

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of a Review of the Kansas)
Lifeline Service Program (KLSP) to) Docket No. 11-GIMT-____-GIT
Determine the Impact of the Increase in the)
Statewide Affordable Residential Rate to)
Lifeline Subscribers and Whether the \$7.77)
Monthly Credit Should be Modified.)

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 report and recommendation on reviewing the Kansas Lifeline Service program to determine the impact of the increase in the statewide affordable rate and whether the current \$7.77 monthly Lifeline credit should be modified.

WHEREFORE Staff requests the Commission consider its report and recommendation and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,



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Sam Brownback, Governor

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chairman Thomas E. Wright
Commissioner Ward Loyd

FROM: Sandy Reams

DATE: March 9, 2011

DATE SUBMITTED TO LEGAL: _____

DATE SUBMITTED TO COMMISSIONERS: _____

SUBJECT: New Proceeding to Review the Kansas Lifeline Service Program (KLSP) to Determine the Impact of the Increase in the Statewide Affordable Residential Rate to Lifeline Subscribers and Whether the \$7.77 Monthly Credit Should be Modified.

BACKGROUND:

As required by K.S.A. 66-2002(f), the Commission established the Kansas Lifeline Service Program (KLSP or Lifeline) in December 1996. All incumbent and alternative, or competitive, local exchange carriers (LEC) were ordered to offer Lifeline service.¹ The purpose of the Lifeline program is to provide low-income customers with assistance on their monthly telephone bills. The Lifeline program, funded through the Kansas Universal Service Fund (KUSF), provides telecommunications providers a monthly credit for each qualifying Lifeline customer. The Lifeline customer's monthly service rate is then discounted in an amount equal to the KLSP credit.

The Lifeline discount is the same for each customer, regardless of the customer's monthly service rate. The actual monthly service rates paid by Lifeline customers vary, depending upon their local service provider's rates. Staff refers to this approach as the "equal credit" method.

¹ *In the Matter of a General Investigation Into Competition Within the Telecommunications industry in the State of Kansas*, Docket No. 91-GIMT-178-GIT (190,492-U), Order, December 27, 1996, ¶ 131.

When the KLSP was first established, the Lifeline credit was \$2.00 per month. The credit has increased for a variety of reasons. For instance, in a January 21, 2003 Order in Docket No. 00-GIMT-910-GIT (Docket 00-910), the monthly KLSP discount was increased to \$5.50.² The \$2.00 per month KLSP credit increase was intended to hold Lifeline subscribers harmless from local rate increases approved for the incumbent LECs.³

In addition to the KLSP discount, Lifeline customers receive a discount of up to \$10.00 from the federal Lifeline program. The federal discount consists of a waiver of the residential End-User Line Charge (maximum of \$6.50) and a \$3.50 per month credit.⁴ Additional discounts are available to Lifeline customers living on Tribal Lands.

In a January 16, 2004, Order in Docket 00-910, the Commission continued the “hold harmless” approach due to the rural LECs increasing service rates toward the statewide affordable rate, consistent with K.S.A. 66-2005(e). The Commission, however, was concerned about the equality of the hold-harmless method and indicated a willingness to explore the equal-payment approach in the future.

On June 1, 2007, Docket No. 07-GIMT-1353-GIT (Docket 07-1353) was opened to review whether to retain the hold-harmless approach or whether another KLSP credit methodology would be more appropriate.⁵ In an August 12, 2008, Order, the Commission decided to revert back to the equal credit methodology. The Commission adopted a \$7.77 KLSP credit, effective March 1, 2009. The Commission requested comments about an annual review of the KLSP credit and any other matters that should be considered during an annual review. Comments were due by August 28, 2008. No party to the proceeding filed comments.

² *In the Matter of an Investigation into the Lifeline Service Program and Methods to Ensure Awareness of the Program*, Docket No. 00-GIMT-910-GIT, January 21, 2003, Order Expanding Eligibility for Lifeline Service Program to Include Criteria Adopted by the FCC for Individuals Living on Tribal Lands; Adopting 150% of the Federal Poverty Level as an Income Level for Lifeline Program Subscribership; by January 28, 2003, all ETCs in Kansas Shall Report to the Commission on the Means Each Uses to Comply; Each Carrier Shall Place Information on Notices to Soon-to-be Disconnected Customers Regarding Lifeline; and Lifeline Credit to Eligible Customers Shall Be, on an Interim Basis, Increased \$2.00 per Month, Effective March 1, 2003.

³ *In the Matter of the General Investigation into the Reformation of Intrastate Access Charges*, Docket No. 01-GIMT-082-GIT, and *In the Matter of the General Investigation into the Kansas Universal Service Fund (KUSF) Mechanism for the Purposes of Establishing Cost-Based KUSF Support for the Rural Exchange Companies*, Docket No. 02-GIMT-068-GIT. (Cites Omitted).

⁴ The federal Lifeline Program is comprised of four tiers. Tier 1 is an amount equal to the incumbent LEC’s primary residential End User Common Line Charge (EUCL). Tier 2 is a \$1.75 credit to an Eligible Telecommunications Carrier that certifies to the federal Lifeline program Administrator that has received all necessary non-federal regulatory approvals and that it will pass through the entire Tier 2 Lifeline support. Tier 3 is an amount equal to one-half (1/2) of the state Lifeline support; a maximum of \$1.75 per month. The Federal Lifeline support, excluding the EUCL waiver, shall not exceed \$3.50 for subscribers not on Tribal Lands. Tier 4 support is for Tribal Lands. Tier 4 provides an additional \$25.00 maximum discount for Lifeline subscribers, provided that the monthly service rate is not less than \$1.00. Federal Lifeline support cannot exceed \$28.50 for subscribers on Tribal Lands. (47 C.F.R. §54.403).

⁵ *In the Matter of a Commission Review of the Kansas Lifeline Service Program (KLSP) and Determining Whether to Increase the Commission’s “Hold-Harmless” Approach to Offsetting Local Rate Increases for KLSP Subscribers*, Docket No. 07-GIMT-1353-GIT.

On January 15, 2009, Staff filed a report in Docket 07-1353, recommending that the Commission review the KLSP credit in each odd-numbered year in conjunction with the recalculation of the statewide affordable rate for the rural LECs. Each year, the Commission issues an Order adopting the March 1 residential affordable rate and the next year's KUSF assessment rate in late January. Therefore, Staff recommended that a new Lifeline docket be opened after February 1 of each odd-numbered year. Staff stated it would file a report and recommendations regarding the KLSP credit no later than April 1. Staff suggested that the following information be considered in the determination of whether the KLSP credit should be modified: (1) the prior year's residential rate; (2) the new residential rate; (3) the current KLSP credits; (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 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. Staff also recommended that parties to the docket be allowed to submit comments and reply comments, if necessary, and raise other Lifeline policy issues, if applicable. Staff suggested that the Commission issue an Order regarding the KLSP credit no later than October 1 to ensure any modification to the KLSP credit is recognized in the next year's KLSP and KUSF calculations.

ANALYSIS:

On January 12, 2011, the Commission issued an Order in Docket No. 11-GIMT-201-GIT (Docket 11-201)⁶ and adopted a \$16.25 statewide affordable residential rate, effective March 1, 2011, for the rural LECs. This is a \$.50 per line per month increase to the March 1, 2009, residential affordable rate of \$15.75. On March 1, 2011, the new KUSF assessment rate of 6.18% was implemented, resulting in the following per line local service assessment rates for the incumbent LECs: Southwestern Bell Telephone Company d/b/a AT&T Kansas - \$2.04; The United Telephone Companies of Kansas d/b/a CenturyLink -\$1.91; and the rural LECs - \$1.45. In comparison, the March 1, 2009, per line local service assessment rates were \$1.52, \$1.49, and \$1.15, respectively. As a result of the increase in the target affordable rate and the per line KUSF assessment rates, customers will experience net increases in their local service bills.

RECOMMENDATION:

Staff recommends that the Commission open a new docket to address the impact that the increase in the rural LECs' residential rates and the reduction in the KUSF local service assessment rates will have on Lifeline customers, as well any other Lifeline policy issues that may impact those customers. Staff recommends that the Order to open the new Lifeline proceeding direct Staff to file a report containing the information suggested by Staff in Docket 07-1353, on or before April 1. Staff also suggests that the Commission invite parties to submit comments on Staff's Report in May or June 2011 and reply comments no later than mid-August. This schedule will allow the Commission to issue an Order no later than September 30 to ensure the appropriate Lifeline credit is reflected in the next year's KUSF Lifeline funding and assessment rate calculations.

⁶ *In the Matter of a Generic Investigation to Determine the Assessment Rate for the Fifteen Year of the Kansas Universal Service Fund and the Affordable Local Service Rates for Rate-of-Return Regulated Carriers, Effective March 1, 2011, Docket No. 11-GIMT-201-GIT.*