

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

Received
on

SEP 24 2013

In the Matter of a General Investigation to Review)
the Kansas Lifeline Service Program (KLSP) to)
Determine the Impact of the Increase in the)
Statewide Affordable Residential Rate for Rural)
Local Exchange Carriers to Their Lifeline)
Subscribers and Whether the \$7.77 Monthly Credit)
Should be Modified.)

by
State Corporation Commission
of Kansas


Docket No. 13-GIMT-597-GIT

NOTICE OF FILING OF STAFF REPORT AND RECOMMENDATION

COMES Now the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission", respectively), and files its Notice of Filing of Staff Report and Recommendation dated September 13, 2013. The Report and Recommendation addresses review and investigation of the Kansas Lifeline Service Program (KLSP) for purposes of determining the impact of the increase in the statewide affordable residential rate for Rural Local Exchange Carriers (RLECs) to their Lifeline subscribers and whether or not the KLSP credit of \$7.77 per line per month should be modified. Staff recommends the Commission issue an Order maintaining the current KLSP discount of \$7.77 per line per month and further suggests the Commission reaffirm that the KLSP credit may be adjusted, on a company specific basis, to ensure that the total federal and KLSP discounts do not result in a Lifeline provider's or subscriber's service rate being less than zero.

WHEREFORE, Staff requests the Commission consider its Report and Recommendation and grant such other and further relief as the Commission deems just and proper.

Respectfully submitted,


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For the Commission Staff

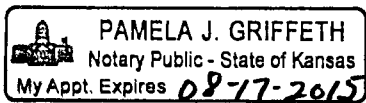
STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

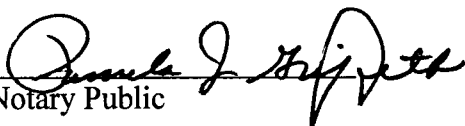
VERIFICATION

Otto A. Newton, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Filing of Staff Report and Recommendation*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.


Otto A. Newton

Subscribed and sworn to before me this 24th day of September, 2013.




Notary Public

My Appointment Expires: August 17, 2015

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Mark Sievers, Chairman
Thomas E. Wright, Commissioner
Shari Feist Albrecht, Commissioner

Sam Brownback, Governor

**REPORT & RECOMMENDATION
UTILITIES DIVISION**

TO: Chairman Mark Sievers
Commissioner Thomas E. Wright
Commissioner Shari Feist Albrecht

FROM: Sandy Reams, Assistant Chief of Telecommunications
Christine Aarnes, Chief of Telecommunications
Jeff McClanahan, Director of Utilities

DATE: September 13, 2013

DATE SUBMITTED TO LEGAL: 9/17/13

DATE SUBMITTED TO COMMISSIONERS: 9/24/13

SUBJECT: Docket No. 13-GIMT-597-GIT

In the Matter of a General Investigation to Review the Kansas Lifeline Service Program (KLSP) to Determine the Impact of the Increase in the Statewide Affordable Residential Rate for Rural Local Exchange Carriers to Their Lifeline Subscribers and Whether the \$7.77 Monthly Credit Should be Modified.

EXECUTIVE SUMMARY:

On April 17, 2013, the Commission issued an Order opening this Docket to address issues related to the Kansas Lifeline Service Program (KLSP). The Commission invited parties to file Comments on the issues identified by Staff no later than June 14, 2013, and Reply Comments by August 15, 2013.

Staff has reviewed the Comments and Reply Comments and recommends that the Commission issue an Order maintaining the current KLSP discount of \$7.77 per line per month. Staff suggests that the Commission reaffirm that the KLSP credit may be adjusted, on a company-specific basis, to ensure the total federal and KLSP discounts do not result in a Lifeline provider's or subscriber's service rate being less than zero.¹

¹ Docket No. 07-GIMT-1353-GIT, April 18, 2008, Reply Comments of Commission Staff, footnote 5, references the Commission's policy that the KLSP discount may be adjusted to prevent the total KLSP and federal discounts from resulting in a provider's and subscriber's local rate being less than zero. See also January 9, 2009, Staff Report and Recommendation, Attachment 1, page 1, "Lifeline Rates Effective March 1, 2009 and Impact of \$7.77 Equal Credit," and 47 C.F.R. 54.407 which prohibits the Lifeline support from exceeding the carrier's service rate.

BACKGROUND:

As required by K.S.A. 66-2002(f), the Commission established the KLSP (or Lifeline) in December 1996 and directed all incumbent and alternative or competitive, local exchange carriers (LECs) to offer Lifeline service. The purpose of the KLSP is to provide low-income customers with assistance to pay their monthly local service telephone bill. The Lifeline program is funded through the Kansas Universal Service Fund (KUSF) and provides telecommunications providers a monthly credit for each qualifying Lifeline customer. The Lifeline customer's monthly service rate is then discounted by an amount equal to the KLSP credit.

The Commission initially determined that the KLSP discount would be \$3.50 per month; phased in over a three-year period. Effective March 1, 1997, the KLSP credit was \$2.00 per month and increased to \$3.50 per month as of March 1, 1999. The methodology of providing all Lifeline subscribers with the same amount of monthly credit is referred to as the "equal credit" approach.

In Docket No. 00-GIMT-910-GIT, the Commission reviewed the methodology used to determine the KLSP credit, as well as the appropriate amount of the KLSP credit. On January 21, 2003, the Commission issued an Order in which it decided to increase the KLSP credit by \$2.00 per month (\$5.50 total) to hold Lifeline subscribers harmless from rate increases that occurred as a result of a Stipulation and Agreement in Docket No. 02-GIMT-068-KSF. The Commission determined that instead of using the equal credit approach, it would apply a "hold harmless" approach under which the KLSP credit would increase in an amount equal to any increase in a rural LEC's residential local service rates resulting from the directives in K.S.A. 66-2005(e). This resulted in different monthly KLSP credits for Lifeline subscribers based on their local service provider's monthly residential rate.

In December 2006, Staff advised the Commission that as a result of the hold harmless approach, KLSP credits for rural LEC Lifeline subscribers ranged from \$5.50 to \$9.56 per month. In comparison, the KLSP credit for Southwestern Bell Telephone Company d/b/a AT&T Kansas (AT&T) and The United Telephone Companies of Kansas, consolidated, d/b/a CenturyLink's (CenturyLink) Lifeline subscribers was \$7.50.

In June 2007, the Commission opened Docket No. 07-GIMT-1353-GIT (Docket 07-1353) to evaluate the hold-harmless approach and determine whether another methodology would be more appropriate. In an August 12, 2008, Order, the Commission reverted to the equal credit methodology and adopted a \$7.77 per month KLSP credit, effective March 1, 2009. The \$7.77 is the maximum KLSP credit available to ensure a Lifeline subscriber's monthly local service bill is not less than zero and to prevent a Lifeline service provider from receiving more in federal and KLSP credits than its monthly local service rate. The Commission also requested Comments regarding an annual review of the KLSP credit and other matters interested parties believed should be considered. No party to the proceeding filed Comments.

On January 15, 2009, Staff filed a Report in Docket 07-1353 and recommended that the Commission open a new Lifeline Docket after February 1 of each odd-numbered year to review the KLSP credit. This would allow a review to occur in conjunction with the recalculation of the rural LECs' statewide affordable residential rates. Staff stated that it would file a Report and

Recommendation regarding the KLSP credit no later than April of each odd-numbered year and suggested that the review of the KLSP credit take into consideration the following components:

1. the prior year's residential rate;
2. the new residential rate;
3. the current KLSP credit;
4. the residential rate paid by Lifeline subscribers;
5. the net monthly increase or decrease in the Lifeline rate;
6. the increase/decrease in the residential local service per line KUSF assessment;
7. the net impact to Lifeline subscribers; and
8. the estimated number of Lifeline subscribers that will experience a net rate reduction, a net rate increase, or no rate change.

In accordance with its recommendation in Docket 07-1353, Staff filed a Report and Recommendation on March 28, 2013 (March Report), recommending that the Commission open a new Docket to address: (1) the impact that increases in the rural LEC residential local service rates and the KUSF assessment may have on the KLSP and KLSP subscribers; (2) whether the Federal Communications Commission's (FCC) modifications to the federal Lifeline program would have an impact on the KLSP; (3) other policy issues that could impact the KLSP; and (4) whether the impact from these issues should result in the current \$7.77 monthly per line KLSP discount being modified. Staff recommended that the Commission invite parties to file Comments on the issues.

On April 17, 2013, the Commission issued an Order opening this Docket to address the issues identified by Staff. The Commission noted that the KLSP, funded through the KUSF, is intended to assist low-income subscribers pay their monthly telephone bill and, therefore, the issues identified by Staff could impact the KLSP. The Commission made all eligible telecommunications carriers (ETCs) and competitive local exchange carriers (CLECs) parties to the Docket and invited parties to file Comments on the issues identified by Staff.

On April 25, 2013, Staff filed a Supplemental Report (Supplemental Report) to address questions raised during the April 17, 2013, Open Meeting. The requested information included the following:

- comparison of the KLSP discount to the low-income discount provided in other states;
- history of how the KLSP evolved to \$7.77; and
- an analysis of the recent growth in the KLSP.

Initial Comments were filed by Citizens Utility Ratepayer Board (CURB)² and MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services (Verizon) on June 14, 2013³, and Reply Comments were filed by CURB⁴ on August 15, 2013.

² June 14, 2013, Comments of the Citizens' Utility Ratepayer Board (CURB Comments).

³ June 14, 2013, Verizon's Initial Comments (Verizon Comments).

⁴ August 15, 2013, Reply Comments of the Citizens' Utility Ratepayer Board (CURB Reply).

ANALYSIS:

A. Rural LEC Residential Local Service Rate Increase Impact

1. Issue

Pursuant to K.S.A. 66-2005(e), the statewide affordable residential rate for the rural LECs increased to \$16.75, effective March 1, 2013. As a result, 31 of the 36 rural LECs increased their residential local service rates between \$.50 and \$.75 per line per month.⁵

In addition, five rural LECs, Bluestem Telephone Company,⁶ FairPoint Communications Missouri,⁷ Haviland Telephone Company, Inc.,⁸ MoKan Dial, Inc.,⁹ and Sunflower Telephone Company (Sunflower),¹⁰ do not receive KUSF support and were not required to increase their local service rates to the statewide affordable rate. These companies, however, elected to increase their local rates, up to \$1.50 per line per year, pursuant to K.S.A. 66-2007(b). As a result, customers of these five rural LECs have experienced local rate increases ranging between \$1.00 and \$3.00 since March 1, 2011; however, their rates continue to remain lower than or equal to the statewide affordable residential rate. Enclosed with this Report is an update to page 2 of Attachment 1, originally included with the March Report, to reflect the total local service rate increases experienced by rural LEC subscribers between March 1, 2011, and August 1, 2013.

2. Comments

Verizon did not submit Comments regarding the impact of the monthly local service rate increases on Lifeline subscribers.

CURB states that many Kansas telephone subscribers have experienced local service rate increases that have been greater than the national average.¹¹ CURB states that these rate increases, coupled with increases in other miscellaneous charges, supports maintaining or increasing the monthly KLSP credit.

3. Recommendation

Many of the customers served by the rural LECs have experienced rate increases ranging from \$.50 to \$3.00 over the past two years; however, most, if not all, of these customers' local rates

⁵ Gorham Telephone Co., Inc.; Rural Telephone Service Company, Inc.; and Twin Valley Telephone Inc. have more than one Rate Groups and did not increase rates for Rate Groups with residential local service rates greater than the statewide affordable rate.

⁶ Docket Nos. 12-BSTT-621-TAR and 13-BSTT-643-TAR.

⁷ Docket Nos. 12-FCMT-622-TAR and 13-FCMT-642-TAR.

⁸ Docket No. 12-HVDT-408-TAR.

⁹ Docket No. 13-MKNT-519-TAR.

¹⁰ Docket Nos. 12-SFLT-623-TAR and 13-SFLT-641-TAR.

¹¹ CURB Comments, p. 2.

remain lower than the rates of customers served by AT&T,¹² CenturyLink, and most of the competitive providers. In addition, a relatively small portion of the KLSP subscriber base is served by the rural LECs. Over the past two years, KLSP customers served by the rural LECs have comprised anywhere from 6% to 11.62% of the KLSP subscriber base.¹³ Staff does not believe it is appropriate, nor warranted at this time, to consider an increase in the KLSP discount for all KLSP customers when only 6% to 11.62% of KLSP customers have experienced rate increases, especially when the resulting rural LEC local rates that remain lower than the rates paid by most KLSP customers.

B. KUSF Assessment Rate Increase Impact

1. Issue

Staff's March Report recommended that the Commission review the impact the increased KUSF assessment would have on KLSP customers. Effective March 1, 2013, the KUSF assessment rate increased from 6.13% to 6.42% and the per-line KUSF assessment rate on local service revenue increased \$.08 per line, per month for the rural LECs; \$.36 per line, per month for AT&T; and \$.22 per line, per month for CenturyLink.¹⁴

2. Comments

Verizon claims that the KUSF surcharge is one of the highest in the country¹⁵ and citing to the March 1st increase in the KUSF assessment, states that the Commission must take steps to "combat unharnessed growth" in the KUSF. Verizon suggests that to combat growth in the KUSF, the Commission may need to limit the KLSP discount for Lifeline subscribers.

CURB states that the increase in the KUSF assessment, in addition to increases in other miscellaneous charges and local rates, result in an overall increase in a Lifeline subscriber's total telephone bill.¹⁶ CURB continues by stating that these increases have not been offset by increases in the KLSP credit which has remained at \$7.77 since March 1, 2009.

3. Recommendation

Although the KUSF assessment rate increased on March 1, 2013, Staff anticipates the assessment rate will decline on March 1, 2014, due to implementation of House Bill 2201 (HB 2201)¹⁷ and the elimination of KUSF funding for Kan-Ed. The March 1, 2014, KUSF assessment rate will reflect reductions of at least \$8M in high-cost support payments to AT&T

¹² Although AT&T has increased its residential local service rates, the Company has not increased the local service rate for Lifeline subscribers. See AT&T Kansas Guidebook, Part 4, Section 4, available at: <http://cpr.att.com/guidebook/ks/0004-0004.pdf>.

¹³ Exhibit B to Staff Supplemental Report.

¹⁴ March Report, p. 6.

¹⁵ Verizon Comments, p. 1.

¹⁶ CURB Comments, pp. 4-5.

¹⁷ HB 2201 was signed into law by Governor Brownback on April 17, 2013, and became effective on July 1, 2013. HB 2201, among other things, eliminates high-cost KUSF support provided to electing carriers on January 1, 2014, and phases out high-cost KUSF support provided to competitive ETCs.

and the competitive ETCs and \$1.3M in funding for Kan-Ed. Although other elements factor into the calculation of the KUSF assessment rate,¹⁸ given the size of the anticipated KUSF funding obligation reduction for the next KUSF fiscal year, Staff anticipates at least a minimal reduction in the KUSF assessment rate. Therefore, Staff does not recommend the KLSP discount be adjusted due to this change at this time.

C. Impact of FCC Federal Lifeline Program Reforms

1. Issue

Prior to April 1, 2012, the federal Lifeline program consisted of 4 Tiers: (1) Tier 1 provided reimbursement of the End User Common Line Charge (EUCL), up to a maximum of \$6.50, to a carrier for each Lifeline subscriber; (2) Tier 2 provided a discount of \$1.75 per month; (3) Tier 3 provided a federal match of one-half of any state-mandated Lifeline discount or discount provided by a carrier, up to \$1.75 per month; and (4) Tier 4 provided additional funding for Tribal Lands.¹⁹

The FCC eliminated the Tier-approach, stating that providing EUCL recovery to wireline and wireless ETCs was no longer appropriate in today's telecommunications market, especially given that wireless Lifeline providers do not charge the EUCL.²⁰ The FCC also stated that the EUCL reimbursement policy resulted in various administrative burdens.²¹

The FCC determined that allowing all Lifeline ETCs and subscribers to receive a \$9.25 per line, per month discount was more reflective of today's telecommunications market since Lifeline subscribers may now choose from wireline and wireless Lifeline services.²² The FCC decided to phase in the new Lifeline discount for service provided between April 1 and July 31, 2012. The \$9.25 Lifeline discount was fully implemented, effective August 1, 2012,²³ on an interim basis. The FCC, in a Further Notice of Proposed Rulemaking, sought comment on a permanent level of Lifeline support to provide to Lifeline ETCs and their subscribers.²⁴

The Commission has historically considered the impact of the federal Lifeline discount on the KLSP and specifically, the Tier 2 and Tier 3 support.²⁵ This allowed a total of \$3.50 to be

¹⁸ Other elements that impact the KUSF assessment rate include, but are not limited to: high-cost support payments to rural LECs; funding for the Kansas Relay Service and Telecommunications Access programs (KRSI and TAP, respectively); and the intrastate retail revenue available for KUSF assessment purposes. Intrastate assessable revenues continue to decline, which is one factor that has contributed to the recent increase in the KUSF assessment rate. However, even factoring in estimated assessable revenue decline, Staff anticipates the assessment rate to decline on March 1, 2014, due to the reduced funding obligations.

¹⁹ 47 C.F.R. 54.403.

²⁰ *Ibid.*, ¶ 55-56.

²¹ *Ibid.*, ¶ 56 - 58.

²² *In the Matter of Lifeline and Link Up Reform and Modernization (WC No. 11-42); Lifeline and Link Up (WC Docket No. 03-109); Federal-State Joint Board on Universal Service (CC Docket No. 96-45); and Advancing Broadband Availability Through Digital Literacy Training (WC Docket No. 12-23); Report and Order and Notice of Further Proposed Rulemaking, Rel. February 6, 2012 (Lifeline Reform Order).*

²³ Public Notice, Wireline Competition Bureau Provides Notice Regarding Effective Date of Certain Rules Adopted in the Lifeline Reform Order, WC Docket Nos. 11-42, 03-109, 12-23, and CC Docket No. 96-45, Rel. May 1, 2012.

²⁴ Lifeline Reform Order, ¶ 58.

²⁵ The Commission excluded Tier 1 support since this credit was tied to recovery of the EUCL charge.

recognized when determining the local service rate a KLSP wireline subscriber paid, as well as the amount a Lifeline provider should recover.

The Commission has recognized that under federal rules, a Lifeline subscriber may receive free local service; however, a Lifeline provider cannot be reimbursed more than the provider's standard, non-Lifeline rate.²⁶ Therefore, if a wireline Lifeline provider's local service rate was less than the combined Tier 2 and Tier 3 federal discount of \$3.50 and the \$7.77 KLSP discount, the KLSP discount for that provider (and competitive ETCs operating in that provider's service area) was limited to allow the subscriber to receive free basic service without allowing the provider to receive a subsidy in excess of its rates. Effective March 1, 2009, the KLSP credit was \$7.77 per line.

Staff recommended in its March Report that the Commission review the FCC's reforms with regard to the application of the federal Lifeline discount. 47 C.F.R. 54.403(b) addresses the application of the Lifeline discount amount and provides as follows:

(b) Application of Lifeline discount amount. (1) Eligible telecommunications carriers that charge federal End User Common Line charges or equivalent federal charges must apply federal Lifeline support to waive the federal End User Common Line charges for Lifeline subscribers. Such carriers must apply any additional federal support amount to a qualifying low-income consumer's intrastate rate, if the carrier has received the non-federal regulatory approvals necessary to implement the required rate reduction. Other eligible telecommunications carriers must apply the federal Lifeline support amount, plus any additional support amount, to reduce the cost of any generally available residential service plan or package offered by such carriers that provides voice telephony service as described in § 54.101, and charge Lifeline subscribers the resulting amount.

Effective July 1, 2013, AT&T's EUCL is \$5.71 and the EUCL for CenturyLink and the rural LECs is \$6.50. Based on the FCC's rules regarding application of the federal Lifeline discount, AT&T will apply \$3.54 of the \$9.25 monthly discount to a Lifeline subscriber's local service, while CenturyLink and the rural LECs will apply \$2.75. After recognizing the federal Lifeline discount and the \$7.77 KLSP discount, the monthly local service rate for wireline subscribers ranges from \$2.75 to \$14.18, with an average monthly local service rate of \$6.34. Please see Revised Attachment 1, page 2, for further details.

The FCC's reforms also recognize that wireless Lifeline ETCs, and possibly some wireline Lifeline ETCs, do not charge a EUCL. The FCC, therefore, directed any Lifeline ETC that does

²⁶ See 47 C.F.R. §54.407; 47 C.F.R. §54.403(a)(4)(i); and Docket 07-1353, April 18, 2008, Reply Comments of Commission Staff, footnote 5 referenced the Commission's policy that the Lifeline subscriber (and provider) will not receive the entire Lifeline credit if the rate charged by the provider would be less than zero after recognizing the KLSP and Federal Lifeline credits. See also January 9, 2009, Staff Report and Recommendation, Attachment 1, page 1, "Lifeline Rates Effective March 1, 2009 and Impact of \$7.77 Equal Credit." Due to its low local service rates, the KLSP credit for Sunflower was previously adjusted to \$6.77 and \$7.09 to ensure the Company did not receive Lifeline discounts in excess of its local rates. Given the increase in Sunflower's local rates, Staff notes that the KLSP discount will be increased to the \$7.77 per line per month discount.

not charge a EUCL to apply the entire \$9.25 discount towards a Lifeline subscriber's monthly service bill.

To determine what impact this policy reform may have on wireless Lifeline subscribers in Kansas, Staff compiled data regarding various wireless Lifeline provider plans, included as Attachment 2, to this Report. Attachment 2 shows that YourTel and TAG Mobile price their plans in such a manner that allows a Lifeline subscriber to receive free monthly service.²⁷ In comparison, other wireless Lifeline providers do not focus on the Lifeline market and their subscribers pay the rate associated with the calling plan they choose, less the appropriate Lifeline discount.²⁸

2. Comments

Verizon states that when the \$7.77 monthly KLSP discount is combined with the federal \$9.25 Lifeline discount, Lifeline subscribers could receive free monthly local service.²⁹ Verizon suggests that when a KLSP provider qualifies for the \$9.25 federal Lifeline discount, the provider could receive a windfall if the combined discounts exceed the KLSP subscriber's monthly local service rate.³⁰

CURB disagrees with Verizon that the FCC's reforms may now result in a company's local service rate falling to less than zero, which could result in a windfall for a provider.³¹ Instead, CURB states that such concerns are not supported by the Commission's prior decisions and that the Commission was aware that the adoption of the \$7.77 KLSP credit could result in negative local rates for some rural LEC Lifeline subscribers. Furthermore, if the full federal credit of \$9.25 is considered, the average local rate paid by Lifeline subscribers would not be negative, or at least not a significantly negative local rate.

3. Recommendation

Staff recommends that the Commission maintain its policy of not allowing a provider to receive the full KLSP discount if the result would be a rate less than zero as the Lifeline program was created to provide low-income customers with assistance to pay their monthly local service telephone bill, not to provide a windfall to carriers.

Staff recommends that the Commission recognize that the FCC's revisions to the federal Lifeline program results in a smaller amount of the federal Lifeline discount being applied to a wireline subscriber's monthly local service rate, if the wireline provider charges a EUCL. Staff also recommends that the Commission recognize that the federal Lifeline program no longer provides reimbursement of the EUCL charge to Lifeline providers that do not assess the charge. In

²⁷ TAG Mobile has advised Staff that it offers a company-sponsored Lifeline discount of \$2.98 to allow its subscribers free monthly service.

²⁸ For comparability purposes, Staff attempted to provide information on comparable plans. Most providers, however, offer numerous plans that are not reflected on Attachment 2.

²⁹ Verizon Comments, p. 3.

³⁰ Verizon Comments, pp. 2-3.

³¹ CURB Reply, pp. 5-6.

accordance with federal rules, these carriers must apply the entire \$9.25 federal Lifeline credit to a Lifeline subscriber's monthly local service bill.

D. Other policy issues that may impact the KLSP

No party submitted Comments regarding other policy issues that could impact the KLSP credit.

E. Should the Current \$7.77 KLSP Credit be Modified

1. Issue

Exhibit A to Staff's Supplemental Report included the results of Staff's survey of other state Lifeline programs. Kansas' \$7.77 monthly Lifeline discount is greater than the majority of other state Lifeline discounts, but it is not the highest in the country. Twenty-six (26) states³² do not have a Lifeline program. Of the remaining 24 states, 13 offer a Lifeline discount of \$3.50 per month, likely to take advantage of the full \$1.75 Tier 3 match previously offered through the federal Lifeline program. Five states offer monthly Lifeline discounts based on the basic local service rate or Subscriber Line charges, with the discounts ranging from \$.75 up to \$11.50 per month.³³ The smallest state Lifeline program discount is \$1.17 (Oklahoma) and the highest state Lifeline discount is \$12.00 (New York).

In its Supplemental Report, Staff explained that the number of Lifeline supported lines grew from 29,062 for KUSF Year 13 (March 2009 to February 2010) to 43,658 as of February 2013. Numerous factors, including new, qualifying low-income customers and wireless companies receiving ETC designation to offer Lifeline service, have contributed to the growth in the KLSP.

The FCC has modified the federal Lifeline discount from a Tier-approach to a flat \$9.25 per line per month discount on an interim basis. The FCC issued a Further Notice of Proposed Rulemaking to seek additional Comments on an appropriate long-term federal Lifeline discount.

2. Comments

Verizon states that the Commission must ensure the availability of universal service and "avert undesirable and wasteful results" in the KLSP. Verizon, therefore, urges the Commission to recognize the full \$9.25 federal Lifeline credit in its determination of an appropriate KLSP credit. Verizon cites to the *Alenco Communications, Inc.* case to support its position that if the KLSP credit is excessive, the KUSF support assessment will be higher than necessary and ultimately result in some consumers canceling some, or all, of their telecommunications services.³⁴

CURB supports maintaining or increasing the current monthly \$7.77 KLSP credit³⁵ since other miscellaneous charges, such as the local service per line KUSF assessment, franchise and 911

³² Massachusetts requires carriers to subsidize the state Lifeline discount to subscribers. Effective April 2013, Colorado eliminated its state Lifeline program.

³³ California, New York, Texas, Vermont, and Wisconsin.

³⁴ Verizon Comments, p. 3.

³⁵ CURB Comments, pp. 2-3.

fees, and sales taxes, have increased.³⁶ CURB continues by stating that the \$7.77 KLSP credit has not changed since March 1, 2009, despite the growth in the number of Lifeline subscribers, increases in the national average telephone service rate, and Kansas poverty levels. CURB recommends that the KLSP credit be adjusted by the Gross Domestic Product Price Index – Chain Weighted (GDPPI-CW) to offset increases in basic local service rates and ineffective competition in Kansas.³⁷ CURB further states that contrary to Verizon’s assertions, the Lifeline program has not resulted in a significant level of growth in the KUSF and points out that Verizon did not include any recommendations regarding a methodology for recognizing the federal Lifeline discount or recommend a new amount for the KLSP discount.

CURB agrees with Verizon that an ETC that receives the \$7.77 KLSP and the \$9.25 federal Lifeline discounts could receive more in discounts than its monthly local service rates, resulting “negative local service rates.”³⁸ CURB opines that the Commission has allowed negative local rates since it adopted the \$7.77 KLSP and cites to Staff’s August 10, 2007, Reply Comments that indicated Moundridge and Sunflower’s local service rates would be negative.³⁹ CURB states that if the same methodology used to determine the \$7.77 KLSP credit were used today, the KLSP credit should be \$9.50 and only \$2.75 of the federal Lifeline credit would be recognized for Kansas Lifeline purposes. This approach would result in the average local basic rate being greater than the total combined \$12.25 credit. Alternatively, recognition of the combined \$17.02 federal and KLSP discounts would result in a \$.27 per line per month negative local rate for each rural LEC Lifeline subscriber; however, since the local rates are subject to increases, the KLSP credit should not be reduced.⁴⁰

3. Recommendation

Staff recommends the Commission maintain the current KLSP credit of \$7.77 per line per month. The KLSP has grown over the past few years, but this is likely, at least in part, due to newly designated ETCs enrolling Lifeline-eligible customers who were not already enrolled in the KLSP. If this is the case, the Kansas Lifeline program is working as it was intended - to provide low-income customers with assistance to pay their monthly local service telephone bill.

That said, Staff is concerned about the continued growth of the KLSP and will continue to monitor the FCC’s reforms and the KLSP and inform the Commission of any issues it believes need to be addressed by the Commission. The FCC’s reforms are intended to address fraud, waste, and abuse, and some of the FCC’s reforms, such as the duplicate subscriber database, have not yet been implemented. These reforms, once fully implemented, may curb the growth of the KLSP, but as the impacts of the FCC reforms are not yet fully known, Staff does not see a need to make any changes to the KLSP at this time.

Instead of opening a new docket every odd-numbered year to coincide with the biennial affordable rate calculations as recommended by Staff in Docket 07-1353, Staff will continue to monitor the FCC’s reforms and advise the Commission of any reforms that may impact the

³⁶ CURB Comments, pp. 4-5.

³⁷ Reply Comments of the Citizens’ Utility Ratepayer Board (CURB Reply), p. 2.

³⁸ CURB Reply, p. 3.

³⁹ CURB Reply, pp. 7-8.

⁴⁰ CURB Reply, p. 10.

KLSP and advise the Commission of any other issues associated with the KLSP that need to be addressed.

Company	Residential Rate @ 3/1/11	Residential Rate @ 8/1/13	Local Rate Increase	KUSF Per Line Assessment Rate Increase	Total Increase	Lifeline Rate with Federal Discount	KSLP Credit (3/1/13)	Lifeline Rate (8/1/13)
	(A)	(B)	(C)	(D)	E = (C + D)	F = (B - \$2.75)	(D)	((E = (C - D)
Total Federal Credit	\$ 9.25							
Federal EUCL (1)	\$ 6.50							
Remainder- Federal Lifeline	\$ 2.75							
Blue Stem (1)	\$ 13.74	\$ 16.74	\$ 3.00	\$ 0.08	\$ 3.08	\$ 13.99	\$ 7.77	\$ 6.22
	13.86	16.74	2.88	0.08	\$ 2.96	13.99	7.77	6.22
Blue Valley	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Columbus	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Craw-Kan	16.86	17.36	0.50	0.08	\$ 0.58	14.61	7.77	6.84
Cunningham	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Elkhart	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
FairPoint MO (2)	12.00	15.00	3.00	0.08	\$ 3.08	12.25	7.77	4.48
Golden Belt	17.75	18.25	0.50	0.08	\$ 0.58	15.50	7.77	7.73
Gorham	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
(Luray & Paradise)	17.80	17.80	-	0.08	\$ 0.08	15.05	7.77	7.28
H&B Comm.	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Haviland (3)	15.75	16.75	1.00	0.08	\$ 1.08	14.00	7.77	6.23
Home	16.75	17.25	0.50	0.08	\$ 0.58	14.50	7.77	6.73
JBN	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
KanOkla	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
LaHarpe	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Madison	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
MoKan (4)	12.10	13.60	1.50	0.08	\$ 1.58	10.85	7.77	3.08
Moundridge	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Mutual	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Peoples	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Pioneer	17.50	18.25	0.75	0.08	\$ 0.83	15.50	7.77	7.73
Rainbow	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Rural (Original Exchanges)	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Osborne	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Other Purchased Exchanges	17.80	17.80	-	0.08	\$ 0.08	15.05	7.77	7.28
S&A	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
S&T - All Rate Groups	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
South Central KS	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Southern KS	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Clearwater (5)	24.20	24.70	0.50	0.08	\$ 0.58	21.95	7.77	14.18
Sunflower (6)	10.27	13.27	3.00	0.08	\$ 3.08	10.52	7.77	2.75
	10.59	13.27	2.68	0.08	\$ 2.76	10.52	7.77	2.75
Totah	16.65	17.15	0.50	0.08	\$ 0.58	14.40	7.77	6.63
Tri-County	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Council Grove Study Area	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Twin Valley-(Original Exchanges)	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Rate Group 2	17.80	17.80	-	0.08	\$ 0.08	15.05	7.77	7.28
Rate Group 3	18.10	18.10	-	0.08	\$ 0.08	15.35	7.77	7.58
United Tele. Assoc.	17.00	17.75	0.75	0.08	\$ 0.83	15.00	7.77	7.23
Wamego	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Wheat State	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Wilson	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
Zenda	16.25	16.75	0.50	0.08	\$ 0.58	14.00	7.77	6.23
AT&T	15.70	15.70	-	0.36	\$ 0.36	12.16	7.77	4.39
CenturyLink (All Study Areas)	17.73	17.73	-	0.22	\$ 0.22	14.98	7.77	7.21
Average	\$ 16.14	\$ 16.88	\$ 0.74	\$ 0.09	\$ 0.82	\$ 14.11	\$ 7.77	\$ 6.34

Notes:

- (1) Bluestem increased rates up to \$1.50/year per line, in Docket Nos. 12-BSTT-621-TAR and 13-BSTT-643-TAR.
- (2) FairPoint Communications - Missouri, increased rates \$1.50/line per year, in Docket Nos. 12-FCMT-622-TAR. and 13-FCMT-642-TAR
- (3) Haviland increased rates \$1.00/ line / year, to the statewide affordable rate in Docket No. 13-HVDT-341-TAR.
- (4) MoKan increased rates \$1.50/ line / year, to the statewide affordable rate in Docket No. 13-MKNT-519-TAR.
- (5) Southern Kansas' Clearwater exchange's local rate includes a \$7.95 per line rate additive for expanded calling. Pursuant to K.S.A. 66-2005, this line additive is excluded for purposes of calculating the statewide affordable rate. By excluding the \$7.95/ line rate additive for Lifeline calculation purposes, the Lifeline rate for the Clearwater exchange would be the same as the rate for the rest of Southern Kansas' exchanges. The average Lifeline rate, with only the federal discount, would be \$13.94 and the rate with both the federal and KLSF discount would be \$6.17.

Wireless Lifeline Provider
Lifeline Rates

Company	Plan Rate	Federal Lifeline Discount	KLSP Discount	Company-Sponsored Lifeline Discount	Net Lifeline Rate	Minutes of Use
Cellular Network Partnership	\$ 36.95	\$ 9.25	\$ 7.77		\$ 19.93	500
EpicTouch, LLC	29.95	9.25	7.77		12.93	Unlimited Local
Nex-Tech Wireless, LLC	50.00	9.25	7.77		32.98	Unlimited Local
TAG Mobile	20.00	9.25	7.77	2.98	-	500
United Wireless Communications	39.99	9.25	7.77		22.97	500
YourTel America, Inc.	17.02	9.25	7.77		-	400
Average	\$ 32.32				\$ 14.80	

Sources:

Cellular Network Partnership's Nationwide Plan 500, available for viewing at: <https://www.wirelesspioneer.com/index.php?page=PlansAndFeature>

EpicTouch's Unlimited Local Calling Plan, available for viewing at: http://www.epicpcs.com/epic_packages.htm

NexTech Wireless' Talk-A-Lot Local Plan, available for viewing at: <http://nex-techwireless.com/Document.aspx?id=570>

TAG Mobile's Unlimited Talk & Text Plan, available for viewing at: <http://www.tagmobile.com/site/Plans.aspx>

United Wireless' 500 Minute Plan available for viewing at:

http://www.unitedwireless.com/index.php?option=com_jshopping&controller=product&task=view&category_id=18&product_id=88&Itemid=11111111

YourTel's 400 Minute Plan, Docket No. 12-TPCT-768-ETC, March 2011, Staff Report, p. 6.

CERTIFICATE OF SERVICE

13-GIMT-597-GIT

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Staff Report and Recommendation was served by electronic service on this 24th day of September, 2013, to the following parties who have waived receipt of follow-up hard copies.

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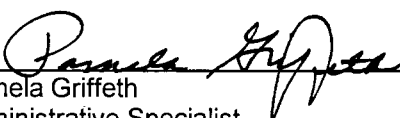
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