

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INQUIRY INTO UNIVERSAL SERVICE) ADMINISTRATIVE
AND FUNDING ISSUES) CASE NO. 360

O R D E R

IT IS ORDERED that parties shall file the original and 12 copies of the following information with the Commission no later than May 30, 1997, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Careful attention should be given to copied material to ensure that it is legible.

Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. If you have sufficiently responded to the issues contained in the following questions in prior information requests, provide the exact citation.

1. Has your opinion of the definition of universal service changed relative to opinions expressed in Administrative Case No. 355,¹ in light of subsequent federal actions and the Joint Board recommendations? Explain.

¹ Administrative Case No. 355, An Inquiry Into Local Competition, Universal Service, and the Non-Traffic Sensitive Access Rate.

2. Define your conception of what the goal(s) of universal service should be.

a. Is the goal of universal service to maintain or increase subscription rates? If so, what is your perception of the key to accomplish this task, (i.e., absolute levels of local exchange rates, including any unavoidable fixed fees, taxes and rates, toll blocking, preventing the lowering of subscription rates once rate restructuring occurs, etc.)? Explain.

(1) How are penetration rates defined? If a residence has more than one line (i.e., for a child, a computer, home based business or otherwise), how should these lines be counted in the penetration rate calculation?

b. Is the goal of universal service to promote simple "connectivity" or to increase access to the public network? Explain.

c. Is the goal of universal service to ensure that all residential ratepayers pay an affordable rate? Explain.

3. The Joint Board has recommended that universal support be provided to the initial residential connection and service to a single connection business should be supported at a reduced rate.

a. If Kentucky is required by Federal Communications Commission ("FCC") rules to provide support for a single connection business at a discount, how should this discount be determined?

b. Would the business discount hinge upon an urban/rural designation? Explain.

4. Should the affordable rate for residential customers be calculated as a statewide rate regardless of serving LEC, or should it be LEC specific? Explain.

5. Should the cost of basic local exchange service be defined as total service long run incremental cost ("TSLRIC") or by another cost standard? Explain.

6. How should the concept of what is affordable be determined and what, if any, are the standards for such a determination? Explain and include as part of your answer whether or not an urban/rural designation and public perception are relevant.

7. How should additional residential lines beyond the first connection be priced? Explain.

8. Should the affordable residential and single line business rate change over time? If so, explain how.

9. Should any person, end-user or service provider "receiving" a discount be in any way responsible for contributing toward the subsidy? Explain. If so, how?

10. Do you agree or disagree with the following: "A universal service fund should not have as one of its goals the preservation of an ILEC's revenue streams."

11. The Joint Board has recommended that states monitor rates and non-rate factors, such as subscribership levels, to ensure affordability.

a. What mechanism or methodology should be employed to accomplish such monitoring, including information collection?

b. What specific information will be provided by such monitoring and how will it enable the state to ensure affordability?

12. Regarding rural company Universal Service Fund ("USF") support, the Joint Board has recommended that it be based initially on embedded costs and then be transitioned to the use of a proxy cost model.

a. Each rural company operating in Kentucky should comment on this proposal and the ability to adopt a proxy cost model.

b. What methodology should be employed to determine the embedded costs attributable to universal service elements? Explain.

13. Administrative Case No. 355 proposed to allow LECs to recover NTSRR from the USF to support universal service. The Joint Board, as well as several parties to Administrative Case No. 355, recommended that USF support extend only to the difference between the cost of basic local service and a determined affordable rate. If the Joint Board's recommendation is accepted and extended to the intrastate jurisdiction or adopted by a state on its own, is any recovery of NTSRR inconsistent with this approach? If yes, explain why. If no, explain how NTSRR may be recovered.

14. Provide comment and support on why high cost support should or should not be targeted directly to customers rather than being given to a company.

15. Based on information provided by NECA in Administrative Case No. 355, none of the companies included in the ITG have received high cost support from NECA. Assuming that a portion of intrastate NTSRR supports high cost areas, explain why companies not receiving high cost support at the federal level should expect to recover it at the state level.

16. a. Some parties take the position that the Act requires "de-linking" of the NTSRR and universal service based upon Section 254(e) of the Act which states, "that support should only be received for the provision, maintenance and upgrading of facilities and services for which the support is intended." Explain how continued recovery of NTSRR is consistent with this section of the Act.

b. Are ILECs able to trace contributions received from implicit subsidies, including NTSRR, to the actual subsidization of affordable telephone service? If not, why is it reasonable to replace implicit subsidies with explicit subsidies on a dollar-for-dollar basis?

17. a. Do you agree with the statement that NTSRR should only serve as a starting point for funding and that the Commission should transition to a mechanism that is based on actual cost of service for rural company service areas? If not, why not?

b. Explain how such a transition could be accomplished.

18. Explain the relationship between USF support for high cost areas and support for low income customers, i.e., are the criteria for these two facets of universal service support separate and distinct?

19. Should there be a different level of support depending on whether or not a low income customer resides in an urban or high cost area? Explain.

20. How should low income subscribers be identified and supported?

21. Comment on the statement, "the burden of proving that any particular service area requires universal service support resides with the LEC." How will a LEC satisfy this burden of proof?

22. The Joint Board recommended that a carrier be eligible to receive support if it offers services using its own facilities or a combination of its own facilities and the resale of another carrier's services. Should there be a minimum level of facilities' ownership required to satisfy this requirement? Explain.

23. Should leased facilities count toward making a carrier a "facilities-based" one for USF purposes? Explain.

24. For large companies, such as BellSouth, GTE and Cincinnati Bell, states have the primary responsibility for designating service areas. How would you recommend that the Commission determine service areas for these companies? Discuss your recommendation as well as other alternatives and explain why your recommendation is preferable.

25. The Joint Board recommends that all eligible schools and libraries receive service discounts between 20 and 90 percent.

a. What method should the Commission use to designate economically disadvantaged schools and libraries such that they should receive a discount outside this range?

b. How should the discount range be determined?

c. Should the discounts be applied only to service base rates, regardless of any inherent service volume and term commitment discounts?

d. What is the proper cost basis for any rate to which these discounts applied? Explain.

26. What procedure should the Commission employ to require schools and libraries to comply with self certification requirements designed to ensure that only eligible entities receive universal support?

27. Since all schools and libraries would not receive the same discount, explain what criteria should be used to distinguish between "classes" of eligible recipients.

28. Should universal service support to schools and libraries change over time? Explain. If yes, explain how.

29. What services or classes of services used by schools and libraries should receive support from the USF? Explain the basis of your answer.

30. Discuss the merits of a proposal to include toll-free Internet service as part of any universal service plan targeted at schools, libraries, and health care providers.

31. Is the Commission's conclusion in the September 26, 1996 Order in Administrative Case No. 355 at 40, that the Kentucky Information Highway satisfies the requirements of the Act relative to schools, libraries and rural health care facilities inconsistent with the recommendations of the Joint Board relative to these entities? Explain.

32. Given that health care providers may receive universal service support, should this support take the form of a discount, as with schools and libraries? If yes, explain the basis for the size of the discount to be given.

33. What services or classes of services used by health care providers should receive support from the USF? Explain the basis of your answer.

34. Should support to health care providers change over time? If yes, explain how.

35. Should there be eligibility requirements that health care providers should meet to receive the support? Explain. If so, should eligibility be reestablished annually or on some other timeframe?

36. One USF contribution method would be to assess the gross intrastate regulated revenues received from end-users net of payments to other carriers. Current financial reporting requirements are not sufficient to determine these revenues. What proposal would you make for a report to show gross revenues received from end-users?

37. Discuss the position that USF support for high cost areas should not be available to ILECs that are no longer subject to rate of return regulation because firms subject to incentive regulation are provided the tools, namely pricing flexibility and ease of offering new services, and opportunities to respond to and mitigate the financial impact of competition.

38. Should the Commission amend inclusion of white page listings in its list of services to be supported based upon the Joint Board recommendation to the contrary? Explain.

39. In Administrative Case No. 355, the Commission chose not to change the funding mechanism for Link-Up. Is this decision inconsistent with Joint Board recommendations relating to provision of universal service support for Link-Up. Explain.

40. The Act requires that all "implicit" subsidies be made "explicit." Must all intrastate USF assessments therefore be applied as end-user surcharges, as in a

subscriber line charge, in order to satisfy federal requirements with respect to the "explicitness" of subsidies? Explain.

41. a. If states levy USF assessments on telecommunications providers and these providers pass along USF costs onto end-users in the form of higher service prices without attributing the increase to USF payments, does this form of recovery violate federal requirements with respect to the "explicitness" of subsidies. Why or why not?

b. Does your answer change if end-users are informed on their bills that certain USF contributions are being made through the use of a particular service? Explain.

42. Does the assumption that some services, such as basic business service, may be priced above cost and residential service priced below cost violate the Act with respect to implicit and explicit subsidies? Explain.

43. Assuming that some companies may have already restructured rates and it turns out that as a result of FCC actions, residential rates (low income or high cost areas) have been set above cost, what is the proper action to be taken?

44. The Joint Board recommends that rural carriers continue to receive their full historical level of support for the high cost assistance program, DEM weighting and long term support until year 2001. Does this recommendation mean that the ITG companies and TDS should not realize any intrastate NECA access revenue settlement shortfall? If not, explain why.

Done at Frankfort, Kentucky, this 25th day of April, 1997.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director