

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

In the Matter of An Investigation to Determine)
the Assessment Rate for the Fifteenth Year)
of the Kansas Universal Service Fund and) Docket No. 11-GIMT-201-GIT
the Affordable Local Service Rates for Rate-of-)
Return Regulated Carriers, Effective March 1,)
2011.)

DIRECT TESTIMONY

OF

SANDRA K. REAMS

ON

BEHALF OF THE

KANSAS CORPORATION COMMISSION STAFF

STATE CORPORATION COMMISSION

DEC 22 2010



December 22, 2010

Q. Please state your name and business address.

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

Q. What is your position at the Commission?

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

Q. What is your educational background?

A. I received a Bachelor of Arts in Accounting from Buena Vista University, Storm Lake, Iowa and am a Certified Public Accountant (CPA). Since joining the Commission, I have attended various regulatory and telecommunications related courses. I currently serve as the Chair of the National Association of Regulatory Utility Commissioners' (NARUC) Staff Subcommittee on State Universal Service Fund Administrators and as an at-large member of the Staff Committee for the Federal/State Joint Board on Separations. I previously served as the staff chair for the state Commissioners of the Federal/State Joint Conference on Accounting Issues. I also participated in the Federal Communications Commission (FCC)/State Joint Oversight Team to oversee audits of Southwestern Bell Telephone Company's (SWBT) compliance with affiliate transaction and non-discriminatory provisions contained in Section 272 of the 1996 Federal Telecommunications Act.

Q. Have you previously testified before the Commission?

A. Yes. I have testified about gas industry issues, including tax-related issues, shared service agreements, and acquisition premiums. I have also provided testimony on various telecommunications issues, including cost of service components, cost recovery mechanisms, Eligible Telecommunications Carrier (ETC) issues, intrastate access rates, and the Kansas Universal Service Fund (KUSF).

Q. Please summarize your testimony.

A. On September 30, 2010, the Commission issued an order opening this docket (Opening Order) to address the KUSF assessment rate for the fifteenth year of the KUSF, effective March 1, 2011 through February 29, 2012 (Year 15) and the target affordable residential and single-line business rates for rate-of-return regulated local exchange carriers (LECs). Staff was directed to file direct testimony to support these calculations by December 23, 2010.

My testimony supports a \$16.25 per month residential and a \$19.25 per month single-line business affordable rate for the rural LECs. My testimony also supports a 6.18% KUSF Year 15 assessment rate, based on the following:

- total KUSF funding obligations of \$65.7 million, comprised of: (1) \$50.3 million for high-cost support; (2) \$4.9 million for the Kansas Relay Service, Telecommunications Access, and Kansas Lifeline Service Programs (KRSI, TAP, and Lifeline, respectively); (3) \$10.0 million for the KAN-ED program; and (4) \$530,000 for daily administration and audit expenses;
- a projected \$2.8 million KUSF balance as of February 28, 2011 (reserve); and
- an allowance of \$4.7 million to fund contingencies.

1 The total amount to collect from carriers is \$67.7 million, which Staff estimates will be
2 collected from an intrastate retail revenue base of \$1.1 billion. I note that the actual
3 KUSF support paid to a company or for a program, as well as the actual revenue reported
4 during the year, may vary from the estimates recognized in these calculations.

5 **Q. Please explain the documentation included with your testimony.**

6 A. The calculation of the affordable residential and single-line business rates for the rural
7 LECs occurs every other year. Thus, since the related documentation is not included
8 with Staff's testimony and calculations every year, it is included this year as Attachment
9 1 to my testimony. Consistent with my testimony in prior years, documentation to
10 support the calculation of the annual KUSF assessment rate is labeled as Exhibit SKR-1,
11 with the underlying supporting documentation labeled as Attachments A through V.
12 Exhibit SKR-1 contains 3 pages. Page 1 lists each KUSF funding obligation and a brief
13 description of assumptions related to that obligation, as well as references to the related
14 supporting documentation. Page 1 also shows the calculated KUSF reserve, the
15 contingency allowance, and the resulting total net adjusted monies to collect. Page 2
16 summarizes the estimated Assessable Revenue base from which the KUSF monies will
17 be collected, by carrier or carrier category. Page 3 shows the overall calculation of the
18 proposed Year 15 assessment rate.

19 **Q. Does the documentation contain any confidential information?**

20 A. Yes. Both a redacted and a confidential set of work papers are filed with my testimony.
21 Aggregated and public company-specific information and estimates are used whenever
22 possible to allow access to as much information as possible. Exhibit SKR-1, pages 1 and

1 3, as well as Attachments M through P, and Attachment V do not contain any
2 confidential data; however, confidential company-specific revenue data is included in
3 page 2 of Exhibit SKR-1, and Attachments A through C and Attachments Q through
4 U.¹ Confidential company-specific access line data is contained in Attachments A
5 through L.

6 Prior to submitting this testimony and calculations, Staff provided the company-specific
7 calculations to SWBT, the United Telephone Companies of Kansas, consolidated, d/b/a
8 CenturyLink (CenturyLink), and each competitive ETC that may receive KUSF support
9 next year, respectively. Staff also contacted a majority of the rural LECs regarding their
10 information and resulting calculations. This process has been in place for numerous
11 years to help ensure the accuracy of the information provided to the Commission.

12 **I. Target Affordable Local Rates**

13 **Q. Please briefly explain the background of why target affordable residential and**
14 **single-line business rates are calculated.**

15 **A. On March 11, 2002, the Commission approved a Stipulation and Agreement (Stipulated**
16 **Agreement) reached by the parties to Docket No. 02-GIMT-068-GIT (Docket 068)**
17 **regarding a methodology to determine affordable residential and single-line business**

¹ *In the Matter of a General Investigation into Competition Within the Telecommunications Industry in the State of Kansas*, Docket No. 190,492-U (94-GIMT-478-GIT) (Docket 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 rates for the rural LECs.² The parties agreed that the affordable residential and single-
2 line business rates would be \$12.00 and \$15.00, respectively, effective March 1, 2003.
3 The Kansas Legislature then amended K.S.A. 66-2005(e) to incorporate the affordable
4 rate calculation methodology into law. K.S.A. 2009 Supp. 66-2005(e) also requires that
5 the affordable rates for the rural LECs were to be recomputed for March 1, 2007 and then
6 every two years thereafter.

7 **Q What are the March 1, 2011 affordable residential and single-line business rates for**
8 **the rural LECs?**

9 A. The residential rate is \$16.25 per month and the single-line business rate is \$19.25 per
10 month.

11 **Q. Please explain how was the affordable rates are calculated.**

12 A. As shown in Attachment 1, the calculation begins with the number of residential lines,
13 separated by rate group, that were reported as of September 30, 2010 by the rural LECs,
14 SWBT, and CenturyLink,³ consistent with the Opening Order in this docket. K.S.A.
15 2009 Supp. 66-2005(e) requires that the calculation reflect the October 1, 2010 tariffed
16 residential rates; however, it also requires those rates to be adjusted in certain situations
17 to remove certain rate additives or rate elements. Thus, Staff adjusted the tariffed rates
18 for six companies. Home Telephone Co., Inc. (Home), Pioneer Telephone Association,
19 Inc. (Pioneer), Totah Telephone Company, Inc. (Totah), and the United Telephone

² *In the Matter of an Investigation into the Kansas Universal Service Fund (KUSF) Mechanism for the Purpose of Establishing Cost-Based KUSF Support for Rural Exchange Carriers*, Docket No. 02-GIMT-068-GIT, March 11, 2002 Order Adopting Stipulation and Agreement.

³ Pursuant to K.S.A. 2009 Supp. 66-2005(e), SWBT and CenturyLink report data for rate groups 1-3. SWBT's monthly residential service rate for rate groups 1-3 is \$15.70 and CenturyLink's is \$17.73.

1 Association (UTA) have unified rates, or the same rate, for residential and single-line
2 business lines. Craw-Kan Telephone Cooperative, Inc. (Craw-Kan) and Southern Kansas
3 Telephone Co., Inc. (Southern Kansas) have tariffed rates that include Extended Area
4 Service additives. For these six companies, Staff recognized the current affordable
5 residential rate of \$15.75 to calculate the March 1, 2011 affordable rate.

6 Next, the appropriate residential rate was multiplied by the September 30, 2010 reported
7 residential lines to derive each company's total monthly residential service revenue.
8 Then, the aggregated monthly residential revenue was divided by the aggregate total
9 reported September 30, 2010 residential lines, resulting is an average residential rate of
10 \$16.15.

11 K.S.A. 2009 Supp. 66-2005(e)(1) requires the weighted average residential rate to be
12 rounded to the nearest "quarter-dollar;" therefore, the \$16.14 was rounded to \$16.25.
13 K.S.A. 2009 Supp. 66-2005(e)(2) requires the affordable single-line business rate to be
14 \$3.00 higher than the residential rate, unless the company's current rate is higher than the
15 calculated rate. Therefore, the proposed March 1, 2011 affordable single-line business
16 rate is \$19.25.

17 **Q. K.S.A. 2009 Supp. 66-2005(e)(7) deems a unified rate "affordable" provided that the**
18 **revenue generated by the unified rate equals the revenue generated by the**
19 **affordable rates. Did you perform a comparison of the revenue generated for each**
20 **company by its proposed unified rate to the revenue the company would receive if it**
21 **used the affordable rates?**

1 A. Yes. Please see Attachment 1, confidential page 2. For each company with a unified
2 rate, a preliminary rate was calculated by adding the \$0.50 rate differential between the
3 proposed monthly \$16.25 affordable residential rate and the current affordable residential
4 rate of \$15.75 to the company's current unified rate. Then, the annual revenue generated
5 by the preliminary unified rate was calculated and compared to the annual revenue that
6 would be generated by the affordable rates. The annual revenue differential between the
7 unified rate and the affordable rates is \$.01 and \$.03 per line, for Home and Pioneer,
8 respectively. Thus, a \$16.75 unified rate for Home and a \$17.50 unified rate for Pioneer
9 are appropriate. Totah; however, proposed to increase its unified rate to \$16.65; a \$.40
10 per line monthly rate increase. Staff's review of Totah's data indicates that a \$.50
11 increase in the Company's unified rate would result in Totah receiving \$.10 per line more
12 in revenue than if it implemented the affordable rates. The proposed \$.40 per month rate
13 increase reduces the monthly revenue difference to one-half of a cent (\$.005), which Staff
14 believes may be more appropriate.

15 With regard to UTA, the Company filed a request for \$1.2 million of additional KUSF
16 support in Docket No. 10-UTAT-525-KSF (Docket 525) on March 18, 2010.⁴ On
17 November 23, 2010, Staff and UTA filed a Joint Motion to extend the 240-day effective
18 data of UTA's application. On November 29, 2010, Staff filed a Report, which supported
19 that the Company should continue to receive its current level of KUSF support - \$72,009.
20 On November 29, 2010, the Commission issued an order approving the Joint Motion and
21 extending the 240-day effective date of UTA's application until February 28, 2011.

⁴ *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.

1 Unless the Commission grants UTA additional KUSF support, the Company's annual
2 KUSF support will be eliminated, effective March 2011 as a result of the intrastate access
3 revenue increase approved in Docket No. 10-GIMT-792-GIT (Docket 792).⁵ If UTA is
4 granted additional KUSF support, that support must be reduced by the amount of revenue
5 the Company could receive from increasing its residential and single-line business rates.
6 Increasing its unified rate by \$.50 per month would result in a \$.27 per line monthly
7 revenue difference. Therefore, if the Company is granted additional KUSF support, it
8 may be more appropriate for the Company to implement a \$.25 per month rate increase.
9 However, the outcome of Docket 525 will determine whether the Company implements
10 any rate increase, and if so, the appropriate rate.

11 **Q. Each rural LEC increasing its rates will need to provide customers at least 30-days**
12 **notice of the increase and file revised tariffs. Does Staff have any recommendations**
13 **as to when the revised tariffs should be filed?**

14 Yes. Staff suggests that the tariff revisions be filed in this docket to show the rate
15 increases are occurring as a result of statutory and regulatory compliance. Additionally,
16 due to the number of companies implementing rate increases, Staff suggests that each
17 affected company file revised tariffs to reflect the new residential and business rates no
18 later than January 28, 2011.

19 **Q. How will Lifeline subscribers be impacted by the residential rate increase?**

⁵ *In the Matter of a General Investigation Into the Adjustment of Intrastate Switched Access Rates for Rural Telephone Companies in Compliance with K.S.A. 66-2005(a)*, Docket No. 10-GIMT-792-GIT

1 A. In Docket No. 07-GIMT-1353-GIT (Docket 1353), the Commission established an equal
2 monthly Lifeline credit of \$7.77, effective March 1, 2009.⁶ On January 15, 2009, in
3 Docket 1353, Staff filed a report to recommend that the Commission open a biennial
4 docket to address the impact of the local rate increase on Lifeline subscribers.⁷
5 Consistent with that recommendation, Staff intends to file a report regarding the effect
6 the residential rate increases will have on Lifeline subscribers no later than April 1, 2011.

7 **II. YEAR 15 ASSESSMENT RATE**

8 **Q. Staff proposes a 6.18% annual KUSF assessment rate. What are the corresponding**
9 **KUSF Year 15 per line assessment rates for the LECs?**

10 A. K.S.A. 2009 Supp. 66-2008(a) authorizes a company to recover an amount equal to, or
11 lesser than, its assessment from customers. Each LEC pays its KUSF assessment rate
12 for local services on a per line basis.⁸ Each LEC is also allowed to recover its KUSF
13 assessment from customers using the same methodology,⁹ which minimizes fluctuations
14 in local service bills as a result of a change in the KUSF assessment rate. Table 1 shows
15 the proposed Year 15 per line rates, the current Year 14 per line rates, and the
16 difference:

⁶ *In the Matter of Commission Review of the Kansas Lifeline Service Program (KLSP) and Determining Whether to Continue the Commission's 'Hold Harmless' Approach to Offsetting Local Rate Increases for KLSP Subscribers*, Docket No. 07-GIMT-1353-GIT, Order Returning KLSP to Equal Credits at the \$7.77 Credit Level.

⁷ Docket 1353, January 15, 2009 Staff Recommendations On Review of Lifeline Credit, Order Returning KLSP to Equal Credits at the \$7.77 Credit Level. The monthly Lifeline credit received by a customer and reimbursed to a Company cannot exceed the monthly service rate. Sunflower and Bluestem have monthly residential service rates below the combined federal and state Lifeline credit of \$11.27; thus, they receive state Lifeline credits less than the \$7.77 monthly credit.

⁸ Docket 478, December 27, 1996 Order, at ¶¶113-115.

⁹ K.S.A. 66-2008(b).

Table 1: ILEC Maximum Per Line Assessments

ILEC	Year 15	Year 14	Change
SWBT	\$2.04	\$ 2.08	(\$.04)
CenturyLink	\$1.91	\$ 1.98	(\$.07)
Rural LECs ¹⁰	\$1.45	\$ 1.51	(\$.06)

Q. How are the per line local service KUSF assessment rates determined?

A. Confidential Attachments A through C show that after determining the 6.18% KUSF assessment rate, the 6.18% was multiplied by the projected Year 15 revenue for SWBT, CenturyLink, and the rural LECs, respectively, to determine the KUSF assessment owed by each. Then, the projected KUSF assessment owed by each company(ies) was divided by the projected assessable lines. The resulting annual assessment for each line was then converted to a monthly per line assessment.

Q. How do you determine the lines from the KUSF assessment may be collected?

A. Each LEC reports its total company local service lines as of September 30 each year. In general, companies collect their local service KUSF assessment from all local service lines, with the exception of company official and concession lines. To determine if Staff should project any revenue growth or losses, a review of the lines in service at September 2007 through September 2010 were reviewed.

Confidential Attachment A, page 7, shows the rural LECs have reported a net loss of 3% or more for the past several years. Therefore, the calculation of the \$1.45 per line assessment for the rural LECs recognizes a 3% net line loss. Confidential Attachment

¹⁰ *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.

B, page 7, shows SWBT continues to experience an annual line loss, with the losses ranging from 8% to over 11%. Staff recognized a 10.0% line loss in the calculation of the \$2.04 per line assessment. Confidential Attachment C, page 8, shows CenturyLink has experienced annual line losses of approximately 7% per year; therefore, the \$1.91 per line assessment reflects a projected 7.0% line loss.

III. KUSF FUNDING OBLIGATIONS

Q. What is the estimated total KUSF Obligation for KUSF Year 15?

A. The actual KUSF support paid to a carrier or for a program may vary from the estimates recognized in these calculations. Exhibit SKR-1, page 1, line 18, shows total KUSF Year 15 funding obligations of \$65.7 million. This amount is reduced by the projected February 2011 reserve of 2.8 million¹¹ and then increased by the \$4.7 million contingency fund.¹² As a result, the KUSF needs to collect \$67.7 million from providers. The proposed KUSF Year 15 funding levels compared to the current Year 14 funding levels are shown in Table 2:

Table 2: KUSF Funding Requirements (In Millions)

Description	Year 15	Year 14	Difference
Gross KUSF Obligations	\$ 65.7	\$ 73.6	\$ (7.9)
Less: Reserve	(2.7)	.9	3.6
Plus: Contingency Allowance	4.7	5.5	(.8)
Adjusted Net KUSF Obligations	\$ 67.7	\$ 78.2	\$ 10.5

Q. Exhibit SKR-1, page 1, line 1, shows the rural LECs will receive \$24.1 million from the KUSF. How was this amount calculated?

¹¹ *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, January 29, 2000 Order Establishing Year 4 Assessment Rate at ¶ 26.

¹² *Id.*, at ¶ 28.

1 A. Attachment A contains documentation and company-specific calculations for the rural
2 LECs. A rural LEC's KUSF support is based on the results of a company-specific
3 audit,¹³ adjusted for the revenue from the biennial intrastate switched access and
4 affordable rate changes. Thus, the calculation starts with the KUSF support paid to each
5 company as of December 1, 2010, which reflect the following audit results for Golden
6 Belt Telephone Association (Golden Belt) and Haviland Telephone Co., Inc.'s
7 (Haviland):

- 8 • Golden Belt, Docket No. 10-GNBT-526-KSF (Docket 526): On February 17,
9 2010, the Commission opened Docket 526 to address Golden Belt's request for
10 \$1.3 million of additional KUSF support.¹⁴ On October 21, 2010, Staff and
11 Golden Belt filed a Stipulated Settlement Agreement (S&A), pursuant to which
12 the Company would receive \$948,000 of annual KUSF support, effective the first
13 of the month following a Commission order. On October 27, 2010, the
14 Commission issued an order approving the S&A, with Golden Belt receiving
15 KUSF support, effective with the November 2010 data month.
- 16 • Haviland, Docket No. 10-HVDT-288-KSF (Docket 288): On December 16,
17 2009, the Commission opened Docket 288 to audit Haviland for KUSF
18 purposes.¹⁵ On August 2, 2010, Staff and Haviland submitted a S&A to the
19 Commission, recommending that Haviland's annual KUSF support be eliminated
20 effective the first of the month following Commission approval. The Commission
21 issued an order approving the S&A on September 9, 2010, thus, Haviland's
22 annual KUSF support was eliminated, effective with the October 2010 data month
23 payment in November 2010.

24 **Q. Attachment A shows adjustments to the rural LECs' KUSF support for intrastate**
25 **access revenue changes. How was this amount determined?**

¹³ KUSF company-specific audits have not been performed for Gorham Telephone Co., Inc.; LaHarpe Telephone Co., Inc.; and Zenda Telephone Co., Inc.

¹⁴ *In the Matter of the Application of Golden Belt Telephone Association for Additional Kansas Universal Service Fund Support Pursuant to K.S.A. 66-2008*, Docket No. 10-GNBT-526-KSF.

¹⁵ *In the Matter of Staff's Motion Requesting the Commission Order Haviland Telephone Company, 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. 10-HVDT-288-KSF.

1 A. On June 30, 2010, the Commission opened Docket 792 to address the rural LECs'
2 intrastate access rates consistent with K.S.A. 2009 Supp. 66-2005(c). On October 8,
3 2010, Staff submitted testimony and calculations regarding the impact of adjusting each
4 rural LEC's intrastate switched access rates to interstate levels. On November 10, 2010,
5 the Commission adopted Staff's calculations, which are reflected in the calculation of the
6 KUSF assessment rate.

7 **Q. Pursuant to K.S.A. 2009 Supp. 66-2005(d), a company's KUSF support is reduced**
8 **by an amount equal to the calculated annual revenue the company will receive from**
9 **rebalancing rates to the target affordable rates, even if the company elects not to**
10 **raise its rates. What impact will rebalancing rates to the target affordable rate have**
11 **on the KUSF?**

12 A. Attachment A, page 1, shows that, with three exceptions, the rural LECs qualify to
13 implement a rate increase on March 1, 2011. By increasing their residential and single-
14 line business rates to the target affordable rates, the rural LECs will receive an additional
15 \$657,000 in local service revenue. The KUSF support for each rural LEC is adjusted
16 accordingly. Bluestem and Sunflower will increase residential and single-line business
17 rates only to the extent necessary to offset the KUSF support they would have received as
18 a result of increasing their intrastate switched access rates to interstate levels. FairPoint
19 Missouri, Inc. (FairPoint), Haviland, and MoKan Dial, Inc. (MoKan) do not receive
20 KUSF support and will not qualify to increase local rates until such time that they do
21 qualify to receive KUSF support. I note that a local rate increase is reflected for UTA;
22 however, an increase will only occur if the Company is granted additional KUSF support.

1 Q. Attachment A recognizes \$1.3 million of KUSF support for other known or
2 estimated changes. Please explain what those changes are.

3 A. Two rural LEC KUSF support audits are currently pending before the Commission”

- 4 • UTA, Docket 525: As previously discussed, UTA’s request for an additional \$1.2
5 million is pending before the Commission and the effective date for UTA’s
6 application was suspended until February 28, 2011. The Company’s annual
7 KUSF support will be eliminated March 2011 as a result of the intrastate access
8 revenue increase approved in Docket 792, unless the Commission grants the
9 Company additional KUSF. In its November 29, 2010 Report, Staff
10 recommended that the Company should continue to receive \$72,009 of annual
11 KUSF support. Any additional KUSF support granted to the Company will need
12 to be reduced by the amount of revenue the Company could receive by increasing
13 its rates to the affordable rates, or similar unified rates. The KUSF support will
14 presumably be effective with the March 2011 data month. For KUSF obligation
15 estimation purpose only, Staff recognized one-half of the difference between the
16 KUSF support requested by UTA and the Company’s current KUSF support,
17 reduced by the revenues associated with an increase in local rates.
- 18 • Pioneer, Docket No. 11-PNRT-315-KSF (Docket 315):¹⁶ On October 29, 2010,
19 Pioneer filed a request for an additional \$3.7 million of annual KUSF support. On
20 November 30, 2010, the Commission issued an order and directed Pioneer to file
21 an application pursuant to K.A.R. 82-1-231 by January 7, 2011. Based on a 240-
22 day suspension of Pioneer’s application, a Commission order will be due in
23 September 2011, with any adjustment to the Company’s KUSF support taking
24 effect for the October 2011 data month. Therefore, Staff first recognized one-half
25 of Pioneer’s request - \$1.8 million annually, \$154,879 monthly, and incorporated
26 5 months’ of additional KUSF support.

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

28 A. The first step to calculate SWBT’s annual KUSF support is to enter the number of KUSF
29 support eligible lines reported as of September 30, 2010 by SWBT into the Commission’s

¹⁶ *In the Matter of the Application of Pioneer Telephone Association Inc. d/b/a Pioneer Communications for Additional Kansas Universal Service Fund Support Pursuant to K.S.A. 66-2008, 11-PNRT-315-KSF.*

1 forward-looking high-cost model.¹⁷ SWBT has 71 wire centers that are identified as
2 high-cost areas. Each wire center is broken down, or disaggregated, into two zones.¹⁸
3 Zone 1 includes locations inside the base rate area, an area generally within and up to 3
4 miles outside the city limits. Zone 2 includes all locations outside the base rate area.
5 Seven wire centers qualify for KUSF support for zone 1, with the KUSF support ranging
6 from \$1.33 to \$13.08 per line per month. All 71 exchanges qualify for KUSF support,
7 ranging from \$2.85 to \$226.45 per month per line, for zone 2. Entering the KUSF
8 support eligible lines into the high-cost model results in SWBT qualifying to receive \$6.3
9 million of KUSF support for lines it provisions service to.

10 The second step is to determine the amount of KUSF support available to a competitive
11 ETC operating in SWBT's study area that provisions service through negotiated
12 agreements, with the prices set forth in Local Wholesale Complete (LWC) provisions.¹⁹
13 This step is consistent with the Commission's determination in Docket No. 06-GIMT-
14 1277-GIT (Docket 1277) that found that the incumbent LEC, in this case SWBT, will
15 receive the difference between the KUSF support available in a zone and wire center per
16 the high-cost model and the LWC cost paid by a competitive ETC to SWBT. Two
17 competitive ETCs, NexTech, Inc. (NexTech) and Sage Telecom, Inc. (Sage), provide
18 service to customers in SWBT's study area using LWC. Therefore, for each company,

¹⁷ *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 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 (Order No. 16). (cites omitted).

¹⁸ Docket 326, Order No. 16, at ¶ 131.

¹⁹ *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.

Staff determined the LWC cost for lines in each exchange and zone, the total KUSF support available for the lines in each exchange and zone per the cost model, and the difference. The lesser of the LWC cost or KUSF support available per the cost model is paid to the competitive ETC and the difference is paid to SWBT. The total difference for both NexTech and Sage is \$171,000. By adding this amount to SWBT's cost-based KUSF support of \$6.3 million, SWBT qualifies to receive \$6.5 million of KUSF support. Attachment B, page 1 illustrates the calculation of the total of \$6.5 million in KUSF support for SWBT for Year 15, a \$500,000 reduction from this year.

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

A. CenturyLink qualifies to receive \$13 million of KUSF support for KUSF Year 15, a reduction of \$5.8 million from the \$18.8 million currently paid to the Company. Effective August 2010, the KUSF support available to CenturyLink and competitive ETCs operating in its study areas consists of cost-based KUSF support, as determined by the high-cost model, and revenue-neutral KUSF support, to allow CenturyLink to recover intrastate switched access revenue consistent with the Commission's determination in Docket No. 08-GIMT-1023-GIT (Docket 1023).²⁰

The high-cost model identified 112 of CenturyLink's wire centers as high-cost areas, with each wire center disaggregated into two zones. CenturyLink's United of Eastern Kansas and United of South Central Kansas study areas (United-Eastern) do not have

²⁰ *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, 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. (cites omitted).*

1 inside or outside base rate classifications; thus, the city limits serve as the delineation
2 point between zone 1 and zone 2.²¹ Forty-nine wire centers qualify for monthly KUSF
3 support in zone 1, with support ranging from \$0.15 to \$41.68 per line. All 112 wire
4 centers qualify for zone 2 KUSF support, with the support ranging from \$3.08 to \$243.23
5 per line.

6 Confidential Attachment C, page 5, shows that by entering the number of qualifying
7 lines, reported as of September 30, 2010 by CenturyLink, into the high-cost model, the
8 Company qualifies to receive \$15.5 million of total cost-based KUSF support. Then, this
9 amount was reduced by the federal universal service fund (USF) loop and Local
10 Switching Support (LSS) the Company is estimated to receive next year, and adjusted to
11 true-up the amount the Company received the past year. As a result, CenturyLink will
12 receive \$10.5 million in net cost-based KUSF support. Next, the revenue-neutral KUSF
13 support was determined. The revenue-neutral KUSF support consists of two
14 components: (1) the calculated intrastate switched access revenue loss associated with
15 the reduction in its intrastate rates, based on volumes as of September 30, 2010, and (2) a
16 true-up to recognize the difference between the projected revenue-neutral KUSF support
17 the Company received for the months of August and September 2010 and the revenue-
18 neutral KUSF support the Company should have received for those months based on
19 actual usage. CenturyLink will receive \$2.5 million in revenue-neutral KUSF support,
20 effective March 2011.

²¹ *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 236), February 14, 2000 Order 6 Addressing Zone Targeting and Remaining Implementation Issues for Year 2000 KUSF Distributions, ¶¶ 8-9.

1 **Q. How do the federal USF and LSS offsets and the revenue-neutral access support for**
2 **CenturyLink impact competitive ETCs operating in CenturyLink's study areas?**

3 A. A competitive ETC qualifies to receive the same KUSF support as that paid to the
4 incumbent LEC. Once the total federal USF and LSS support offsets were determined for
5 CenturyLink, they were converted to a per-line basis. Consistent with the calculation of
6 CenturyLink's KUSF support, the KUSF support for a competitive ETC is reduced by the
7 applicable federal USF and LSS offsets to derive the net cost-based KUSF support.

8 The next step is to apply the revenue-neutral Transitional Factor (Transition Factor),
9 adopted by the Commission in Docket 1023 to ensure a competitive ETC receives the
10 same per line KUSF support as received by CenturyLink. Therefore, once the net cost-
11 based KUSF support was calculated for a competitive ETC, it was multiplied by the
12 Transition Factor to determine the total KUSF support available to the ETC. At this
13 time, the Transitional Factor is only applicable to H&B Cable and Nex-Tech Wireless,
14 LLC (NTW).

15 **Q. What is the proposed Transition Factor?**

16 A. The Transition Factor is to be updated annually. For Year 15, the revenue-neutral KUSF
17 support paid to CenturyLink will comprise a larger percentage of its total KUSF support,
18 as shown on page 3 of Attachment C. This results in a proposed Transitional Factor of
19 1.233901. The current Transitional Factor is 1.182819.

20 **Q. How was the annual KUSF support payable to Nex-Tech and Sage calculated?**

1 A. As previously discussed, Nex-Tech and Sage offer KUSF-supported services using LWC,
2 with NexTech and Sage receiving KUSF support equal to the lesser of their LWC cost or
3 the KUSF support available using the high-cost model. The difference between the
4 KUSF support available per the high-cost model and the LWC cost is paid to SWBT.
5 Page 1 of Attachment D illustrates the \$42,000 of annual KUSF support for NexTech.

6 Attachment E, page 1, shows Sage qualifies to receive \$60,200 of annual KUSF support.
7 In addition, page 3 of Attachment E shows that Sage qualifies to receive a \$70 one-time
8 payment for recovery of new service order fees. Thus, Staff recommends that the
9 Commission's January 2011 order on the Year 15 assessment authorize the KUSF
10 administrator, GVNW Consulting, Inc. (GVNW), to issue a \$70 one-time payment to
11 Sage. This one-time payment should also be recognized as a one-time reduction to
12 SWBT's support.

13 **Q. Please explain how the \$37,500 of KUSF support for H&B Cable was calculated.**

14 A. H&B Cable receives KUSF support for the Claflin exchange in CenturyLink's United -
15 Eastern study area. Confidential Attachment F shows that by entering the number of
16 qualifying lines, as of September 30, 2010 into the high-cost model, H&B Cable qualifies
17 to receive \$33,000 of cost-based KUSF support. This is reduced to \$30,500 after
18 applying the applicable federal USF and LSS offsets. This increases to \$37,500 after
19 applying the 1.233901 Transition Factor.

20 **Q. How was the \$5.1 million of KUSF support for Nex-Tech Wireless, LLC (NTW)**
21 **determined?**

1 A. Staff has not finalized the calculation of NTW's March 1, 2011 KUSF support, due to
2 time constraints. Page 1 of Attachment G shows the September 30, 2010 line data
3 submitted by the Company was multiplied by the applicable March 1, 2011 per line
4 KUSF support available in each rural LEC's study area.²² For CenturyLink's study area,
5 the September 30, 2010 reported lines were entered into the high-cost model and the
6 federal USF and LSS offsets were applied. The proposed 1.233901 Transitional Factor
7 was applied to the resulting net cost-based KUSF support. I note that NTW was granted
8 ETC designation in Golden Belt's study area in 2005,²³ but has not received KUSF
9 support for the study area because Golden Belt did not receive KUSF support. Effective
10 November 2010, Golden Belt started to receive KUSF support; therefore, Staff's
11 calculations include approximately \$535,000 of KUSF support for Golden Belt's study
12 area.

13 **Q. Please discuss how the \$54,000 of annual KUSF support was determined for Epic**
14 **Touch Co. (Epic Touch).**

15 A. Attachment H, page 1, shows the calculation of KUSF support for Epic Touch, based on
16 the Company's September 30, 2010 KUSF supportable lines in Elkhart's study area and

²² *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, at ¶ 32.

²³ *In the Matter of the Application of Nex-Tech Wireless, LLC for Designation as an Eligible Telecommunications Carrier for Purposes of Kansas Universal Service Fund Support*, Docket No. 07-NTHT-360-ETC, December 22, 2006 Order Granting Nex-Tech Wireless' Request to be Designated as an ETC.

Pioneer's Hugoton, Richfield, and Rolla exchanges. Staff's calculations reflect the removal of one line that is ineligible for KUSF support and the March 1, 2011 per line KUSF support available in the Elkhart and Pioneer study areas.

Q. Please explain the calculation of the estimated \$806,000 in annual KUSF support for United Wireless Communications (UWC).

A. Staff's review of UWC's September 30, 2010 data indicates the Company qualifies for KUSF support in the study areas of SWBT, Pioneer, Elkhart, and UTA. The KUSF support calculation contained in confidential Attachment I recognize the estimated per line KUSF support available in each rural LEC's study area, effective March 1, 2011. I note that, absent the Commission granting UTA additional KUSF support in Docket 525, UTA's KUSF support will be eliminated March 1, 2011. Therefore, Staff's calculations do not include KUSF support for UTA's study area. The actual KUSF support paid to UWC will reflect the Commission's decision in Docket 525.

Q. Confidential Attachments J, K, and L, contain the calculation of KUSF support for S&T Communications, LLC (S&T Comm); NE Colorado Cellular, Inc. d/b/a Viaero Wireless (Viaero), and Westlink Communications, LLC (Westlink), respectively. How were these amounts determined?

A. S&T Comm was granted ETC designation in three SWBT exchanges in Docket No. 10-S&CT-564-ETC.²⁴ Viaero was granted ETC designation in Docket No. 09-NECZ-747-

²⁴ *In the Matter of the Application of S&T Communications, LLC for Designation as an Eligible Telecommunications Carrier in the Colby, Goodland, and Oakley Kansas Exchange Areas*, Docket No. 10-S&CT-564-ETC.

ETC²⁵ and Westlink was granted ETC designation in Docket No. 10-WLCT-565-ETC.²⁶ Each company provided Staff with preliminary calculations based on their current lines in service. Each company will need to file an application for initial KUSF support; therefore, the only adjustment Staff made to each company's preliminary calculation was to reflect the March 1, 2011 KUSF support available in each rural LEC's study area. Payment of initial KUSF support granted to an ETC is effective the first of the month following a Commission order.²⁷ One purpose of the contingency fund is to help ensure money is available to new ETCs; however, it appears reasonable to recognize some KUSF support for each ETC. Thus, Staff recognized one-half of the preliminary KUSF support calculated by each company: \$57,000 for S&T Comm., \$117,000 for Viaero and \$433,000 for Westlink.

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

A. Staff included \$1.2 million for KRSI and \$814,000 for TAP. As shown in Attachment M, these amounts are based on the actual monthly and year-to-date disbursements for each program, as well as the projected budgets from the KRSI/TAP Administrator for next year. The KUSF disbursed \$639,000 to KRSI for the months of March through October 2010. As shown in Attachment P, page 2, based on the average monthly

²⁵ *In the Matter of the Petition of NE Colorado Cellular, Inc. d/b/a Viaero Wireless, for Designation as an Eligible Telecommunications Carrier Under 47 U.S.C. 214(E)(2) and for Redefinition of Rural ILEC Study Areas*, Docket No. 09-NECZ-747-ETC.

²⁶ *In the Matter of Westlink Communications, L.L.C.'s Petition for Designation as an Eligible Telecommunications Carrier for the Purposes of Kansas Universal Service Support*, Docket No. 10-WLCT-565-ETC.

²⁷ *In the Matter of a Generic Proceeding to Address Kansas Universal Service Fund Support and Supplemental Funding Procedures, as Adopted by the Commission in Docket No. 00-GIMT-842-GIT*, Docket 10-667, September 24, 2010 Order Redefining Eligible Line for KUSF Support, Limiting Frequency of Requests for Supplemental KUSF Support, Requiring Net 12-Month Line Increase of Five Percent or Greater, Requiring Inclusion of Previous Commission Adjustments, Setting Appropriate Date for Payment of Supplemental KUSF Support, Declining to Rule Upon Issues Not Noticed-Up in This Docket, and Directing Staff to Open Docket.

1 disbursement, Staff estimates the KUSF will disburse \$1 million for the KRSI program in
2 the current KUSF Year. In comparison, the KRSI administrator submitted a \$1.2 million
3 operating budget for next year. Thus, Staff's calculations reflect the higher amount of the
4 \$1.2 million.

5 Attachment M shows that the KUSF has disbursed \$429,000 to the TAP program for the
6 program for the months of March through October 2010; a monthly average of \$54,000.
7 By annualizing this amount, Staff estimates total KUSF Year 14 TAP disbursements will
8 be \$644,000. In comparison, the TAP administrator submitted a budget of \$814,000. To
9 ensure adequate funding is available, Staff included the \$814,000 in its Year 15
10 calculations.

11 **Q. How was the \$2.9 million for the Lifeline program determined?**

12 A. Attachment N shows the calculation of the \$2.9 million to fund the Lifeline program. For
13 the months of March through October 2010, the KUSF disbursed \$1.9 million for the
14 Lifeline program, an average of \$233,000 per month. By dividing the monthly average by
15 the \$7.77 monthly Lifeline credit, an estimated 30,000 lines receive Lifeline credits each
16 month. Staff then annualized the monthly average to estimate that total funding for the
17 Lifeline program will be \$2.8 million for KUSF Year 14.

18 Next, Staff reviewed the number of supported lines and the corresponding funding for the
19 three KUSF fiscal years ended February 2008, February 2009, and February 2010. The
20 number of Lifeline eligible lines declined between February 2008 and February 2009,
21 however, overall funding increased slightly. In comparison, the number of Lifeline lines

1 has increased between 3.3% and 7.6% the past two years. Consistent with recent years'
2 calculations, Staff recognized a 3% growth in the number of lines eligible for the Lifeline
3 program.

4 **Q. Please explain how the KAN-ED funding was determined.**

5 A. Staff included \$10 million to fund the KAN-ED program. K.S.A. 2009 Supp. 66-
6 2010(f)(2) and (f)(3) specified annual KAN-ED funding through June 30, 2009, with the
7 KUSF funding of the KAN-ED program ending June 30, 2009. This was modified by the
8 2010 Legislature via House Substitute for Senate Bill No. 572, which states on page 112:

9 During the fiscal year ending June 30, 2011, notwithstanding any
10 provisions of subsection (f) of K.S.A. 2009 Supp. 66-2010, and
11 amendments thereto, as such subsection existed prior to June 30, 2009, to
12 the contrary, the amount of \$10,000,000 shall be certified before July 1,
13 2011, by the chief executive officer of the state board of regents to the
14 administrator of the KUSF and the administrator of the KUSF shall pay
15 such amount from the Kansas universal service fund of the state
16 corporation commission to the KAN-ED fund of the state board of regents
17 during the fiscal year 2011 in accordance with the provisions of
18 subsections (f)(1) and (f)(2) of K.S.A. 2009 Supp. 66-2010, and
19 amendments thereto, as such subsections existed prior to June 30, 2009.

20 KUSF funding for the KAN-ED program has recently been modified and extended
21 through House appropriation bills, which are passed after the Commission issues an order
22 in January to set the new KUSF year's assessment rate. Therefore, Staff recognized \$10
23 million to fund the KAN-ED program next year.

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

25 A. Attachment O includes documentation to support day-to-day administration costs, as well
26 as audit expenses, including:

- 1 • Administration: The Commission's KUSF administration contract with GVNW
2 authorizes an annual administration fee of \$189,948.
- 3 • Carrier audits: Pursuant to K.S.A. 2009 Supp. 66-2010(b) and Commission
4 order,²⁸ GVNW conducts reviews of carriers contributing to, or receiving funds
5 from, the KUSF. GVNW accrues the costs for the period of January through June
6 and then for the period of July through December. The KUSF reimburses GVNW
7 twice a year. GVNW was paid \$280,000 for carrier review worked performed
8 between July 2009 and June 2010. This same amount is included for next year.
- 9 • Financial audits: Both a financial audit of the KUSF and a Statement on Auditing
10 Standards No. 70 for service organizations (SAS 70) of the internal controls and
11 contractual compliance are to be performed annually.²⁹ The audits for the March
12 2008 through February 2009 fiscal year were delayed due to the KUSF
13 administration transitioning from Solix, Inc. to GVNW during the KUSF year.
14 The most recent SAS 70 and financial audit expenses were \$60,000; thus, Staff
15 recognized this amount for the financial and SAS 70 audits.

16 IV. KUSF RESERVE

17 **Q. The Commission's January 2000 Order in Docket 236 determined that the KUSF**
18 **reserve is to reduce the total monies to collect from companies the next KUSF**
19 **year.³⁰ How was the projected February 28, 2011 reserve of \$2.8 million calculated?**

20 **A. Please see Attachment P for the related calculations. The KUSF operational results**
21 **recorded in April through November reflect the data reported for the period of March**
22 **through October 2010 since revenue earned and assessments owed for one month is**
23 **reported the following month. The KUSF balance as of November 30, 2010 was \$2.9**
24 **million. Starting with this information, I estimated monthly revenue receipts and**

²⁸ Docket 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, at ¶ 56.

²⁹ Id., at ¶ 57.

³⁰ *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, January 19, 2000 Order 5: Establishing Carrier Assessment Rate for Year 2000 KUSF Contributions, at ¶ 26.

disbursements that will be recorded in December 2010 through March 2011 for the data months of November 2010 through February 2011.

Q. Please describe the calculation of the projected monthly revenue receipts.

A. Confidential Attachments Q through R show the revenue reported by each company for the months of March through October 2010, plus the annual, semi-annual, and quarterly revenues reported by small companies. Confidential Attachment Q contains the LECs' local service revenue. Attachment R contains the wireless and paging providers' (wireless) revenues. Confidential Attachment S, referred to as the interexchange/other carrier (IXC/Others) category, contains the revenue for all companies other than those registered as LECs, wireless, and interconnected Voice over Internet Protocol (VoIP) providers. VoIP providers' revenues are shown in Attachment T.

Next, the revenue each company may report for the months of November 2010 through February 2011 was projected. Projections were not calculated for miscellaneous revenues, such as prior period adjustments, late penalties, and interest. Projections were not made for companies that report annually or semi-annually because those companies have already reported their estimated Year 15 revenue to the KUSF. Quarterly-filers are required to report their estimated December 2010 through February 2011 revenue in January 2011; therefore, the January 2011 receipts include fourth-quarter projected revenues, equal to the revenue reported for the third quarter.

For each monthly reporter, the average monthly revenue was calculated and then compared to the revenue reported for the months of August through October 2010. The

1 monthly average was used as the projected revenue for the months of November 2010
2 through February 2011, unless the revenue reported in two of the three months was less
3 than the monthly average. For example, Company A reported total revenue of \$80,000
4 for March through October 2010, an average of \$10,000 per month. Company A then
5 reported \$12,000 for August, \$8,000 for September and \$9,900 for October. The revenue
6 reported for both September and October is less than the \$10,000 monthly average;
7 therefore, the \$8,000 is recognized for the months of November 2010 through February
8 2011. For any company that regularly reports and pays its assessments to the KUSF, but
9 is delinquent, a projection for the delinquent revenue was included. This approach is
10 conservative and recognizes recent revenue declines reported by a company, but only
11 recognizes growth through the monthly average. For the current fiscal year, Staff
12 estimates companies will report total revenues of \$1.1 billion, comprised of: LECs -
13 \$256.1 million, wireless - \$656.6 million, IXC/ Others - \$188.7 million, and VoIP - \$17.9
14 million.

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

16 A. The monthly disbursements are based on actual disbursements for each program for the
17 months of March through October 2010 and liabilities that the KUSF will need to pay
18 during the current fiscal year. Over \$37 million has been disbursed from the KUSF to
19 carriers for high-cost support, including \$4.7 million for October 2010. For projection
20 purposes, Staff assumed the same amount of high-cost support will be disbursed each
21 month, with the following adjustments:

- 22 • NTW: The Commission authorized NTW to receive \$23,545 of supplemental
23 KUSF support, effective with the July 2010 data month in Docket No. 11-

1 NTWZ-140-KSF (Docket 140).³¹ NTW will receive a \$95,000 one-time
2 payment in December 2010, as well as the monthly increase in KUSF support.
3 Therefore, payment of the supplemental support is reflected in the December
4 2010 through March 2011 disbursements.

- 5 • Golden Belt: Effective with the November 2010 data month, paid in December
6 2010, Golden Belt will receive \$79,000 of monthly KUSF support. This is
7 recognized as a line-item disbursement in December 2010 through March 2011
8 since this support is not recognized in the prior monthly high-cost support
9 disbursements.

10 **Q. How were the estimated disbursements for KRSI, TAP, Lifeline, and KAN-ED**
11 **determined?**

12 A. The average monthly disbursement for the months of March through October 2010 was
13 calculated for KRSI, TAP, and Lifeline. The average monthly disbursements are
14 \$80,000, \$54,000, and \$233,000, respectively. Staff recognized the average monthly
15 disbursement for each program for the months of November 2010 through February
16 2011. The \$833,333 per month projected disbursement for Kan-Ed is based on the
17 legislative action previously discussed.

18 **Q. How were the monthly administration and audit disbursements determined?**

19 A. The KUSF administration fee is \$189,948 per year, \$15,829 per month, consistent with
20 the Commission's contract with GVNW. As shown in Attachment O, pages 1 and 2,
21 GVNW incurred \$140,000 in expense for carrier review work performed between
22 January and July 2010. Thus, Staff recognized a \$140,000 payment to GVNW carrier
23 review work performed between July and December 2010. Staff also recognized a
24 \$60,000 liability for fees to perform the KUSF financial and SAS 70 audits.

³¹ *In the Matter of the Request of NexTech Wireless, LLC for Kansas Universal Service Supplemental Fund Support*, Docket No. 11-NTWZ-140-KSF, November 23, 2010 Order Granting NTW Request for Supplemental Fund Support as Adjusted by Staff.

1 **Q. Please explain why page 2 of Attachment P shows a separate line-item disbursement**
2 **for Cricket Communications, Inc. (Cricket).**

3 A. GVNW performed a KUSF carrier review of Cricket in Docket No. 10-CRCZ-078-KSF
4 (Docket 078).³² In its June 24, 2010 audit report, GVNW stated that Cricket had reported
5 non-assessable revenue for text messaging and other data services to the KUSF, and
6 therefore, overpaid its assessments. GVNW recommended that \$413,467 of assessments
7 be refunded from the KUSF to Cricket and that Cricket refund this amount to consumers.
8 In a December 15, 2010 Order, the Commission directed GVNW to issue the refund to
9 the Company and the Company to refund the money to subscribers. GVNW will refund
10 the money to Cricket this month; thus, Staff recognized the disbursement in December
11 2010.

12 **V. CONTINGENCY ALLOWANCE**

13 **Q. How was the \$4.7 million contingency fund calculated?**

14 A. The Commission's January 19, 2000 Order in Docket 236 adopted a provision for an
15 ending KUSF fiscal year balance equal to 7.5% of the adjusted KUSF Obligations.³³ The
16 purpose of the contingency fund is to ensure KUSF money is available to fund
17 contingencies that arise after the new KUSF assessment rate is implemented.
18 Contingencies may include KUSF support for a new competitive ETC, annual KUSF
19 support changes resulting from a company-specific audit, and requests for supplemental
20 KUSF support.

³² *In the Matter of an Audit of Cricket Communications, Inc. for KUSF Purposes, Year 12, Pursuant to K.S.A. 66-2010(b)(1)*, Docket No. 10-CRCZ-078-KSF.

³³ Docket 236, January 2000 Order at ¶28, ¶35.

VI. ASSESSABLE REVENUE BASE

Q. How was the Assessable Revenue, identified in Exhibit SKR-1, page 2, calculated?

The total estimated Assessable Revenue for Year 15 is \$1.1 billion, comprised of \$241.4 million for the LECs; \$650 million for wireless carriers; \$188.7 million for the IXC/Other providers, and \$19.9 million for VoIP providers. The \$2.2 million of additional intrastate access revenue, approved in Docket 792, was also recognized. I note that the revenue projections for the carriers are lower due to Staff recognizing the lowest revenue reported for the months of August through October 2010 instead of monthly average revenue for a majority of companies. This impacts the 2-year and 3-year averages calculated in confidential Attachment U and considered by Staff to determine what revenue growth or loss should be incorporated into Staff's calculations.

Separate revenue projections³⁴ were developed for SWBT and CenturyLink, while a combined revenue projection was developed for the rural LECs. Separate revenue projections were also developed for the wireless, IXC/Other, and VoIP provider categories. This approach is consistent with prior years' calculations.

Q. Please explain the revenue projections recognized.

A. Historically the rural LECs have experienced a slight growth in annual revenues; however, they have experience slight reductions in their local service revenues for the past two years. Thus, Staff did not recognize any projected revenue growth or decline for the rural LECs for KUSF Year 15. However, Staff did include the \$657,000 of

³⁴ Id., at ¶ 30.

1 additional revenue based on increasing local rates to the statewide affordable rates,
2 resulting in total projected KUSF Year 15 revenue of \$29 million for the rural LECs.

3 Revenue losses were also recognized for SWBT and CenturyLink. In recent years, Staff
4 has recognized a 6% to 6.5% revenue loss for SWBT and a 6% revenue loss for
5 CenturyLink. Based on the analysis in confidential Attachment U, Staff projects a 7%
6 revenue loss for SWBT and a 5% revenue loss for CenturyLink.

7 Wireless carriers reported annual revenue changes ranging from a 1.2% revenue growth
8 to a 6.9% revenue loss for the past several years. The losses are, in part, due to
9 consumers increasing their usage of text messaging and other services not subject to the
10 KUSF assessment. Based on its analysis, Staff incorporated a minimal revenue loss of
11 1% for the wireless industry. Total projected Year 15 revenue for the wireless industry
12 is \$650 million.

13 The IXC/Other carrier category again reported a loss in annual revenues, although the
14 rate of decline has slowed. The annual decline is estimated to be approximately 3%
15 this year. By recognizing a 3.75% projected revenue loss, Staff estimates this carrier
16 category will report \$181.6 million of revenue to the KUSF during Year 15.

17 **Q. What revenue projections are recognized for interconnected VoIP providers?**

18 A. Kansas statute, K.S.A. 66-2008(a) was amended in 2008 to authorize the Commission to
19 assess all interconnected VoIP providers for KUSF purposes. In September 2008, the
20 Commission issued an order in Docket No. 07-GIMT-432-GIT (Docket 432) to

1 implement the statute.³⁵ VoIP providers first reported revenue to the KUSF in January
2 2009. To date, fifty providers, which have stated they are not generating revenue from
3 consumers with a primary service or registered E911 address in Kansas, are registered
4 with the KUSF administrator. Twenty-six LECs, competitive LECs, or other providers
5 have reported VoIP revenue and paid assessments to the KUSF, with that revenue
6 included in the appropriate carrier category. Thirty providers have specifically identified
7 themselves as VoIP providers and reported revenue and paid assessments to the KUSF.
8 For December 2008 through February 2009, VoIP providers reported \$3.8 million of
9 revenue. This increased to \$19.3 million for the year of March 2009 through February
10 2010. So far this year, VoIP providers have reported \$11.7 million to the KUSF, and
11 based on this information, Staff estimates these providers will report \$17.6 million to
12 the KUSF for the entire year. This; however, only recognizes revenue for VoIP
13 providers that have registered and/or reported to the KUSF.

14 **Q. On November 5, 2010, the FCC issued a Declaratory Ruling confirming states'**
15 **authority to assess nomadic VoIP providers for state USF purposes.³⁶ What steps**
16 **did Staff take in an attempt to determine the impact this ruling may have on the**
17 **KUSF?**

18 **A.** First, numerous fixed VoIP providers are delinquent in their KUSF obligations and have
19 cited to the FCC docket to support their delinquency. The issue of state authority to

³⁵ *In the Matter of the Investigation to Address Obligations of VoIP Providers with Respect to KUSF*, Docket No. 07-GIMT-432-GIT, September 22, 2008 Implementation Order Adopting Staff Report and Recommendation and Requiring VoIP Providers Operating in Kansas to Report and Remit to the Kansas Universal Service Fund by January 15, 2009.

³⁶ *In the Matter of Universal Service Contribution Methodology, Petition of Nebraska Public Service Commission and Kansas Corporation Commission for Declaratory Ruling or, in the Alternative, Adoption of Rule Declaring that State Universal Service Funds May Assess Nomadic VoIP Intrastate Revenues*, WC Docket No. 06-122, Declaratory Ruling, Released November 5, 2010.

1 assess interconnected VoIP providers for USF purposes only pertained to nomadic; not
2 fixed, interconnected VoIP providers. To determine the impact the ruling may have on
3 the KUSF, Staff relied on the FCC database of interconnected VoIP providers,³⁷ the
4 KUSF registration files, and public data to compile a list of 178 companies that may be
5 offering VoIP service to consumers with a primary service or registered E911 address in
6 Kansas. Then, Staff issued a Data Request (DR) to all of the companies in an attempt to
7 identify: (1) companies that offer interconnected VoIP services or receive related
8 revenues from consumers with a primary service or registered E911 address in Kansas,³⁸
9 (2) the type of VoIP service they provide, and (3) the revenue earned between December
10 2008 and October 2010. Staff sent the DR to assist it in determining what level of
11 revenue may be reported by nomadic and delinquent fixed VoIP providers, as well as to
12 aid in determining an appropriate level of revenue growth on a going-forward basis.

13 **Q. Please summarize the responses Staff received to the DR.**

14 A. First, Staff determined its DR was not applicable to 25 companies. Two of the entities do
15 not meet the definition of an interconnected VoIP provider, as set forth in K.S.A. 2009
16 Supp. 66-2008(a). Fifteen entities closed their businesses, never offered services in
17 Kansas, or only offered wholesale services, which are exempt from KUSF assessments.
18 Eight entities were determined to be duplicate entities or offering service and reporting
19 KUSF revenue under another affiliate or "d/b/a". Of the remaining 153 companies, 45

³⁷ FCC GCB Telecommunications Reporting Worksheet, Form 499-A, last viewed December 10, 2010 at:
<http://fjallfoss.fcc.gov/cgb/form499/499results.cfm>

³⁸ *In the Matter of IP-Enabled Services*, WC Docket No. 04-36; *E911 Requirements for IP-Enabled Service Providers*, WC Docket No. 05-196, First Report and Order and Notice of Proposed Rulemaking, rel. June 3, 2005, (VoIP 911 Order). The FCC requires interconnected VoIP providers to obtain location information from their customer, prior to initiating service, the physical location at which the service will first be utilized.

1 provided responses by noon on December 22, 2010. I note that Staff verified information
2 provided in DR responses to that reported to the KUSF and when a discrepancy existed,
3 Staff worked with the Company and GVNW to determine why the discrepancy existed.

4 Of the 45 respondents, 2 providers, Skype, Inc. and Google, state they do not offer
5 interconnected VoIP services as defined in Kansas statute. Kansas statute adopted the
6 FCC's definition. One respondent claimed it could not provide the requested data by the
7 due date. Seventeen companies state they do not offer VoIP service or generate revenue
8 from consumers with a primary service or registered E911 service address in Kansas. Of
9 the 45 respondents, seven reported as LECs, CLECs, or IXC's; therefore, their revenue is
10 accounted for in the appropriate carrier category. An additional 17 respondents identified
11 themselves specifically as VoIP providers. In total, 4 nomadic and 22 fixed VoIP
12 providers state they offer service or receive revenue from customers with a primary
13 service or registered E911 address in Kansas.

14 Of the 45 respondents, two cable companies were not registered with the KUSF, but
15 provided a response to Staff's DR. One company has now registered, reported, and paid
16 its past due assessments to the KUSF. GVNW continues to work with the second
17 company to come into compliance.

18 **Q. How did this information assist Staff in its determination of the impact that the**
19 **FCC's confirmation may have on the KUSF?**

20 **A.** For the cable company that has now reported and paid all past-due assessments, Staff
21 recognized the revenue for the period of December 2008 through October 2010 will be

1 included in the December 2010 activity, as shown in page 2 of Attachment P. For the
2 cable company that remains delinquent, Staff also recognized all of the revenue identified
3 in the DR for the period of December 2008 through October 2010. Staff estimates this
4 company may be in compliance by the March 2011 activity month. I note; however, that
5 Vonage, Cable One, and 8x8 have not responded to Staff's DR. 8x8 is registered with
6 the KUSF, reported and paid assessments to the KUSF for two months, but then stopped
7 due to the prior pending FCC decision. Based on the revenue 8x8 had reported, Staff
8 estimated the lowest of the reported monthly revenue for the Company. To estimate the
9 revenue that may be reported by Cable One, Staff relied on recent revenues reported by a
10 small cable provider. For Vonage, Staff recognized the same level of revenue as it
11 recognized for 8x8. This increased the current KUSF Year 14 revenue base by
12 approximately \$500,000.

13 **Q. In addition to recognizing this additional revenue, did Staff include any projected**
14 **revenue decline or growth for next year?**

15 A. Yes. Confidential Attachment U indicates VoIP providers could report a decline of
16 approximately 8% this year compared to last year. A review of the reported revenue
17 indicates; however, that this is mainly due to one provider initially reporting all VoIP and
18 non-VoIP service revenue together and then later distinguishing between VoIP and non-
19 VoIP service revenue. Staff estimates consistent reporting would have resulted in VoIP
20 revenue increasing over 8%. If the \$500,000 of additional annual revenue is recognized,
21 annual revenue growth increases to over 10%.

1 Although Staff is unable, due to inconsistent reporting and non-responsive companies, to
2 definitely determine how all interconnected VoIP companies' compliance with KUSF
3 requirements may impact the KUSF, Staff believes it is reasonable to incorporate a 10%
4 revenue growth projection. The projection is conservative; yet allows for additional
5 revenue to be accounted for in the KUSF assessment rate calculation.

6 **Q. How has Staff's inclusion of projected revenue growth or losses impacted the**
7 **KUSF?**

8 A. Attachment V shows the projections have been fairly accurate. The most recent full
9 KUSF year was Year 13, which covered the period of March 2009 through February
10 2010. For Year 13, companies actually reported \$1.2 billion in annual revenue to the
11 KUSF. In comparison, Staff projected companies would report \$1.23 billion,³⁹ a total
12 difference of \$34.8 million. The Year 13 KUSF assessment was 5.03% based on Staff's
13 projected revenues. In comparison, if the actual reported revenue was used, the KUSF
14 assessment rate would have been 5.17%.

15 The proposed 6.18% KUSF Year 15 assessment rate is based on projected Assessable
16 Revenues of \$1.1 billion. By including projected revenue growth and losses, Staff
17 reduced the Assessable Revenue base by \$26.3 million. If Staff did not project any
18 revenue growth or loss, the proposed KUSF assessment rate would be 6.05%.

19 **VI. OTHER POLICY ISSUES**

³⁹ Docket No. 09-GIMT-272-GIT, December 23, 2008 Direct Testimony of Sandra K. Reams, Exhibit SKR-1, confidential Attachment M.

1 **Q. Does Staff recommend that the Commission consider any other policy issues related**
2 **to the KUSF?**

3 A. Yes. Wireless carriers offer pre-paid service plans, with the related revenue subject to the
4 KUSF. During the course of performing KUSF carrier reviews of wireless providers,
5 GVNW identified concerns about whether all wireless carriers identify and report pre-
6 paid calling card revenue in the same manner. Since the KUSF was implemented, pre-
7 paid toll service calling card revenue has been identified for KUSF purposes based on the
8 point-of-sale. For example, whenever a pre-paid toll calling card is purchased in Kansas,
9 the underlying toll provider is responsible for reporting the revenue to the KUSF, and the
10 revenue may be allocated between the interstate and intrastate jurisdictions, based upon
11 actual customer usage or based on traffic studies.

12 Wireless carriers initially identified and reported revenue based on a customer's billing
13 address. Effective March 1, 2006, the Commission adopted the Primary Place of Use
14 (PPU) for wireless carriers.⁴⁰ Discussions with GVNW indicate that some wireless
15 companies may identify pre-paid calling card revenue based on the point-of-sale and
16 others may identify the revenue based on a customer's PPU. Furthermore, it appears
17 some carriers accrue and report all of the revenue at the time of the sale, while other
18 companies report the revenue over time as the service is used. Staff suggests that the
19 Commission initially request comments on this issue from wireless carriers to determine
20 how, and when, they identify and report pre-paid calling card service revenue to the

⁴⁰ *In the Matter of the Petition of the Joint Petitioning Wireless Carriers Requesting a Generic Investigation into the Commission's KUSF Assessment Methodology Regarding Billing Address versus Primary Place of Use*, Docket No. 06-GIMT-943-GIT, September 7, 2006 Order Granting Request of Joint Petitioners.

1 KUSF. Additional comments could then be requested. This approach will help ensure
2 that all wireless carriers report pre-paid calling card revenue in a consistent manner.

3 **Q. Is it necessary for the Commission to determine this issue prior to setting the KUSF**
4 **Year 15 assessment rate?**

5 A. No. Wireless carriers have, and are, reporting pre-paid service revenue to the KUSF. The
6 concern is to make sure all carriers use the same methodologies to report revenue to the
7 KUSF for consistency purposes. That determination; however, can occur after the annual
8 KUSF assessment rate is determined.

9 **Q. Does this conclude your testimony?**

10 A. Yes.

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

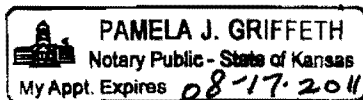
VERIFICATION

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



Sandra K. Reams
Managing Auditor - Telecommunications
State Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 22nd day of December, 2010.




Notary Public

My Appointment Expires: August 17, 2011

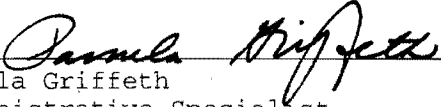
CERTIFICATE OF SERVICE

11-GIMT-201-GIT

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Testimony and Attachments was placed in the United States mail, postage prepaid, or hand-delivered this 23rd day of December, 2010, to the following:

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Pamela Griffeth
Administrative Specialist

* Denotes those receiving the Confidential
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