identify VoIP toll revenues by jurisdiction. Due to personnel changes, a pleading was not made. Therefore, CCES has failed to submit its required annual pleading accompanied by an affidavit, signed by an officer of the company, for the periods of April 2015 through February 2016; March 2016 through February 2017; and March 2017 through current 2018, 34 months total.

Recommendation: The Commission should direct CCES to submit a pleading, accompanied by an affidavit executed by an officer of the company, to update its traffic study methodology and intrastate factors for KUSF purposes for the periods of April 2015 through current 2018. The company should verify that it applies the inverse of the Federal USF factor for KUSF reporting purposes and identify the time period for each applicable factor. The Commission should remind the company to submit annual updates in accordance with Commission Orders. The Commission may wish to consider the

² Kansas Universal Service Fund (KUSF) Carrier Remittance Worksheet (CRW) Instructions March 2016-February 2017 (FY 17), page 5.

assessment of fines pursuant to K.S.A. 66-138 for non-compliance with Commission Orders.³

Follow-up Docket No. 13-EVMT-091-KSF (Docket 13-091) Audit Compliance: The following finding was adopted by the Commission in Docket 13-091:

Finding No. 1: The company applied the KUSF surcharge to the Federal USF surcharge collected from its digital service customers and reported these as assessable revenues to the KUSF.

Audit Finding Compliance: GVNW confirms that this reporting practice has been discontinued.

3. On February 20, 2018, CCES filed a pleading in this docket styled “Response of Consolidated Communications Enterprise Services, Inc. to Findings of Audit of Year 20 of the Kansas Universal Service Fund” (Response). CCES’s Response included as Exhibit A, the Affidavit of Michael Shultz, CCES’s Vice President – Regulatory and Public Policy stating that CCES has, at all times during the relevant periods from April 2015 through February 2016; March 2016-February 2017; and March 2017- present applied the inverse of the Federal USF factor for KUSF reporting purposes. CCES’s Response included as Exhibit B, CCES’s Traffic Study Percentages, both Interstate and Intrastate, for years 2015 and 2016. CCES’s Response also reiterates the circumstances leading to the company’s failure to provide annual traffic factor updates, as well as the required Affidavit from an officer of the company verifying that CCES used the same methodology to allocate its VoIP toll service revenues for both Federal and KUSF purposes since 2014. Notwithstanding the Commission’s acceptance of CCES’s February 20, 2018 Response, including Exhibits A and B thereto, the Commission determines that pursuant to K.S.A. 66-138, CCES should be assessed a monetary penalty for the 34 months the company failed to comply with the reporting requirements of the Commission’s Order issued August 19, 2014 in Docket No. 14-GIMT-105-GIT.

³ Audit Report, page 4.

4. The Commission has reviewed GVNW's KUSF Audit Report submitted in this matter on February 23, 2018, and finds that it should accept the Audit Report and adopt GVNW's recommendations.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. The Commission accepts and adopts GVNW Consulting, Inc.'s Audit Report submitted February 23, 2018.

B. In accord with GVNW's recommendation with respect to Audit Finding No. 1, as set forth in paragraph 2 above, Consolidated Communications Enterprise Services, Inc. is directed to submit Audit True-ups for the period March through June 2016 to correct this Audit deficiency and repay \$5,910.74 to the KUSF within thirty (30) days from the date of this Order.

C. In accord with GVNW's recommendation with respect to Audit Finding No. 2, as set forth in paragraph 2 above, Consolidated Communications Enterprise Services, Inc. is hereby assessed a monetary penalty of \$300.00 for each of the three years affected by CCES's non-compliance with the Commission's August 19, 2014 Order issued in Docket No. 14-GIMT-105-GIT, for a total monetary penalty of \$900.00. CCES's payment shall reference this docket, 18-COSC-045-KSF, be made out to the Commission, and mailed to the Commission's fiscal Office, 1500 SW Arrowhead Road, Topeka, Kansas 66604-4027, no later than thirty (30) days from the date of this Order.

D. Upon Consolidated Communications Enterprise Services, Inc.'s compliance with the requirements of ordering paragraphs B and C above, GVNW Consulting, Inc. shall provide an update to the Commission.

E. Consolidated Communications Enterprise Services, Inc.'s failure to comply with the filing and payment requirements of ordering paragraphs B and C above could result in additional monetary penalties.


F. The parties have fifteen (15) days, plus three (3) days if service of this Order is by mail, from the date this Order was served in which to petition the Commission for reconsideration of any issue or issues decided herein. K.S.A. 66-118b; K.S.A. 2016 Supp.77-529.

G. The Commission retains jurisdiction over Consolidated Communications Enterprise Services, Inc. and the subject matter of this docket for the purpose of issuing such additional orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Albrecht, Chair; Emler, Commissioner; Apple, Commissioner

Dated: 03/08/2018


Lynn M. Retz
Secretary to the Commission

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CERTIFICATE OF SERVICE

18-COSC-045-KSF

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of
03/09/2018
first class mail/hand delivered on _____.

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/S/ DeeAnn Shupe

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