

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application and
Request of Blue Valley Tele-
Communications, Inc. for an Increase in its
Cost-Based Kansas Universal Service Fund
Support.

Docket No. 20-BLVT-218-KSF

DIRECT TESTIMONY AND EXHIBITS
OF
ROXIE MCCULLAR
ON BEHALF OF
KANSAS CORPORATION COMMISSION STAFF

March 20, 2020

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I. Introduction and Purpose of Testimony

Q. Please state your name and business address?

A. My name is Roxie McCullar. My business address is 8625 Farmington Cemetery Road, Pleasant Plains, Illinois 62677.

Q. What is your present occupation?

A. Since 1997, I have been employed as a consultant with the firm of William Dunkel and Associates and have regularly provided consulting services in regulatory proceedings throughout the country.

Q. Please describe your educational and professional background.

A. I am a Certified Public Accountant licensed in the state of Illinois. I am a Certified Depreciation Professional through the Society of Depreciation Professionals. I received my Master of Arts degree in Accounting from the University of Illinois in Springfield. I received my Bachelor of Science degree in Mathematics from Illinois State University in Normal.

Q. Have you prepared an exhibit that describes your qualifications?

A. Yes. My qualifications and previous experiences are shown on the attached Appendix A.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Staff of the Kansas Corporation Commission (“Staff”).

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of this testimony is to address my review of Blue Valley Tele-
3 Communications, Inc.'s ("Blue Valley" or "Company") separations study used to
4 allocate the adjusted revenue requirement between the interstate and intrastate
5 jurisdictions.¹ These allocations are done using separation factors calculated
6 according to the Federal Communications Commission's ("FCC") Part 36
7 Separations Procedures.²

8 I also reviewed Blue Valley's Adjustment IS1 which is a decrease of \$609,492 to
9 Blue Valley's test year Federal High Cost Loop support amount.

10 **II. Analysis of Separations Cost Study**

11 **Q. Please briefly explain the FCC separation procedures.**

12 A. The FCC separations process allocates the costs of providing regulated service
13 between the interstate and intrastate jurisdictions. For rate-of-return regulated
14 carriers, these allocated costs are the basis of setting regulated prices and federal
15 support amounts. Basically, there are three major steps in the FCC separations
16 process. The first step is to separate the non-regulated costs from the regulated costs.³
17 The second step places the remaining "regulated" investments into the proper

¹ The Supreme Court in *Smith v. Illinois Bell Tel. Co.*, 282 U.S. 133, 148 (1930) held: "The separation of intrastate and interstate property, revenues, and expenses of the company is important not simply as a theoretical allocation to two branches of the business; it is essential to the appropriate recognition of the competent governmental authority in each field of regulation." The FCC Jurisdictional Separations Procedures (47 C.F.R. § 36) establish the separations process that apportions regulated costs between the intrastate and interstate jurisdiction. These apportionments are based on relative use, a prescribed fixed allocator, or direct assignment. The Company's separation study is the result of these FCC Jurisdictional Separations Procedures.

² 47 C.F.R. § 36 ("FCC Jurisdictional Separations Procedures").

³ 47 CFR § 64.901.

1 separation “categories” or “subcategories”.⁴ The third step is to apply the appropriate
2 separation factors to each category or subcategory.⁵

3 **Q. Did you review the separations cost study provided by the Company in its**
4 **November 8, 2019, filing?**

5 A. Yes. I reviewed Blue Valley’s 2018 Cost Study (KUSF) that was provided in Section
6 12 of Blue Valley’s November 8, 2019, filing to determine if it complied with the
7 Part 36 Separations Procedures set out by the FCC.

8 The 2018 Cost Study (KUSF) prepared by Blue Valley calculates the separation
9 factors used to allocate its total test year costs to the intrastate jurisdiction for the
10 calculation of its intrastate revenue requirement. The FCC separations procedures
11 include specific requirements as to how investments, reserves, and expenses (costs)
12 must be allocated between the interstate and intrastate jurisdictions.

13 In addition to the 2018 Cost Study (KUSF), I also review the Company provided
14 workpapers supporting the development of the 2018 Cost Study (KUSF) and the 2018
15 Cost Study Blue Valley filed with National Exchange Carrier Association
16 (“NECA”).⁶

⁴ The separations of the remaining “regulated” costs between the interstate and intrastate jurisdictions are controlled by the rules established by the Federal-State Joint Board and set forth in Part 36 of the FCC rules. The Federal-State Joint Board is a board that consists of both FCC and state commissioners.

⁵ Separation factors are frozen as of July 1, 2001. *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, *Report and Order*, FCC 01-162 (rel. May 22, 2001).

⁶ Blue Valley’s response to Staff Data Request No. 48. NECA was established in Part 69 of the Code of Federal Regulations “to prepare and file access charge tariffs on behalf of all telephone companies that do not file separate tariffs or concur in a joint access tariff of another telephone company for all access elements.” (FCC Rules, 47 C.F.R. § 69.601(a)).

1 **Q. Are you recommending any changes to the allocation factors included in the**
2 **Company's filing?**

3 A. Yes. The allocation factor for Account 3100, Accumulated Depreciation on Schedule
4 1 of Section 4 of the Company's filing is not the factor from the 2018 Cost Study
5 (KUSF).

6 The factors used in Staff's Schedules are the factors from the 2018 Cost Study
7 (KUSF).

8 **III. Adjustment to FHCL**

9 **Q. How did Blue Valley calculate its adjustment to FHCL test year amounts?**

10 A. Blue Valley's filing updated the Federal High Cost Loop support ("FHCL") amount
11 to the latest known Universal Service Administrative Company ("USAC")⁷
12 projections at the time its application was filed.

13 Blue Valley's FHCL adjustment annualizes USAC's First Quarter 2020 projected
14 monthly FHCL amount. Appendix HC01 of USAC's First Quarter 2020 Report
15 shows that Blue Valley was projected to receive \$161,372 of monthly FHCL support
16 and \$20,549 of monthly Safety Valve Support ("SVS"), for an annual projected
17 amount of \$2,183,052.⁸

⁷ Universal Service Administrative Company ("USAC") is the administrator of the FUSF and one of its responsibilities is the distribution of the FHCL support amounts. Sixty days prior to the start of each quarter, USAC publishes a projection of the support amounts the eligible companies will receive.

⁸ Blue Valley's Adjustment IS-1 in Section 9 of the November 8, 2019 filing. USAC's November 1, 2019, report entitled "Federal Universal Service Support Mechanisms Fund Size Projections for the First Quarter 2020."

1 **Q. Are you proposing an adjustment to Blue Valley’s filed FHCL amount?**

2 A. No. The more recent USAC projection shows the same projection amounts included
3 in Blue Valley’s Adjustment IS-1.

4 On January 31, 2020, the USAC released a report entitled “Federal Universal Service
5 Support Mechanisms Fund Size Projections for the Second Quarter 2020.” Appendix
6 HC01 of USAC’s Second Quarter 2020 Report shows that Blue Valley is still
7 projected to receive \$161,372 of monthly FHCL support and \$20,549 of monthly
8 Safety Valve Support (“SVS”), for an annual projected amount of \$2,183,052.

9 **Q. Is the adjustment to include the latest USAC projection consistent with the**
10 **support adjustments accepted by this Commission in previous rural local**
11 **exchange carriers (RLEC) proceedings?**

12 A. Yes, in prior RLEC proceedings the Commission accepted the use of the most recent
13 support projections by USAC as a known and measurable change.⁹

⁹ Southern Kansas Telephone Company proceeding (Docket No. 01-SNKT-544-AUD), the September 10, 2001, *Order Setting Revenue Requirements* and the October 29, 2001, *Order Denying Petition for Reconsideration and Setting Depreciation Expense*; Home Telephone Company proceeding (Docket No. 02-HOMT-209-AUD), in the “Summary of Adjustments to Operating Income,” attached to the August 7, 2002, *Order Setting Revenue Requirements*; S&T Telephone Cooperative Association proceeding (Docket No. 02-S&TT-390-AUD), in the “Summary of Adjustments to Operating Income,” attached to the October 15, 2002, *Order Setting Revenue Requirements*; Wheat State Telephone Company proceeding (Docket No. 03-WHST-503-AUD), the September 29, 2003, *Order*; Golden Belt Telephone Association proceeding (04-GNBT-130-AUD), the June 1, 2004, *Order* and the July 19, 2004, *Order Clarifying June 1, 2004, Order and Denying Petition for Reconsideration*; United Telephone Association, Inc.’s proceeding (04-UTAT-690-AUD), the November 30, 2004, *Order*.

1 **Q. Why is it appropriate to include the FHCL support amounts in the calculation of**
2 **the intrastate revenue requirement?**

3 A. Subpart M of the FCC Part 54 “Universal Service” discusses “High Cost Loop
4 Support for Rate-of-Return Carriers.” Section 54.1301(a) states:

5 “The expense adjustment calculated pursuant to this subpart M shall be
6 added to interstate expenses and deducted from state expenses after
7 expenses and taxes have been apportioned pursuant to subpart D of
8 part 36 of this chapter.”¹⁰

9 Therefore, the FHCL support amounts are equal to the expense that is deducted from
10 the intrastate jurisdiction and added to the interstate jurisdiction. Since the FHCL
11 amounts represent costs that have been deducted from the intrastate jurisdiction and
12 are now being recovered in the interstate jurisdiction it is appropriate to recognize the
13 removal of those costs in the calculation of the intrastate revenue requirement.

14 **Q. Why is it also appropriate to include the SVS amounts in the calculation of the**
15 **intrastate revenue requirement?**

16 A. SVS was established by the FCC in the Rural Task Force Order,¹¹ ¶98 of that Order
17 states:

18 “We conclude that a safety valve mechanism, as clarified herein, will
19 provide appropriate incentives for rural carriers operating recently-
20 acquired exchanges to invest in rural infrastructure. We conclude that
21 safety valve support should be provided for up to 50 percent of any
22 positive difference between the rural incumbent local exchange
23 carrier’s index year expense adjustment for the acquired exchanges
24 and subsequent year expense adjustments.” (Emphasis added)

¹⁰ 47 C.F.R. §54.1301(a).

¹¹ *Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256* (FCC 01-157), released May 23, 2001 (“Rural Task Force Order”)

1 Therefore, the SVS support is also equal to costs that have been deducted from the
2 state jurisdiction as an expense adjustment and are therefore being recovered in the
3 interstate jurisdiction. Since the SVS amounts represent costs that have been deducted
4 from the intrastate jurisdiction and are now being recovered in the interstate
5 jurisdiction it is appropriate to recognize the removal of those costs in the calculation
6 of the intrastate revenue requirement.

7 **Q. Why is the Federal loop support shown as state revenue in both the Company's**
8 **and Staff's schedules, if it is a state expense reduction?**

9 A. Whether the FHCL support is shown as a state revenue addition or a state expense
10 reduction, it still has the same overall impact on the intrastate revenue requirement.
11 Since this support amount has been traditionally shown as a state revenue amount in
12 the filings, there is no reason to change the presentation of this support amount on the
13 schedules.

14 **Q. Why is the Federal support amount necessary to consider in the KUSF**
15 **proceeding?**

16 A. The support adjustment recognizes costs that are being recovered in the interstate
17 jurisdiction. To recover these costs also from the KUSF would provide the Company
18 with a double recovery of its costs, which harms the Kansas ratepayers since the
19 Kansas ratepayer would be providing the recovery of these same costs through both
20 their interstate rates and their intrastate rates. Additionally, this double recovery
21 would harm contributors to the KUSF since the KUSF would be supporting the same
22 costs recovered from Federal support.

1 **Q. Is it right for the State to consider the Federal support mechanism when setting**
2 **the State support amount?**

3 A. Yes. The Universal Service Order¹² at ¶820 states:

4 “In any event, the statutory language envisions that both the federal
5 and state support mechanisms will support basic intrastate and
6 interstate services and, moreover, the statutory language plainly
7 envisions that the state mechanisms will be in addition to the federal
8 mechanisms.” (emphasis added)

9 Therefore, the KUSF is in addition to the Federal support amount. It is proper to
10 recognize the Federal support amounts the Company receives.

11 **Q. Does this conclude your direct testimony?**


12 A. Yes.

¹² ¶820 *Report and Order* in CC Docket Nos. 96-45 (FCC 97-157) released May 8, 1997 (“Universal Service Order”)


VERIFICATION

STATE OF ILLINOIS)
) ss.
COUNTY OF Sangamon)

Roxie McCullar of William Dunkel & Associates, being duly sworn upon her oath deposes and states that she is a Consultant for the Kansas 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.

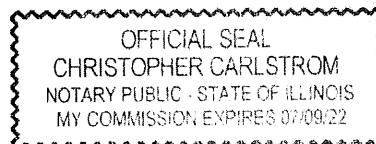

Roxie McCullar
Consultant for Staff
Kansas Corporation Commission
of the State of Kansas

SUBSCRIBED AND SWORN to before me this 19th day of March, 2020.



Notary Public

My Appointment Expires:



CERTIFICATE OF SERVICE

20-BLVT-218-KSF

I, the undersigned, certify that a true and correct copy of the above and foregoing Direct Testimony was served via electronic service this 20th day of March, 2020, to the following:

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