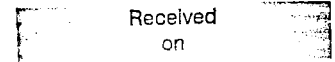


**THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of An Investigation to Determine )  
the Assessment Rate for the Sixteenth Year ) Docket No. 12-GIMT-168-GIT  
of the Kansas Universal Service Fund, Effective )  
March 1, 2012. )



**DEC 23 2011**

by  
State Corporation Commission  
of Kansas

DIRECT TESTIMONY  
OF  
SANDRA K. REAMS  
ON  
BEHALF OF THE  
KANSAS CORPORATION COMMISSION STAFF

December 22, 2011

1 **Q. Please state your name and business address.**

2 A. My name is Sandra (Sandy) K. Reams. My business address is: Kansas Corporation  
3 Commission (Commission), 1500 S.W. Arrowhead Road, Topeka, Kansas 66604.

4 **Q. What is your position at the Commission?**

5 A. I am the Assistant Telecommunications Chief on the technical staff (Staff) of the  
6 Commission. I became employed by the Commission in December 1996 as a Utility  
7 Regulatory Auditor and was promoted to Senior Utility Regulatory Auditor, effective  
8 June 1997. In February 1998, I became a Telecommunications Auditor and was  
9 promoted to Managing Auditor in April 2002. In October 2011, I was promoted to my  
10 current position.

11 **Q. What is your educational background?**

12 A. I received a Bachelor of Arts in Accounting from Buena Vista University, Storm Lake,  
13 Iowa, and hold a Certified Public Accountant (CPA) certificate. During my employment  
14 at the Commission, I have attended various regulatory and telecommunications related  
15 courses. I have been a member of the National Association of Regulatory Utility  
16 Commissioners' (NARUC) Staff Subcommittee on State Universal Service Fund  
17 Administrators since 2002 and have served as the Subcommittee Chair since August  
18 2010. I am also a Staff member for the Federal/State Joint Board on Separations. I  
19 previously served as the Staff Chair for the State Commissioners of the Federal/State  
20 Joint Conference on Accounting Issues and as a member of the Federal  
21 Communications Commission (FCC)/State Joint Oversight Team for the audits of  
22 Southwestern Bell Telephone Company's (SWBT) compliance with affiliate transaction

1 and non-discriminatory provisions contained in Section 272 of the 1996 Federal  
2 Telecommunications Act.

3 **Q. Have you testified before the Commission?**

4 A. Yes. I have testified on the annual Kansas Universal Service Fund (KUSF) assessment  
5 rate and other KUSF-related issues. I have also testified on a variety of other  
6 telecommunications issues, including intrastate access rates, interLATA dialing parity  
7 and related cost recovery mechanisms, intrastate revenue requirement cost of service  
8 components, and Eligible Telecommunications Carrier (ETC) issues. Prior to joining the  
9 telecommunications section, I testified on gas industry issues, including tax-related  
10 issues, shared service agreements, and acquisition premiums.

11 **Q. Please summarize your testimony.**

12 A. On September 29, 2011, the Commission issued an Order opening this docket (Opening  
13 Order) to address the KUSF assessment rate for the sixteenth year of the KUSF, effective  
14 March 1, 2012, through February 28, 2013 (Year 16). Staff was instructed to file direct  
15 testimony to support the calculation of the proposed KUSF assessment rate by  
16 December 23, 2011. My testimony supports a 6.13% KUSF Year 16 assessment rate,  
17 based on the following:

- 18 • KUSF funding obligations of \$65.2 million, comprised of: (1) \$54.2 million for  
19 high-cost support; (2) \$4.6 million for the Kansas Relay Service,  
20 Telecommunications Access, and Kansas Lifeline Service Programs (KRSI,  
21 TAP, and Lifeline, respectively); (3) \$6.0 million for KAN-ED; and (4)  
22 \$455,600 for KUSF administration and audit expenses;
- 23 • a \$6.9 million KUSF balance, or reserve, as of February 29, 2012; and
- 24 • a \$4.4 million contingency fund allowance.

1           These funding components result in needing to collect a net of \$62.7 million from  
2           carriers. As discussed herein, Staff estimates the KUSF monies will be collected from  
3           an intrastate assessable revenue base of \$1.0 billion.

4   **Q.   Does your testimony address any other KUSF-related policy related issues?**

5   A.   Yes. Wireless<sup>1</sup> and VoIP<sup>2</sup> providers are allowed to allocate their total revenues earned in  
6           Kansas to the interstate and intrastate jurisdictions using the Safe Harbor methodology,  
7           direct assignment of revenues, or a company-specific traffic study. If a wireless or VoIP  
8           provider elects to allocate its revenues using either the direct assignment or traffic-study  
9           methodology, it must submit a pleading that includes an affidavit from an officer of the  
10          company to the Commission; otherwise, it is presumed that the company allocates  
11          revenue using the Safe Harbor methodology. The Safe Harbor allocates 62.9% of a  
12          wireless carrier's and 35.1% of a VoIP provider's total Kansas revenues to the intrastate  
13          jurisdiction, which are then subject to the KUSF. As will be discussed further in my  
14          testimony, Staff recommends that the Commission clarify whether VoIP and wireless  
15          providers are to submit a pleading to the Commission whenever their traffic study factors  
16          change or if they are only required to do so annually. Staff further suggests that a  
17          company's pleading to update its traffic study factors be filed in the annual KUSF docket  
18          to which the traffic factors apply and attest that the traffic study factors used for KUSF

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<sup>1</sup> *In the Matter of the Investigation to Determine the March 1, 2006 Assessment for the Tenth Kansas Universal Service Fund Year*, Docket No. 06-GIMT-332-GIT (Docket 06-332), September 8, 2006, Order. The Safe Harbor for analog SMR providers is 99% intrastate/1% interstate and for paging providers, 88% intrastate/12% interstate, as set *In the Matter of a General Investigation into Procedures for Recording and Reporting Kansas Universal Service Fund Revenues for Assessment Purposes*, Docket No. 03-GIMT-932-GIT, September 2, 2003, Order.

<sup>2</sup> *In the Matter of the Investigation to Address Obligations of VoIP Providers with Respect to KUSF*, Docket No. 07-GIMT-432-GIT (Docket 07-432), September 22, 2008, Order.

1 purposes are the inverse of those used for federal Universal Service Fund (USF)  
2 purposes.

3 **Q. Does the Commission have the authority to determine the annual KUSF assessment**  
4 **rate for contributions?**

5 A. Yes. K.S.A. 66-2008 required the Commission to establish the KUSF on or before  
6 January 1, 1997. Subsection (a) also directs the Commission to require every  
7 telecommunications carrier, telecommunications public utility, and wireless  
8 telecommunications service provider that provides intrastate telecommunications  
9 services, as well as interconnected Voice over Internet Protocol (VoIP) providers to  
10 contribute to the KUSF on an equitable and nondiscriminatory basis. The Commission  
11 implemented the KUSF in a December 27, 1996, Order in Docket No. 94-GIMT-478-  
12 GIT (190,492-U) (Docket 94-478).<sup>3</sup> The Kansas courts have determined that K.S.A. 66-  
13 2008 delegated administrative power, not legislative power, to the Commission, with  
14 regard to the KUSF.<sup>4</sup> Staff believes the Commission has full authority to address this  
15 issue.

16 In making a determination of the KUSF contribution factor, the Commission must base  
17 its decision based on the facts and evidence supported by the appropriate standard of  
18 proof that is substantial when viewed in light of the record as a whole.<sup>5</sup> "Substantial  
19 competent evidence" is defined as "evidence which possesses something of substantial  
20 and relevant consequence and which furnishes a substantial basis of fact from which the

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<sup>3</sup> *In the Matter of a General Investigation into Competition Within the Telecommunications Industry in the State of Kansas*, Docket No. 94-GIMT-478-GIT (190,492-U) (Docket 94-478), December 27, 1996, Order.

<sup>4</sup> *Citizens' Utility Ratepayer Bd. v. Kansas Corporation Commission*, 264 Kan. 363, (1998)

<sup>5</sup> K.S.A. 77-621(c)(7), as amended.

1 issues tendered can reasonably be resolved”.<sup>6</sup> “In light of the record as a whole” means  
2 the adequacy of evidence in the record to support a particular finding of fact is to be  
3 judged “in light of all relevant evidence in the record cited by any party that detracts from  
4 such findings as well as all of the relevant evidence in the record compiled,<sup>7</sup> cited by any  
5 party that supports such findings, including any determinations of veracity by the  
6 presiding officer who personally observed the demeanor of the witness and the agency’s  
7 explanation of why the relevant evidence in the record supports its material findings of  
8 fact.”<sup>8</sup>

9 **Q. Please explain how the KUSF Year 16 assessment rate you are proposing was**  
10 **calculated.**

11 A. The calculation of the proposed 6.13% KUSF Year 16 assessment rate is shown in  
12 Exhibit SKR-1, which consists of three pages. Page 1 identifies each KUSF funding  
13 obligation, a brief description of the assumptions related to each obligation, and  
14 references to additional supporting documentation contained in Attachments A through  
15 S. Page 1 also shows the calculated KUSF reserve, the contingency fund allowance, and  
16 the resulting net total KUSF monies to collect from carriers. Page 2 contains a summary  
17 of the revenues each carrier or carrier category is projected to report during KUSF Year  
18 16. Page 3 shows that the 6.13% proposed KUSF Year 16 assessment rate is derived by  
19 dividing the net monies that need to be collected from carriers by the projected assessable  
20 revenue base.

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<sup>6</sup> Jones v. Kansas Gas & Elec. Co., 222 Kan. 390, 397, (1977).

<sup>7</sup> K.S.A. 77-620.

<sup>8</sup> K.S.A. 77-621(d).

1 **Q. Does the documentation contain confidential information?**

2 A. Yes. A redacted and a confidential set of work papers are being separately filed with  
3 my testimony. My work papers rely on aggregated and public data or estimates to the  
4 greatest extent possible to allow parties an opportunity to review Staff's calculations.  
5 Specifically, Exhibit SKR-1, pages 1 and 3, and Attachments K through M and  
6 Attachment S contain only public data. Company-specific revenue and/or access line  
7 data is included in Exhibit SKR-1, confidential page 2, and confidential Attachments A  
8 through J, and Attachment N through R. This data is available only to the specific  
9 Company and the Citizens' Utility Ratepayer Board (CURB) for review.<sup>9</sup>

10 Prior to submitting this testimony and calculations, Staff provided SWBT, the United  
11 Telephone Companies of Kansas, consolidated, d/b/a CenturyLink (CenturyLink), and  
12 each competitive ETC a copy of that Company's confidential work papers for review.  
13 Staff also discussed the September 30, 2011, line data and the resulting KUSF  
14 calculations with many of the rural local exchange carriers (LECs) or their consultants.  
15 This process has been in place for numerous years to help ensure the accuracy of the  
16 data and the resulting KUSF assessment rate submitted to the Commission.

17 **I. YEAR 16 ASSESSMENT RATE**

18 **Q. Staff proposes a 6.13% KUSF Year 16 assessment rate. How do the LECs pay and**  
19 **recover their KUSF assessment?**

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<sup>9</sup> Docket 94-478, December 11, 1998, Order: (1) Granting CMT Partners Petition for Reconsideration to the Extent that the Protective Order Issued in This Docket is Amended, (2) Granting CURB's Petition for Reconsideration and/or Clarification to the Extent that the Commission Clarifies its Intent for CURB to Have Access to Same Information as Staff; and (3) Granting Staff's Motion for Clarification and Clarifies its Intent on the Auditing Procedures and the Future Calculation of the Assessment Rate, ¶¶12 - 17.

1 A. To limit fluctuations in local service bills, the Commission determined each LEC should  
2 pay, and could recover, its KUSF assessment for local service on a per line basis.<sup>10</sup> A  
3 separate per line KUSF assessment rate was determined for SWBT, CenturyLink, and  
4 the rural LECs.<sup>11</sup>

5 **Q. What are the KUSF Year 16 per line LEC assessment rates?**

6 A. Table 1 shows the proposed KUSF Year 16 per line KUSF assessment rates, the current  
7 KUSF Year 15 (March 1, 2011, through February 29, 2012) per line rates, and the  
8 difference:

9 **Table 1: ILEC Maximum Per Line Assessments**

| ILEC        | Year 16 | Year 15 | Change   |
|-------------|---------|---------|----------|
| SWBT        | \$ 2.02 | \$ 2.04 | (\$0.02) |
| CenturyLink | \$ 1.63 | \$ 1.91 | \$(.28)  |
| Rural LECs  | \$ 1.45 | \$ 1.45 | \$0.00   |

10 **Q. How was each per line KUSF local service assessment rate determined?**

11 A. Please refer to confidential Attachments A through C. The first step was to project the  
12 annual revenue each LEC will report for the rest of the current KUSF Year 15. Once the  
13 projected Year 15 revenue was determined, Staff applied revenue growth or decline  
14 projections to derive the projected KUSF Year 16 revenue for each company. The  
15 projected Year 16 revenue was then multiplied by the proposed 6.13% KUSF Year 16  
16 assessment rate to determine the annual assessment SWBT, CenturyLink, and the rural  
17 LECs will owe to the KUSF for Year 16. The total assessment was then divided by the

<sup>10</sup> Id., ¶¶113-115.

<sup>11</sup> *In the Matter of the Investigation to Determine a New Affordable Rate for Rate of Return Regulated Companies and the March 1, 2007 Assessment for the Eleventh Kansas Universal Service Fund Year*, Docket No. 07-GIMT-276-GIT, December 4, 2006, Order Granting Motion of Tri-County Telephone Assn., Inc. and FairPoint Communications Missouri, Inc. to Participate in the Stipulation and Agreement Approved by the Commission in Docket No. 94-GIMT-478-GIT (190,492-U) by Commission Order Dated December 27, 1996; Ordering ¶ A, consolidating the rural LECs participating in the Stipulated Agreement for KUSF calculation purposes.

1           projected Year 16 assessable lines and then divided by twelve to determine the monthly  
2           KUSF assessment on a per line basis.

3   **Q.   How were the number of lines that are included in the per line KUSF assessment**  
4   **rate calculations determined?**

5   A.   Pursuant to the Opening Order in this case, each LEC reported its total local service  
6   lines as of September 30, 2011.<sup>12</sup> Staff reviewed each company's September 30, 2011,  
7   assessable line data to determine whether it had experienced a growth or reduction in its  
8   accessible lines the past year. Next, the assessable lines reported as of September 30,  
9   2008 through September 30, 2011, were reviewed to determine whether it would be  
10   reasonable to adjust the September 30, 2011, assessable line counts to project that a LEC  
11   will experience a loss or growth in assessable lines during the next year.

12   **Q.   What were the results of this analysis?**

13   A.   As shown on confidential Attachment A, page 8, the rural LECs have reported an  
14   aggregated, net assessable line loss of approximately 4.0% for the past several years.  
15   Thus, a 4.0% assessable line loss is reflected in the calculation of the \$1.45 per line  
16   KUSF assessment for the rural LECs. Confidential Attachment B, page 7, shows SWBT  
17   has experienced annual assessable line losses ranging between 11% and 12%; therefore,  
18   an 11.0% projected line loss was recognized in the calculation of the \$2.02 per line  
19   KUSF assessment rate. Confidential Attachment C, page 6, shows CenturyLink has

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<sup>12</sup> Total company lines determined for both KUSF support and assessment purposes exclude company official lines used by a company to conduct its own business and concession lines provided free of charge to current or retired employees, Board of Directors, and etcetera. A concession line charged a percent of the local service rate may be subject to the same pro-rated share of the KUSF assessment (i.e. a concession line charged 50% of the local service rate is subject to 50% of the per line KUSF assessment rate). *In the Matter of the Investigation to Determine the March 1, 2001 Assessment for the Fifth Kansas Universal Service Fund Year*, Docket No. 01-GIMT-235-GIT.

1 experienced annual assessable line losses ranging between 1% and 7%; therefore, the  
2 calculation of the \$1.63 per line KUSF assessment reflects a 3.0% projected line loss.

3 **II. KUSF FUNDING OBLIGATIONS**

4 **Q. What is the estimated total KUSF obligation for KUSF Year 16?**

5 A. Exhibit SKR-1, page 1, line 18, shows that the total projected KUSF Year 16 funding  
6 obligation is \$65.2 million. K.S.A. 66-2008(a) requires that the total KUSF obligation  
7 for the next KUSF year be reduced by any excess monies collected during the current  
8 KUSF year.<sup>13</sup> Staff projects that the KUSF balance as of February 29, 2012, will be \$6.9  
9 million, reducing the KUSF monies to collect to \$58.3 million. In order to ensure that the  
10 KUSF has sufficient funding to address contingencies that may arise, the Commission  
11 adopted a contingency fund allowance equal to 7.5% of the net adjusted KUSF  
12 obligations.<sup>14</sup> Adding the \$4.4 million contingency fund allowance to the \$58.3 million  
13 net adjusted KUSF obligation results in the requirement to collect \$62.7 million from  
14 providers in order for the KUSF to meet all of its funding obligations. Table 2 shows a  
15 summary of the proposed KUSF Year 16 obligations in comparison to the current Year  
16 15 obligations:

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<sup>13</sup> *In the Matter of the Investigation to Determine the March 1, 2000 Assessment for the New Kansas Universal Service Fund Year*, Docket No. 00-GIMT-236-GIT (Docket 00-236), January 29, 2000, Order No. 5 Establishing Carrier Assessment Rate For Year 2000 KUSF Contributions, ¶ 26.

<sup>14</sup> *Id.*, ¶ 28.

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**Table 2: KUSF Funding Requirements (In Millions)**

| Description                   | Year 16 | Year 15 | Difference |
|-------------------------------|---------|---------|------------|
| Gross KUSF Obligations        | \$ 65.2 | \$ 65.7 | \$ (.5)    |
| Less: Reserve                 | (6.9)   | (2.7)   | (4.2)      |
| Plus: Contingency Allowance   | 4.4     | 4.7     | (.3)       |
| Adjusted Net KUSF obligations | \$ 62.7 | \$ 67.7 | \$ (5.0)   |

2 **Q. Is it possible that the actual KUSF disbursements will be different than the amounts**  
3 **projected by Staff?**

4 A. Yes. The calculations that are supported by my testimony are based on the best  
5 information available at the time this testimony was filed. The Commission's Opening  
6 Order, paragraph 9, recognizes that a computational error may occur or other change in  
7 the information Staff relied on for its calculations could materially impact Staff's  
8 calculations. Thus, the Commission advised parties to notify Staff in an expeditious  
9 manner to allow Staff to file revised calculations, if needed, by January 11, 2012.

10 **Q. Are there any dockets pending before the Commission that could have an impact**  
11 **on the KUSF?**

12 A. Yes. On November 18, 2011, the FCC released its *Report and Order and Further Notice*  
13 *of Proposed Rulemaking* (USF/ICC Order),<sup>15</sup> the impacts of which will be addressed in  
14 Docket No. 12-GIMT-170-GIT (Docket 12-170).<sup>16</sup> In its Order opening Docket 12-170,  
15 the Commission recognized that the FCC's proposals to reform the federal universal  
16 service fund (USF) and intercarrier compensation regime (ICC) necessitated the

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<sup>15</sup> *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Mobility Fund; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking* (Nov. 18, 2011).

<sup>16</sup> *In the Matter of a General Investigation into the Kansas Universal Service Fund pursuant to K.S.A. 2010 Supp. 66-2008(c)*, Docket No. 12-GIMT-170-GIT.

1 Commission opening the docket to address the impact the FCC's reforms could have on  
2 Kansas and the KUSF, and allow the costs associated with the docket to be assessed in an  
3 efficient manner.<sup>17</sup> The Commission stated that the federal changes will need to be  
4 reviewed to ensure that the KUSF is "not inconsistent with the FCC's rules to preserve  
5 and advance universal service," and in paragraph 11, stated that the following matters  
6 would be addressed in Docket 12-170:

- 7 • a review of the definition of universal service that takes into account the impact of  
8 the FCC's USF and ICC reforms;
- 9 • an evaluation of whether modification of the KUSF is justified under K.S.A. 2010  
10 Supp. 66-2008(c), taking into account the policy objectives of the KTA as  
11 articulated by the Legislature in K.S.A. 66-2001; and
- 12 • an examination of any findings resulting from the financial audits of the KUSF  
13 and the KUSF administrator's internal controls and contractual compliance.

14 **Q. Please continue.**

15 A. The KUSF support paid to rural LEC based on a KUSF carrier audit, such as the audit  
16 of S&T Telephone Cooperative Association's (S&T) in Docket No. 12-S&TT-234-  
17 KSF.<sup>18</sup> On October 7, 2011, Staff filed a Motion recommending that the Commission  
18 open an audit proceeding to review S&T's costs to determine if the Company's KUSF  
19 support should be adjusted. On December 9, 2011, the Commission issued an Order  
20 directing S&T to submit a filing based on its 2011 audited data, no later than March 15,  
21 2012. Any adjustment to a LEC's KUSF support impacts the KUSF support paid to a  
22 competitive ETC operating in the LEC's study area. Changes to the KUSF may also

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<sup>17</sup> Id., September 12, 2011, Order Opening Docket, Designating Prehearing Office, and Directing Active Parties to File Entry of Appearance, ¶12.

<sup>18</sup> *In the Matter of Staff's Motion Requesting the Commission Order S & T Telephone Coop Association, Inc. to Submit to an Audit for Purposes of Determining its Cost-Based Kansas Universal Service Fund Support, Pursuant to K.S.A. 66-2008*, Docket No. 12-S&TT-234-KSF.

1 occur as a result of Commission decisions regarding initial or supplemental KUSF  
2 support, such as the two pending requests for initial KUSF support in Docket No. 11-  
3 WLCT-650-KSF (Docket 11-650)<sup>19</sup> and Docket No. 12-NECZ-350-KSF (Docket 12-  
4 350).<sup>20</sup>

5 **Q. Does Staff anticipate that the actual revenues reported to the KUSF will be different**  
6 **than those projected by Staff?**

7 A. Yes. The revenues reported and the assessments paid to the KUSF will likely be  
8 different than those reflected in Staff's projections. For example, the KUSF Year 13  
9 Carrier Audits performed by the KUSF Administrator, GVNW Consulting, Inc.  
10 (GVNW), resulted in the KUSF refunding \$345,600 to companies, of which \$334,100  
11 was refunded to customers.<sup>21</sup> The results of the KUSF Year 14 Carrier Audits pending  
12 in Docket Nos. 12-ALTC-018-KSF through 12-DGZC-033-KSF could affect the KUSF.  
13 Furthermore, the KUSF Year 15 ending balance will be impacted by the supplemental  
14 KUSF support granted in Docket No. 12-NTWZ-101-KSF (Docket 12-101)<sup>22</sup> and the  
15 additional KUSF support granted in Docket No. 11-CNHT-659-KSF (Docket 11-659).<sup>23</sup>

16 **Q. What impacts could the USF/ICC Order have on the KUSF?**

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<sup>19</sup> *In the Matter of the Request of WestLink Communications, LLC for Kansas Universal Service Fund Support*, Docket No. 11-WLCT-650-KSF.

<sup>20</sup> *In the Matter of the Request of N.E. Colorado Cellular, Inc. d/b/a Viaero Wireless, for Kansas Universal Service Fund Support*, Docket No. 12-NECZ-350-KSF.

<sup>21</sup> *In the Matter of the Investigation to Determine the March 1, 2009 Assessment for the Thirteenth Kansas Universal Service Fund Year and the Affordable Local Service Rates for Rate-of-Return Regulated Carriers, effective March 1, 2009*, Docket No. 09-GIMT-272-GIT (Docket 09-272).

<sup>22</sup> *In the Matter of the Request of Nex-Tech Wireless, LLC for Kansas Universal Service Supplemental Fund Support*, Docket No. 12-NTWZ-101-KSF, November 23, 2011, Order Granting Request of NTW for Kansas Universal Service Supplemental Fund Support as Adjusted by Staff.

<sup>23</sup> *In the Matter of the Application of Cunningham Telephone Company, Inc. for Additional Kansas Universal Service Fund Support Pursuant to K.S.A. 66-2008*, Docket No. 11-CNHT-659-KSF (Docket 11-659), December 7, 2011, Order.

1 A. The full impact of the USF/ICC Order is not yet known; however, it is likely that the  
2 modifications to the federal universal service fund (USF) and intercarrier compensation  
3 regime adopted by the FCC will impact the Kansas LECs and competitive ETCs. Several  
4 of the federal USF support mechanisms, including the high-cost loop (HCL) and local  
5 switching support (LSS), are used to offset the cost-based KUSF support determined by  
6 the KUSF cost model for price cap carriers<sup>24</sup> and in the intrastate revenue requirement  
7 determinations for the rural LECs. It is unknown at this time whether or not the  
8 USF/ICC Order will result in a LEC receiving less, or more, federal USF support or the  
9 impact it will have on a company's KUSF support. Staff has been in contact with the  
10 Kansas LECs and competitive ETCs and their consultants, who have indicated they have  
11 not yet determined the impact the USF/ICC Order will have on them. Staff intends to  
12 maintain contact with the companies and once the impacts to Kansas are ascertained, the  
13 information will be provided to the Commission in Docket 12-170. And, after the impact  
14 to the KUSF is reasonably estimated, Staff will file testimony and calculations addressing  
15 that impact in the applicable annual KUSF Assessment Rate docket. If the impacts will  
16 materially impact the proposed 6.13% KUSF Year 16 assessment rate, Staff will file  
17 additional testimony and revised calculations in this docket.

18 **Q. Exhibit SKR-1, page 1, line 1, includes \$25.5 million of KUSF support for the rural**  
19 **LECs. How was this amount calculated?**

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<sup>24</sup> *In the Matter of an Investigation Into the Kansas Universal Service Fund (KUSF) Mechanism for the Purpose of Modifying the KUSF and Establishing a Cost-Based Fund*, Docket No. 99-GIMT-326-GIT (Docket 99-326), December 29, 1999, Order No. 10: Adopting a Forward-Looking Cost Methodology for Purposes of Determining KUSF Support and Selecting the FCC's Proxy Cost Model, dated September 30, 1999, and Order No. 16: Determining the Kansas-Specific Inputs to the FCC Cost Proxy Model to Establish a Cost-Based Kansas Universal Service Fund.

1 A. Attachment A contains the documentation, including company-specific calculations, for  
2 the rural LECs. A rural LEC's KUSF support is based on its intrastate revenue  
3 requirement,<sup>25</sup> the biennial adjustments for the statutory intrastate switched access, and  
4 the biennial affordable rate calculations. Attachment A, page 1, shows that the  
5 calculation of the March 1, 2012, KUSF support payable to each rural LEC begins with  
6 each company's December 1, 2011, KUSF support. The following company-specific  
7 KUSF audit docket results are incorporated into the December 1, 2011, KUSF support  
8 amounts:

- 9 • United Telephone Association, Inc. (UTA), Docket No. 10-UTAT-525-KSF:<sup>26</sup>  
10 On March 18, 2010, UTA filed an Application requesting an increase of \$1.2  
11 million in its annual KUSF support. On March 28, 2011, Staff and UTA filed a  
12 Joint Motion for Approval of Stipulated Settlement Agreement (SSA) that  
13 allowed the Company a \$331,355 increase in its annual KUSF support. On  
14 March 30, 2011, the Commission approved the SSA; therefore, effective April 1,  
15 2011, UTA's KUSF support increased to \$403,364. On May 1, 2011, UTA  
16 implemented an increase in its unified local service rate; thereby reducing the its  
17 annual KUSF support to \$390,689.
- 18 • Pioneer Telephone Association, Inc. (Pioneer), Docket No. 11-PNRT-315-KSF:<sup>27</sup>  
19 On October 29, 2010, Pioneer filed an Application to request a \$3.8 million  
20 increase in its annual KUSF support. In January 2011, Pioneer filed an amended  
21 Application. On June 13, 2011, Staff and Pioneer submitted a SSA to the  
22 Commission, recommending that Pioneer's annual KUSF support be increased by  
23 \$1.75 million. The Commission approved the SSA on August 31, 2011; therefore,  
24 Pioneer receives \$3.8 million of KUSF support, effective September 1, 2011.
- 25 • Rainbow Telecommunications Association, Inc. (Rainbow), Docket No. 11-  
26 RNBT-608-KSF:<sup>28</sup> On February 2, 2011, Rainbow filed an Application  
27 requesting an increase of \$910,346 in its annual KUSF support. On August 23,  
28 2011, Staff and Rainbow submitted a SSA recommending that the Company's

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<sup>25</sup> KUSF company-specific intrastate revenue requirements have not been determined for Gorham Telephone Co., Inc.; LaHarpe Telephone Co., Inc.; and Zenda Telephone Co., Inc.

<sup>26</sup> *In the Matter of the Application of United Telephone Association Inc. for Additional Kansas Universal Service Fund Support Pursuant to K.S.A. 66-2008*, Docket No. 10-UTAT-525-KSF.

<sup>27</sup> *In the Matter of the Application of The Pioneer Telephone Association, Inc. for Additional Kansas Universal Service Fund Support Pursuant to K.S.A. 66-2008*, Docket No. 11-PNRT-315-KSF.

<sup>28</sup> *In the Matter of the Application of Rainbow Telecommunications Association's Application for Additional Support from the Kansas Universal Service Fund*, Docket No. 11-RNBT-608-KSF.

1                   \$198,803 of annual KUSF support be maintained. The Commission approved the  
2                   SSA on October 5, 2011.

3   **Q.    What other adjustments were made to the rural LECs' December 1, 2011, KUSF**  
4   **support?**

5   A.    Two additional adjustments were made to the December 1, 2011, KUSF support. The  
6   first adjustment recognizes that Golden Belt Telephone Association (Golden Belt) will  
7   increase its local service rates, effective March 1, 2012.<sup>29</sup> The second adjustment reflects  
8   that, on December 7, 2011, the Commission adopted a SSA in Docket No. 11-CNHT-  
9   659-KSF.<sup>30</sup> This will result in Cunningham Telephone Company, Inc.'s (Cunningham)  
10   annual KUSF support increasing \$481,406, to \$902,992, effective January 1, 2012.

11   **Q.    How was the annual KUSF support for SWBT determined?**

12   A.    SWBT currently receives \$6.5 million in annual KUSF support. Attachment B, page 1,  
13   shows this will decline to \$5.9 million for KUSF Year 16. The KUSF support paid to  
14   SWBT is comprised of two components: (1) KUSF support for lines the Company  
15   provisions service to, and (2) KUSF support for lines competitive ETCs purchase from  
16   SWBT using Local Wholesale Complete (LWC).

17           To determine SWBT's KUSF support for lines it provisions service to, the September 30,  
18           2011, KUSF support eligible lines were entered into the KUSF cost model. SWBT has  
19           71 high-cost wire centers, with each wire center broken down, or disaggregated, into two

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<sup>29</sup> K.S.A. 66-2005(d) and K.S.A. 66-2005(e)(1)(C)(5). See also, *In the Matter of a General Investigation to Determine the Assessment Rate for the Fifteenth Year of the Kansas Universal Service Fund and the Affordable Local Service Rates for Rate-of-Return Regulated Carriers, Effective March 1, 2011*, Docket No. 11-GIMT-201-GIT, January 12, 2011, Order Setting the Kansas Universal Service Fund Assessment Rate for Year Fifteen, Setting Target Rates for Rural Local Exchange Companies, and Cancelling Hearing, ¶ 8.

<sup>30</sup> *In the Matter of the Application of Cunningham Telephone Company, Inc. for Additional Kansas Universal Service Fund Support Pursuant to K.S.A. 66-2008*, Docket No. 11-CNHT-659-KSF (Docket 11-659), December 7, 2011, Order.

1 zones.<sup>31</sup> Zone 1 includes locations Inside the Base Rate Area (IBRA), which is generally  
2 within and up to three miles outside the city limits. Zone 2 includes all locations Outside  
3 the Base Rate Area (OBRA). Seven wire centers qualify for zone 1 KUSF support that  
4 ranges from \$1.33 to \$13.08 per line per month. All 71 exchanges qualify for zone 2  
5 KUSF support, ranging from \$2.85 to \$226.45 per month per line. A review of SWBT's  
6 data indicated that several reporting and mapping errors occurred when SWBT reported  
7 its September 30, 2010, lines that were used to determine the Company's KUSF Year 15  
8 support. Staff is reviewing additional data gathered from SWBT and is in the process of  
9 incorporating the corrections to SWBT's current KUSF support. If an error flows-  
10 through to the calculation of the Company's KUSF Year 16 support, the applicable  
11 correction will be made.

12 To determine the KUSF support for SWBT that results from a competitive ETC  
13 provisioning service through LWC, a competitive ETC's qualifying lines are entered into  
14 the KUSF high-cost model. The KUSF per line support available via the cost model is  
15 compared to the LWC per line price the competitive ETC paid to SWBT. The lesser of  
16 the two per line amounts is paid to the competitive ETC, with the difference, if any, paid  
17 to SWBT. For example, the KUSF cost model provides \$87.00 of support a line each  
18 month for zone 2 of the Attica wire center. If a competitive ETC's LWC per line cost is  
19 \$47.00 a month, the competitive ETC receives \$47.00 and SWBT receives the \$40.00  
20 difference per line. Alternatively, if the competitive ETC paid \$90.00 a line each month,  
21 the competitive ETC receives the \$87.00 and SWBT does not receive any KUSF support

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<sup>31</sup> Docket 99-326, Order No. 16, ¶ 131.

1 for the line. Nex-Tech, Inc. (Nex-Tech) and Sage Telecom, Inc. (Sage) are the only two  
2 competitive ETCs currently providing service to customers in SWBT's study area using  
3 LWC.<sup>32</sup>

4 **Q. Please explain how the KUSF support for Nex-Tech and Sage is determined.**

5 A. Consistent with the Opening Order, Nex-Tech and Sage submitted documentation  
6 supporting the LWC cost each paid to SWBT and their respective September 30, 2011,  
7 customer lines in each wire center zone for which the Company requests KUSF support.  
8 Each Company also submitted its cost model KUSF support calculations. Page 2 of  
9 Attachment D shows that the total KUSF support calculated by the cost model for lines  
10 that Nex-Tech serves is \$168,600. Nex-Tech will receive \$43,600 and SWBT will  
11 receive \$125,000, as shown on page 3 of Attachments B and D. Page 3 of Attachment E  
12 shows that the cost model calculates \$108,000 of total KUSF support for LWC lines  
13 served by Sage. Attachment B, page 4, and Attachment E, page 3, show Sage will  
14 receive \$60,500 and SWBT will receive \$47,500.

15 A competitive ETC offering services via LWC is also eligible to recover new service  
16 order fees from the KUSF.<sup>33</sup> Page 4 of Attachment E shows Sage qualifies to receive a  
17 \$30 one-time payment to recover such service fees. Staff recommends that the  
18 Commission's January 2012 Order on the KUSF Year 16 assessment rate authorize  
19 GVNW to issue a \$30 one-time payment to Sage and reduce SWBT's KUSF support by

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<sup>32</sup> *In the Matter of a Generic Proceeding Regarding Commercial Agreements, UNEs, and ETC Designation and Payment of Support for KUSF Purposes*, Docket No. 06-GIMT-1277-GIT, May 21, 2007, Order Addressing Comments.

<sup>33</sup> *In the Matter of the Request of Nex-Tech for Kansas Universal Service Fund Support*, Docket No. 06-NTHT-027-KSF, January 4, 2006, Order Approving Application and November 14, 2005, Staff Motion for Commission Order Affording Parties Opportunity to Comment.

1 an equal amount. Staff recommends this occur with the February 2012 data month's  
2 payments issued in March 2012.

3 **Q. How was the annual KUSF support for CenturyLink determined?**

4 A. CenturyLink currently receives \$13 million in annual KUSF support. The Company's  
5 annual KUSF support is expected to increase slightly – to \$13.2 million, effective March  
6 1, 2012, mainly due to lower federal USF support receipts. The annual KUSF support  
7 available to CenturyLink consists of two components (1) cost-based KUSF support for  
8 lines it serves and (2) revenue-neutral access revenue recovery KUSF support. The cost-  
9 based KUSF support is determined by entering the Company's September 30, 2011,  
10 KUSF support eligible lines into the cost model. CenturyLink has 112 high-cost wire  
11 centers, with each wire center disaggregated into two zones, with IBRA and OBRA  
12 designations. CenturyLink's United of Eastern Kansas and United of South Central  
13 Kansas study areas (United-Eastern) do not have tariffed IBRA or OBRA designations;  
14 thus, the Commission adopted the city limits as the zone 1 and zone 2 point of  
15 delineation.<sup>34</sup> Forty-eight wire centers qualify for zone 1 KUSF support, with the support  
16 ranging from \$0.15 to \$41.68 per line each month. All 112 wire centers qualify for zone  
17 2 KUSF support that ranges from \$3.08 to \$243.23 per line per month.

18 Attachment C, confidential pages 2 and 3, show that after entering the September 30,  
19 2011, qualifying lines into the cost model, the Company qualifies to receive \$14.4 million  
20 total cost-based KUSF support. This amount is then reduced by the \$3.1 million of HCL  
21 and LSS the Company is expected to receive next year. The HCL and LSS offsets

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<sup>34</sup> Docket 00-236, February 14, 2000, Order 6 Addressing Zone Targeting and Remaining Implementation Issues for Year 2000 KUSF Distributions, ¶¶ 8-9.

1 incorporate true-ups to recognize the actual HCL and LSS the Company received this  
2 year, as shown on pages 7 through 9 of Attachment C. Thus, CenturyLink will receive  
3 \$11.2 million in net cost-based KUSF support.

4 **Q. Please continue.**

5 A. The \$11.2 million of net cost-based KUSF support is increased to allow CenturyLink to  
6 recover, on a revenue-neutral basis, intrastate switched access revenue resulting from  
7 reducing its intrastate switched access rates to parity with its interstate access rates,  
8 effective August 1, 2010, as authorized by the Commission in Docket No. 08-GIMT-  
9 1023-GIT (Docket 08-1023).<sup>35</sup> The revenue-neutral access KUSF support includes two  
10 elements: (1) the calculated intrastate switched access revenue loss associated with the  
11 reduction in its intrastate rates, based on volumes as of September 30, 2011, and (2) a  
12 true-up to recognize the difference between the projected revenue-neutral access KUSF  
13 support the Company received for the period of October 2010 through September 2011  
14 and the revenue-neutral access KUSF support the Company should have received for  
15 those months based on actual usage.

16 **Q. What are the amounts for the access revenue to be recovered based on the**  
17 **September 30, 2011 volumes and the annual true-up?**

18 A. Based on September 30, 2011, volumes, CenturyLink would recover \$2.3 million in  
19 revenue-neutral access support from the KUSF. However, this is reduced \$300,000 as a

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<sup>35</sup> *In the Matter of the Petition of Sprint Communications Company L.P., Sprint Spectrum L.P., and Nextel West Corp., d/b/a Sprint, to Conduct General Investigation into the Intrastate Access Charges of United Telephone Company of Kansas, United Telephone Company of Eastern Kansas, United Telephone Company of South Central Kansas, and United Telephone Company of Southeastern Kansas, d/b/a Embarq, Docket No. 08-GIMT-1023-GIT (Docket 08-1023), March 10, 2010, Order Setting Embarq's Intrastate Access Rates to Parity and Providing for Rebalancing Through the KUSF and June 4, 2010, Order on Second Petition for Reconsideration.*

1 result of truing-up the KUSF support for the period of October 2010 through September  
2 2011. Thus, CenturyLink will receive \$2.0 million in revenue-neutral access KUSF  
3 support, effective March 1, 2012.

4 **Q. Please explain the impact the federal HCL and LSS offsets and the revenue-neutral**  
5 **access KUSF support for CenturyLink have on a competitive ETC operating in**  
6 **CenturyLink's study areas.**

7 A. Two competitive ETCs, H&B Cable Service, Inc. (H&B) and Nex-Tech Wireless, LLC  
8 (NTW), receive KUSF support for CenturyLink's study areas. A competitive ETC  
9 receives the same per line KUSF support as the LEC receives;<sup>36</sup> therefore, the federal  
10 HCL and LSS offsets are calculated and applied on a per line basis. This means that the  
11 KUSF support initially determined by entering a competitive ETC's KUSF support  
12 qualifying lines into the cost model is reduced by the applicable federal HCL and LSS  
13 offsets.

14 Once a competitive ETC's net KUSF support is determined, it is multiplied by the  
15 revenue-neutral Transitional Factor (Transitional Factor), adopted in Docket 08-1023, to  
16 ensure that a competitive ETC receives the revenue-neutral access KUSF support as that  
17 available to CenturyLink.

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<sup>36</sup> *In the Matter of an Investigation into the Effect of K.S.A. 66-2008(e) on Competitively Neutral Distribution of KUSF support as Remanded to the Commission by the Decision of the Court of Appeals in Bluestem Telephone Co., et al v. Kansas Corporation Commission*, Docket No. 06-GIMT-1289-GIT, March 7, 2007, Order: (A) Commission Adopts the FCC Definition of Competitive Neutrality and Its Clarification Concerning Technological Neutrality; (B) Commission's Interim Method for Computing Support to CETCs Entering the Rural Rate of Return Regulated ILEC's Service Area is Competitively Neutral and is Adopted Under Further Order; (C) the Rural Rate of Return Regulated ILEC Shall Continue to Have Its Support and any Adjustments Thereto, Calculated on the Basis of K.S.A. 66-2008(e); (D) Commission Will Not Subject CETCs to the Same Audit Procedure Applicable to Rural ILECS As Stated in Order; and (E) Instructing Commission Staff to File a Memo Which May Be the Basis for Opening a Generic Proceeding to Explore the Possibility of Expanding the ETC Certification Process for KUSF Purposes, ¶ 32.

1 **Q. How was the Transitional Factor calculated?**

2 A. The calculation of the Transitional Factor is illustrated on Attachment C, page 11. Once  
3 the net cost-based and revenue-neutral access KUSF support is determined for  
4 CenturyLink, the Transitional Factor can be calculated. The calculation is based on the  
5 proportional share of each KUSF support component to the total KUSF support  
6 CenturyLink qualifies to receive. For KUSF Year 16, the revenue-neutral access KUSF  
7 support will comprise 18.1623% of the total KUSF support payable to CenturyLink;  
8 therefore, the March 1, 2012, Transitional Factor is 1.181623. This is a reduction from  
9 the current Transitional Factor of 1.233901.

10 **Q. Please explain how the \$25,500 of KUSF support for H&B Cable was calculated.**

11 A. H&B Cable receives KUSF support for the Claflin exchange in CenturyLink's United -  
12 Eastern study area. Confidential Attachment F shows that after entering the September  
13 30, 2011, qualifying lines into the cost model, H&B Cable qualifies to receive \$31,100 of  
14 annual KUSF support. After applying the federal HCL and LSS offsets, H&B Cable  
15 would receive \$21,600 of net cost-based KUSF support. This is increased to \$25,500  
16 after the 1.181623 Transitional Factor is applied.

17 **Q. How was the \$6.8 million of KUSF support for NTW determined?**

18 A. NTW filed its September 30, 2011, KUSF support eligible lines and KUSF support  
19 calculations for SWBT, CenturyLink, and rural LEC study areas. Staff reviewed the  
20 Company's data and determined that the KUSF support calculations for SWBT's study  
21 area were correct. For CenturyLink's study area, Staff calculated and applied the March  
22 1, 2012, federal HCL and LSS per line offsets and the 1.181623 Transitional Factor. For

1 the rural LEC study areas, Staff removed four business lines from the Hill City exchange  
2 and applied the March 1, 2012, KUSF support available for each rural LEC's study area.

3 **Q. Please explain how the \$95,100 in annual KUSF support was determined for Epic**  
4 **Touch Co. (Epic Touch).**

5 A. Attachment H, page 1, shows the calculation of Epic Touch's annual KUSF support for  
6 KUSF Year 16. Epic Touch submitted its KUSF support calculations, based on its  
7 September 30, 2011, KUSF support eligible lines in Elkhart's study area and Pioneer's  
8 Hugoton, Richfield, and Rolla exchanges. Staff's review of the Company's data  
9 indicated that the only necessary adjustment to the Company's data was to apply the  
10 March 1, 2012, per line KUSF support for each rural LEC's study area.

11 **Q. Please discuss how the \$1.5 million of annual KUSF support was determined for**  
12 **United Wireless Communications (UWC).**

13 A. UWC submitted data to calculate the amount of KUSF support the Company qualifies to  
14 receive, based on its September 30, 2011, lines in areas served by SWBT, Pioneer,  
15 Elkhart, and UTA. Please refer to Confidential Attachment I. Staff reviewed UWC's  
16 KUSF support calculations and determined that no adjustments were needed for SWBT's  
17 study area. Staff's review, however, revealed that one line reported in UTA's  
18 Ingalls/Pierceville exchange was double-counted and five business lines were reported in  
19 the Ashland exchange. These six lines are excluded from Staff's calculations.  
20 Furthermore, Staff adjusted UWC's calculations to recognize the March 1, 2012, per line  
21 KUSF support in each rural LEC's study area.

1 **Q. Exhibit SKR-1, page 1, shows KUSF support for WestLink Communications, LLC**  
2 **(WestLink) and N.E. Colorado Cellular d/b/a Viaero (Viaero). Please explain how**  
3 **these amounts were determined.**

4 A. In March 2011, WestLink filed an Application to request initial KUSF support in Docket  
5 11-650. Staff's review of the Application and discussions with Westlink indicated that in  
6 addition to some SWBT wire center boundaries being incorrectly mapped, customers  
7 were identified in exchanges and wire center zones based on their service address instead  
8 of their billing address. Following discussions with Staff regarding the discrepancies,  
9 WestLink filed a revised Application on December 7, 2011. WestLink's revised  
10 Application indicates that the Company believes it qualifies to receive \$713,300 in  
11 annual KUSF support. WestLink's revised Application will be fully reviewed in Docket  
12 11-650. For KUSF assessment rate projection purposes, the \$713,300 of KUSF support  
13 calculated by WestLink was incorporated into Staff's calculations.

14 On November 4, 2011, Viaero filed an Application requesting \$231,900 of initial KUSF  
15 support in Docket 12-350. Staff's review and recommendations regarding Viaero's  
16 Application will occur in Docket 12-350; therefore, Staff's calculations include the  
17 \$231,900 of initial KUSF support calculated by Viaero.

18 **Q. Exhibit SKR-1, line 12, includes \$46,100 of annual KUSF support for Big River**  
19 **Telephone. Please explain how this amount was determined.**

20 A. Consistent with the Commission's Opening Order, Big River submitted its preliminary  
21 KUSF support calculations to reflect the amount of initial KUSF support the Company  
22 anticipates requesting in a separate proceeding in the near future. Staff will review and

1 submit its recommendations regarding Big River's Application for initial KUSF support  
2 in the separate, company-specific proceeding. The KUSF Year 16 assessment rate  
3 calculations, therefore, reflect Big River's preliminary KUSF support calculations.

4 **Q. Please explain the annual funding for KRSI and TAP.**

5 A. Staff's calculations include \$912,800 for KRSI and \$673,300 for TAP, based on the  
6 annual program budget submitted by the KRSI and TAP administrator and the March  
7 through October 2011 disbursements. As shown in Attachment K, for the months of  
8 March through October 2011, the KUSF disbursed \$585,300 for KRSI and \$326,300 for  
9 TAP. Staff annualized these amounts by calculating the monthly average, resulting in  
10 estimated KUSF Year 15 disbursements of \$878,000 for KRSI and \$490,000 for TAP.  
11 Staff also calculated another disbursement projection, as shown in Attachment M, page 2,  
12 for the KRSI and TAP programs. Attachment M, page 2, shows that the actual monthly  
13 disbursements in September through November 2011 exceeded the monthly averages. If  
14 these monthly disbursements occur through the rest of KUSF Year 15, the KUSF would  
15 disburse \$896,700 for KRSI and \$518,100 for TAP. The projected annual KRSI and  
16 TAP disbursements were then compared to the budgets provided by the programs'  
17 administrator.

18 As shown on Attachment K, the KRSI administrator estimates an annual operating  
19 budget of 912,800, which is within a reasonable range of Staff's estimates and are  
20 therefore included in Staff's calculations. However, the proposed 2012 TAP operating  
21 budget is \$673,300 for TAP, which appears to lie outside the range of reasonableness in  
22 light of Staff's projections. However, the annual TAP post card public awareness

1 campaign occurs in January and February, months that are outside of the eight-month  
2 period that is the basis for Staff's estimates. Thus, Staff reviewed the TAP disbursements  
3 for January and February 2011, which totaled \$109,700 for the two months and would  
4 increase the projected annual disbursements. Thus, annual funding of \$673,300 is  
5 included for the TAP program.

6 **Q. Please explain how the \$3 million for the Lifeline program was calculated.**

7 A. Attachment L illustrates the calculation of the \$3 million for the Lifeline program. The  
8 KUSF disbursed almost \$2 million in Lifeline credits for the months of March through  
9 October 2011, a monthly average of \$246,000. Thus, the projected KUSF Year 15  
10 annual funding for Lifeline is almost \$3 million.

11 To determine the funding for next year, the number of Lifeline lines receiving credits and  
12 program funding were reviewed and analyzed for KUSF Year 15 and the three KUSF  
13 fiscal years ended February 2009, February 2010, and February 2011. To determine the  
14 number of lines currently receiving Lifeline credits, the \$246,000 monthly average  
15 funding was divided by the \$7.77 monthly Lifeline credit, resulting in an estimated  
16 31,700 lines receiving monthly Lifeline credits. The analysis of prior year results  
17 revealed that the number of lines supported by the Lifeline program, and the program  
18 funding itself, experienced a minimal increase between February 2009 and February  
19 2010. However, the number of supported lines and the Lifeline funding decreased slightly  
20 between February 2010 and February 2011. This year, based on the March through  
21 October 2011 data, the Lifeline program is on track to record a small growth in the

1 number of Lifeline subscribers. Thus, a minimal 2% growth, or 634 lines, is projected to  
2 occur during KUSF Year 16, resulting in total projected Lifeline funding of \$3 million.

3 **Q. How was the KAN-ED funding determined?**

4 A. Staff relied on Kansas statute and past legislative action when considering the amount to  
5 include for the KAN-ED program. K.S.A. 66-2010(f)(2) and (f)(3) provided a sum  
6 certain of KUSF annual funding for KAN-ED through June 30, 2009. The Kansas  
7 Legislature, however, has since provided annual KUSF funding for KAN-ED through  
8 appropriations bills. For the State fiscal year ended June 30, 2012, the Kansas  
9 Legislature, via House Bill No. 2014, page 132, provided \$6 million of KUSF funding to  
10 KAN-ED. This means that the KUSF is required to provide \$500,000 a month, or a total  
11 of \$2 million, to KAN-ED for the period of March through July 2012. Since the KUSF  
12 began to be a source of funding for KAN-ED, the Kansas Legislature has generally  
13 maintained or increased the KUSF funding for KAN-ED after the Commission has issued  
14 its Order in January to set the new KUSF assessment rate. Thus, to ensure adequate  
15 funding exists in the KUSF if further KAN-ED funding is appropriated, Staff relied on  
16 the \$6.0 million annual funding currently appropriated.

17 **Q. How was the funding for KUSF administration and audits calculated?**

18 A. Please refer to Attachment L for supporting documentation for the estimated KUSF  
19 funding of \$455,600 for KUSF administration and audit expense. The administration  
20 cost includes \$189,948 for GVNW for the day-to-day administration of the KUSF, in  
21 accordance with the Commission contract with GVNW. The audit expense includes  
22 \$100,000 for GVNW to perform the sixteen KUSF carrier audits of KUSF contributors or

1 recipients, consistent with K.S.A. 66-2010(b) and Commission Order. The audit expense  
2 also includes \$65,500 for the third-party auditor, McBride, Lock, and Associates (MLA),  
3 to perform the KUSF financial audit and the review of the KUSF administrator's internal  
4 controls and contractual compliance, in accordance Commission Order.<sup>37</sup>

5 **Q. What amount did Staff include for the KUSF Carrier reviews?**

6 A. Staff included \$200,000 for GVNW to conduct the sixteen annual KUSF carrier reviews  
7 during KUSF Year 16. Pursuant to the KUSF administration contract, GVNW accrues its  
8 audit expenses for work performed in January through June, with the expenses generally  
9 reimbursed in August. GVNW also accrues its expenses for work performed in July  
10 through December, with the expense reimbursed in February. As shown in Attachment  
11 L, GVNW was reimbursed \$100,000 in August 2011 for carrier review work. Thus, Staff  
12 included \$200,000 in its projections to reflect the August 2012 and February 2013  
13 disbursements in KUSF Year 16.

14 **Q. What amount of funding did Staff include for the third-party KUSF audits?**

15 A. The Commission requires that an annual financial audit of the KUSF books and a review  
16 of the KUSF administrator's internal controls and contractual compliance occur after the  
17 KUSF fiscal year's books and records are closed.<sup>38</sup> The KUSF financial and Statement  
18 on Auditing Standards No. 70 for service organizations (SAS 70) audits for the March

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<sup>37</sup> Docket 94-478, October 30, 1998, Order: (A) The Wireless Providers are Regulated by the Commission With Regard to the KUSF; (B) An Independent Third Party Will Be Selected and Bound by Protective Order to Review Staff's Calculations in Arriving at the KUSF Assessment; (C) CURB Shall Have Access to the Same Information Used by Staff; (D) Staff Shall File Supplemental Direct Testimony; (E) Procedural Schedule is Amended; (F) Commission Clarification of Para. 120 of the December 27 Order; (G) Commission Directs the KUSF Administrator to Start Conducting Audits in Compliance With K.S.A. 66-2010(b); and (H) An Annual Audit of the Financial Statements and a Separate Annual Review of the Internal Control Structure Employed by NECA Shall Be Required,

¶ 56.

<sup>38</sup> Id., ¶57.



1 assessments owed for one month are reported and paid by the fifteenth of the following  
2 month. For example, the revenue earned in March 2011 was due to be reported to the  
3 KUSF by April 15, 2011.

4 Attachment M shows that as of November 30, 2011 (data reported through October  
5 2011), the KUSF had an ending balance of \$6.9 million. Attachment M, page 2, shows  
6 Staff's projected KUSF receipts and disbursements for the months of November 2011  
7 through February 2012, which will be recorded on the KUSF books in December 2011  
8 through March 2012.

9 **Q. How were the monthly KUSF receipts projected?**

10 A. Confidential Attachments N through Q contain the revenue reported by each company for  
11 the months of March through October 2011, in addition to the annual, semi-annual, and  
12 quarterly revenues reported by small companies. Confidential Attachment N contains the  
13 LECs' local service revenue, confidential Attachment O contains the wireless and paging  
14 providers' (wireless) revenues, and confidential Attachment P contains Interconnected  
15 VoIP provider revenues. Revenues reported by all other carriers are contained in  
16 confidential Attachment Q, referred to as the interexchange/other (IXC/Others) carrier  
17 category.

18 The revenue reported by each company was the basis for the revenue a company was  
19 projected to report for the months of November 2011 through February 2012. Projections  
20 are not necessary for companies that report annually or semi-annually as those companies  
21 have already reported their estimated Year 15 revenue. Quarterly-filers are required to

1 report their December 2011 through February 2012 revenue in January 2012; therefore,  
2 the January 2012 receipts include fourth quarter projected revenue that is equal to the  
3 revenue reported by a company for the third quarter.

4 Next, the average monthly revenue was calculated for each monthly reporter, with the  
5 average compared to the revenue reported for the months of August through October  
6 2011. If the revenue reported in two of the three months was less than the monthly  
7 average, then the lowest revenue reported was recognized in each month for November  
8 2011 through February 2012; otherwise, the monthly average revenue was recognized.  
9 For example, Company A reported total revenue of \$80,000 for March through October  
10 2011, an average of \$10,000 per month. If Company A reported \$12,000 for August,  
11 \$8,000 for September, and \$9,900 for October, the \$8,000 of monthly revenue was  
12 recognized in the projections since the September and October revenues were less than  
13 the \$10,000 monthly average. For any company that regularly reports and pays its  
14 assessments to the KUSF, but is delinquent, a projection for the delinquent revenue was  
15 included. This approach is conservative as it recognizes recent revenue declines reported  
16 by a company, but only recognizes growth through the monthly average. For the current  
17 fiscal year, Staff estimates companies will report total revenues of \$1.0 billion, comprised  
18 of: LECs - \$230.9 million, wireless - \$625.3 million, VoIP - \$19.9 million, and IXC/  
19 Others - \$189 million. Projections were not included for miscellaneous revenues, such as  
20 prior period adjustments, late penalties, and interest.

21 **Q. How were the monthly KUSF disbursements determined?**

1 A. The monthly disbursements are based on the actual March through October 2011  
2 disbursements, as well as the known liabilities that the KUSF needs to pay the rest of  
3 KUSF Year 15. So far, during KUSF Year 15, the KUSF has disbursed over \$33 million  
4 to carriers for high-cost support, including \$4.3 million for October 2011. For projection  
5 purposes, Staff assumed this same amount of high-cost support will be disbursed each  
6 month, adjusted as follows:

- 7 • NTW: The Commission, in Docket 12-101, authorized NTW to receive \$59,200  
8 of monthly supplemental KUSF support, effective December 2011.<sup>42</sup> The  
9 January through March 2012 disbursements recognize the payment of this  
10 additional KUSF support.
- 11 • Cunningham: In December 2011, the Commission adopted a SSA that increased  
12 Cunningham's KUSF support by \$481,407 annually, \$40,117 monthly. This  
13 increase is effective January 2012, with the disbursements occurring in February  
14 and March 2012.

15 **Q. Please explain how the monthly disbursements for KRSI, TAP, Lifeline, and KAN-**  
16 **ED were determined?**

17 A. First, Staff calculated the average monthly disbursement for the months of March through  
18 October 2011 for KRSI, TAP, and Lifeline - \$73,200, \$40,800, and \$246,100,  
19 respectively. The KRSI and Lifeline disbursements for each of the past three months  
20 have been higher than the monthly average, while the monthly TAP disbursements were  
21 higher than the average in two of the past three months. Thus, Staff projected that the  
22 monthly disbursements will be equal to the November 2011 disbursement. The monthly  
23 disbursement of \$500,000 to KAN-ED is based on the Legislative action discussed earlier  
24 in my testimony.

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<sup>42</sup> *In the Matter of the Request of Nex-Tech Wireless, LLC for Kansas Universal Service Supplemental Fund Support*, Docket No. 12-NTWZ-101-KSF, November 23, 2011, Order Granting Request of NTW for Kansas Universal Service Supplemental Fund Support as Adjusted by Staff.

1 **Q. How were the monthly disbursements for the KUSF administration and audit costs**  
2 **determined?**

3 A. As discussed previously in my testimony, GVNW receives \$189,948 annually, absent any  
4 penalties, for the day-to-day administration of the KUSF. Therefore, the monthly  
5 disbursements recognize the monthly administration fee of \$15,829.

6 Also, as discussed earlier in my testimony, the audit expense includes costs for GVNW to  
7 perform the carrier reviews and costs for a third-party auditor to perform the KUSF  
8 financial and SSAE No. 16 audits. Earlier in my testimony, I explained that GVNW is  
9 reimbursed on a biannual basis for its accrued carrier review costs. Staff projects a  
10 \$100,000 disbursement will occur in February 2012 to reimburse GVNW for its work  
11 performed in July through December 2011.

12 **Q. The KUSF reserve includes costs for MLA to perform the KUSF financial and SAS**  
13 **70 audits of the three KUSF years encompassing the March 2008 through February**  
14 **2011 periods. Please explain why the annual audits were delayed.**

15 A. After a KUSF year is closed, the KUSF administrator compiles the unaudited financials,  
16 and the third-party auditor generally performs the on-site audit in July.<sup>43</sup> My KUSF Year  
17 15 Direct Testimony explained that the March 2008 through February 2009 audits were  
18 delayed as a result of transitioning the KUSF administration from Solix, Inc. (Solix) to

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<sup>43</sup> Arthur Andersen conducted the KUSF audits for the fiscal years ended February 1998 through February 2001. Withum, Smith+Brown performed the KUSF audits for the fiscal years ended February 2002 through February 2008. Once the Commission selects an auditor, an audit engagement letter is received from the auditor and signed by the Executive Director. The audit engagement letters for prior KUSF audits were included in the attachments to the Direct Testimony of Sandra K. Reams submitted in the annual KUSF dockets.

1 GVNW in October 2008.<sup>44</sup> In February 2009, Staff began discussions with the third-  
2 party auditor at that time, WithumSmith,+Brown (WS+B) about conducting the KUSF  
3 March 2008 through February 2009 audits.<sup>45</sup> WS+B signed non-disclosure agreements  
4 and reviewed the related KUSF internal controls and operational procedures. Staff  
5 requested that a partial-year audit of GVNW' procedures occur;<sup>46</sup> however, WS+B  
6 recommended that, due to the mid-year KUSF administration transition, the March 2008-  
7 February 2009 audits be performed in conjunction with the March 2009-February 2010  
8 audits.<sup>47</sup> After the February 2010 books were closed, Staff contacted WS+B about  
9 performing the two years of audits<sup>48</sup> and anticipated that an engagement letter would be  
10 provided in June 2010.<sup>49</sup> The engagement letter was not provided by WS+B; therefore,  
11 Staff sought a new audit firm and requested and received audit references from states  
12 with universal service funds and contacted the associated audit firms. In November  
13 2010, the Commission received one audit engagement letter proposing to perform the  
14 audits. Thus, in a November 16, 2010, memorandum to the prior Executive Director,  
15 Staff explained the events that had transpired and explained that the CPA had signed non-  
16 disclosure agreements, reviewed the KUSF operating procedures and internal controls,  
17 and reviewed the prior KUSF financial and SAS 70 audits. However, Staff was informed  
18 by the prior Executive Director that the auditor would be selected via the Request for  
19 Proposal (RFP) process. The Commission sought an auditor through an RFP process that

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<sup>44</sup> Docket 11-201, December 22, 2011, Direct Testimony of Sandra K. Reams on Behalf of the Kansas Corporation Commission Staff, page 25.

<sup>45</sup> February 3, 2009, email from Sandy Reams to Scott Smith, Jeff Gough, Bryan Sant, and Dave Winter, GVNW.

<sup>46</sup> June 9, 2009, email from Tony Chapman to Sandy Reams; October 2, 2009, email from Sandy Reams to Tony Chapman, and November 5, 2009, email from Sandy Reams to Tony Chapman, WS+B.

<sup>47</sup> February 3, 2010, email from Sandy Reams to Tony Chapman and Matthew Pribila, WS+B.

<sup>48</sup> May 19-21, 2010, emails between Sandy Reams and Tony Chapman, WS+B.

<sup>49</sup> June 17, 2010, email from Sandy Reams to Matt Pribila and Tony Chapman, WS+B, and Jeff Gough and Scott Smith, GVNW.

1 included multiple RFPs and Staff notified the auditor that had previously provided an  
2 engagement letter, about the RFP. That auditor did not submit a proposal. Thus, in July  
3 2011, the current Executive Director and the Director of Administration and Finance  
4 worked with the Department of Administration to issue an RFP requesting proposals  
5 from third-party auditors to perform the KUSF audits. The KUSF audits for the March  
6 2010 – February 2011 KUSF fiscal year were due; therefore, MLA's contract, signed in  
7 September 2011, requires MLA to perform the three years' audits. The audits are  
8 expected to be completed soon.

9 **Q. How were the monthly disbursements related to MLA conducting the prior three**  
10 **KUSF years' audits determined?**

11 A. On December 14, 2011, the Commission approved an \$86,800 payment to MLA for the  
12 audit work previously discussed. The payment to MLA occurred on December 19,  
13 2011;<sup>50</sup> therefore, this disbursement is recognized in the disbursements occurring in  
14 December 2011. The total audit contract price, for the three years' audits, is \$245,833,  
15 comprised of \$238,500 for audit work and the annual average of \$7,333 for travel cost.  
16 Thus, the remaining \$159,033 for MLA is recognized in the February 2012 disbursement.

17 **V. CONTINGENCY ALLOWANCE**

18 **Q. How was the \$4.4 million contingency fund calculated?**

19 A. Consistent with K.S.A. 66-2008(a), the KUSF reserve reduces the monies to collect from  
20 providers the following KUSF year. When the Commission adopted the contingency

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<sup>50</sup> December 19, 2011, email from Blake Young, GVNW, to Christine Aarnes and Sandy Reams, Staff.

1 fund allowance, it recognized that numerous dockets addressed by the Commission  
2 each year could have an impact on the KUSF. For example, a new competitive ETC  
3 may be granted initial KUSF support or a LEC may receive an increase in its annual  
4 KUSF support based on a company-specific audit. A competitive ETC may be granted  
5 supplemental KUSF support, or KUSF assessable revenues may significantly decline  
6 during a year. Thus, the Commission determined that a contingency fund equal to 7.5%  
7 of the adjusted KUSF obligation should be incorporated into the KUSF.<sup>51</sup>

8 **VI. ASSESSABLE REVENUE BASE**

9 **Q. How was the assessable revenue base, shown in Exhibit SKR-1, page 2, calculated?**

10 A. The total projected assessable revenue base for KUSF Year 16 is \$1.0 billion, comprised  
11 of \$212.9 million for the LECs, \$603.4 million for wireless carriers, \$21 million for VoIP  
12 providers, and \$185.2 million for IXC/ Other providers. The projected assessable  
13 revenue base is based on separate revenue projections<sup>52</sup> developed for SWBT,  
14 CenturyLink, and the rural LECs. Revenue projections were also developed for the  
15 wireless, VoIP, and IXC/Other provider categories. This approach is consistent with  
16 calculations in prior years.

17 **Q. Please explain the revenue projections recognized.**

18 A. Referring to confidential Attachment R, the rural LECs have experienced local service  
19 revenue declines, ranging from 1.30% to 3.24%, during the past three years. Staff's  
20 projections, therefore, recognize a 1.0% revenue reduction for the rural LECs next year.

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<sup>51</sup> Docket 00-236, January 2000, Order at ¶¶28, ¶¶35.

<sup>52</sup> Id., at ¶ 30.

1 The KUSF Year 16 rural LEC revenue was then adjusted to recognize the \$13,650 of  
2 local service revenue generated from Golden Belt increasing its local rates, resulting in  
3 total projected KUSF Year 16 local service revenue of \$27.8 million for the rural LECs.

4 The revenue losses recognized for SWBT and CenturyLink were also based on an  
5 analysis of revenues reported by each company in recent years. Confidential  
6 Attachments B, C, and R show that SWBT and CenturyLink have experienced annual  
7 revenue losses. A 9% revenue loss was projected for SWBT and a 7% revenue loss was  
8 projected for CenturyLink.

9 Wireless carriers have also reported less revenue, with an annual decline ranging from  
10 3.5% to over 7.75%, during the past three years. This revenue decline is, in part,  
11 reflective of the fact that some wireless carriers reported text and data service revenue  
12 to the KUSF, with the revenue and assessments later adjusted through carrier-specific  
13 audits performed by GVNW. The revenue analysis, shown in confidential Attachments  
14 O and R, shows that it is reasonable to incorporate a projected 3.5% revenue loss for  
15 the wireless industry. Staff's total projected Year 16 wireless assessable revenue is  
16 \$603.4 million.

17 **Q. What are the projected assessable revenues for VoIP and IXC/Other providers?**

18 A. VoIP providers were first required to report revenue to the KUSF in January 2009.<sup>53</sup>  
19 For KUSF Year 15, thirty-five registered VoIP providers state that they are not  
20 generating revenue from consumers with a primary service or registered E911 address in  
21 Kansas. Twenty LECs, competitive LECs, and IXCs report VoIP revenue and pay

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<sup>53</sup> Docket 07-432, September 22, 2008, Order.

1 assessments to the KUSF and include the VoIP revenue in the revenue reported under  
2 their identified provider category. Thirty-three other providers have identified  
3 themselves as VoIP providers, and as shown in confidential Attachments P and R, will  
4 report an estimated \$19.9 million to the KUSF this year. Attachment R shows that the  
5 VoIP industry continues to experience annual revenue growth.<sup>54</sup> Based on this data, Staff  
6 projects that VoIP providers will experience a 5.5% revenue growth next year.

7 IXC/Other providers have also reported net revenue losses; however, the loss is  
8 projected to be less than two tenths of a percent (.16%) this year, as shown in  
9 confidential Attachment Q and R. This minimal loss decreases the two and three-year  
10 averages; therefore, Staff estimates the IXC/Other providers will report a 2.0% revenue  
11 decline next year.

12 **Q. How do the revenue projections impact the KUSF assessment rate?**

13 A. Attachment S shows that Staff's revenue projections have been fairly accurate. The  
14 most recent complete KUSF year was KUSF Year 14, which encompassed March 2010  
15 through February 2011. Staff's calculation of the 6.64% KUSF Year 14 assessment rate  
16 relied on a \$1.18 billion assessable revenue base. In comparison, for KUSF Year 14,  
17 companies actually reported assessable revenue of \$1.11 billion, \$64.9 million less than  
18 projected. If the KUSF Year 14 assessment rate had been based on the actual revenue

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<sup>54</sup> *In the Matter of an Investigation to Determine the Assessment Rate for the Fifteenth Year of the Kansas Universal Service Fund and the Affordable Local Service Rates for Rate-of-Return Regulated Carriers, Effective March 1, 2011*, Docket No. 11-GIMT-201-GIT, December 20, 2010, Direct Testimony of Sandra K. Reams, p. 35, discussing that the perceived revenue reduction was due to a provider initially reporting all VoIP revenue together and then later, distinguishing between VoIP and non-VoIP service revenue.

1 reported for the year, it would have been 7.02%; an overall difference of less than four-  
2 tenths of a percent (.39%).

3 The 6.13% proposed KUSF Year 16 assessment rate is based on a projected assessable  
4 revenue base of \$1.0 billion. Revenue losses for the current KUSF year ending February  
5 29, 2012, are expected to be \$48.6 million. The revenue growth or decline projections  
6 reduce the assessable revenue base by \$42.7 million. If no revenue projections were  
7 incorporated into Staff's projections, the proposed KUSF Year 16 assessment rate would  
8 be 5.89%, a quarter of a percent (.25%) difference.

9 **VI. OTHER POLICY ISSUES**

10 **Q. Earlier you discussed Staff's recommendation that the Commission clarify that**  
11 **wireless and VoIP providers are to submit a pleading, including an affidavit signed**  
12 **by an officer of the Company, to the Commission whenever a provider elects to**  
13 **allocate Kansas revenue using the direct assignment or a traffic study methodology,**  
14 **with updates occurring at least annually. Please explain this issue.**

15 **A.** In 1998, the FCC established a Safe Harbor provision for digital Specialized Mobile  
16 Radio (SMR), broadband Personal Communications Service (PCS), cellular, paging and  
17 analog SMR carriers, herein referred to as wireless providers, to allocate their revenues  
18 earned in a state between the interstate and intrastate jurisdictions.<sup>55</sup> The FCC  
19 encouraged carriers to report their actual interstate jurisdictional revenue, based on either

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<sup>55</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Memorandum Opinion and Order and Further Notice of Proposed Rulemaking, 13 FCC Rcd 21252, 21255, ¶ 6, (1998) (*First Safe Harbor Order*).

1 the direct identification of the revenue earned in a jurisdiction or a company-specific  
2 traffic study for federal USF purposes.<sup>56</sup>

3 In 2002, the FCC issued the *Second Safe Harbor Order*, maintaining the interstate and  
4 intrastate allocations for paging and analog SMR providers, but increasing the interstate  
5 allocation to 28.5% for PCS and cellular providers.<sup>57</sup> In 2006, the FCC revised the Safe  
6 Harbor for PCS and cellular providers,<sup>58</sup> increasing the interstate allocation percentage to  
7 37.1%, effective August 1, 2006.

8 **Q. How did this Commission respond to the FCC's wireless *Safe Harbor Orders*?**

9 A. This Commission adopted the FCC's *First Safe Harbor Order* provisions in August  
10 1999<sup>59</sup> and encouraged wireless providers to report their actual intrastate revenues, as  
11 long as the carrier could substantiate those revenues, for KUSF purposes.<sup>60</sup> In January

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<sup>56</sup> *Id.* at 21257, ¶ 11.

<sup>57</sup> *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review-Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952, 24965, 7 2 1 (2002) (*Second Safe Harbor Order*).

<sup>58</sup> *In the Matter of Universal Service Contribution Methodology, Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review-Streamlined Contributor Reporting Requirements Associated With Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, IP-Enabled Services*, WC Docket No. 06-122, CC Docket Nos. 96-45, 98-171, 90-571, 92-237 NSD File No. L-00-72, 99-200, 95-116, 98-170, WC Docket No. 04-36, Report and Order and Notice of Proposed Rulemaking, released June 27, 2006 (*Third Safe Harbor Order*).

<sup>59</sup> Docket 94-478, August 13, 1999, Order on Issue of Uncollectible Revenue and Additional KUSF Revenue Reporting Issues, Ordering clause (2).

<sup>60</sup> *Id.*, ¶ 13.

1           2003, the Commission adopted the *Second Safe Harbor Order*.<sup>61</sup> In September 2003, the  
2           Commission directed paging and analog SMR providers to report for KUSF purposes and  
3           authorized paging and analog SMR providers to use the Safe Harbor methodology.<sup>62</sup> In  
4           2006, the Commission adopted the FCC's *Third Safe Harbor Order*, effective October 1,  
5           2006.<sup>63</sup> The Commission has always encouraged wireless providers to report their actual  
6           intrastate revenues for KUSF purposes, based on direct assignment or a company-specific  
7           traffic study. A wireless provider electing to do so must receive Commission approval of  
8           the methodology used and substantiate that the same methodology is used for federal  
9           purposes.<sup>64</sup>

10   **Q.   Please explain the Safe Harbor provision for VoIP providers.**

11   A.   In September 2008, the Commission adopted an Order implementing K.S.A. 66-2008(a),  
12       as amended, to extend KUSF obligations to VoIP providers. The Commission adopted  
13       the FCC's revenue allocation methodologies, which allow an interconnected VoIP  
14       provider to identify intrastate revenue through the Safe Harbor (35.1% interstate/64.9%  
15       intrastate), direct assignment, or a company-specific traffic study. The Commission  
16       stated that it would assume that an interconnected VoIP provider is using the Safe Harbor  
17       provision; however, if a provider wishes to use either the direct assignment or company-  
18       specific traffic study methodology, it must file a pleading to request Commission  
19       approval of the proposed method and provide an affidavit from an officer of the

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<sup>61</sup>Docket No. 03-GIMT-284-GIT, January 24, 2003, Order Setting Year Seven KUSF Assessment Rate, ¶ 4 and Ordering Clause A.

<sup>62</sup> Docket No. 03-GIMT-932-GIT, September 2, 2003, Order, ¶ 4.

<sup>63</sup> Docket 06-332, September 8, 2006, Order. The Safe Harbor for analog SMR providers is 99% intrastate/1% interstate and for paging providers is 88% intrastate/12% interstate, as set *In the Matter of a General Investigation into Procedures for Recording and Reporting Kansas Universal Service Fund Revenues for Assessment Purposes*, Docket No. 03-GIMT-932-GIT, September 2, 2003, Order.

<sup>64</sup> *Id.*, ¶ 5.

1 Company confirming that the method proposed to be used for KUSF purposes is the same  
2 as that used for federal USF purposes.

3 **Q. During GVNW's KUSF carrier audits, companies have raised the question as to**  
4 **whether they are required to file updates when they perform a new traffic study and**  
5 **when an update should be filed. Has the Commission addressed this issue?**

6 A. Yes. For VoIP providers, paragraph 12 of the September 2008 Order implementing  
7 KUSF obligations for VoIP providers states that the provider "must file a pleading in the  
8 KUSF year docket (a KUSF "year" runs from March 1 of a year through February 28/29  
9 of the following year) in which it wishes to use that alternative method."

10 For wireless providers, some carriers have not filed updates with the Commission, stating  
11 they were uncertain as to whether an update needed to be filed and if so, when such a  
12 filing should occur. The Commission has, in company-specific KUSF audit dockets,  
13 directed several wireless providers to submit updates of its traffic factors into the  
14 applicable annual KUSF docket.<sup>65</sup> To maintain similar requirements for VoIP and  
15 wireless providers, Staff recommends that VoIP and wireless providers be required to  
16 submit a pleading to the Commission when they elect to use a method other than the Safe  
17 Harbor and submit an update to the Commission whenever their traffic study factors  
18 change. Alternatively, if the Commission determines that an annual update is sufficient,  
19 Staff recommends that the carriers be required to file a pleading to update to their traffic  
20 study factors at least once a year. The filing should be entered into the annual KUSF

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<sup>65</sup> *In the Matter of the Audit of New Cingular Wireless, for KUSF Purposes, Year 11, Pursuant to K.S.A. 66-2010(b)(1)*, Docket No. 09-WSLC-124-KSF, August 18, 2009, Order and *In the Matter of the Audit of Sprint Spectrum, L.P. for KUSF Purposes, Year 12, Pursuant to K.S.A. 66-2010(b)(1)*, Docket No 10-SSLZ-075-KSF, July 29, 2010, Order.

1 docket to which the traffic study factors apply and identify the intrastate factor(s) used for  
2 KUSF purposes, the applicable period each factor relates to. A company should continue  
3 to be required to include an affidavit from an officer of the company to verify that the  
4 same methodology and the inverse traffic study factors were used for federal USF  
5 purposes for the same timeframe. This will continue to ensure that the KUSF  
6 administrator and auditors can verify that a provider reported revenues based on  
7 methodology and factors approved by the Commission.

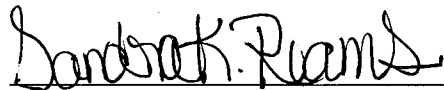
8 **Q. Does this conclude your Direct Testimony?**

9 **A. Yes.**

STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF SHAWNEE            )

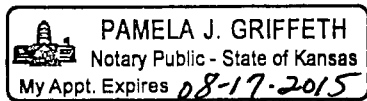
**VERIFICATION**


Sandra K. Reams, being duly sworn upon her oath deposes and says that she is Assistant Chief of Telecommunications for the State Corporation Commission of the State of Kansas, that she has read and is familiar with the foregoing *Direct Testimony* and that the statements contained therein are true and correct to the best of her knowledge, information and belief.



Sandra K. Reams  
Assistant Telecommunications Chief  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 22nd day of December, 2011.



  
Notary Public

My Appointment Expires: August 17, 2015

## CERTIFICATE OF SERVICE

12-GIMT-168-GIT

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Testimony was placed in the United States mail, postage prepaid, or hand-delivered this 23rd day of December, 2011, to the following:

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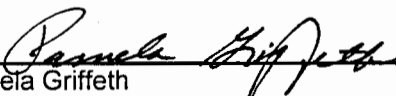
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