COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE SWITCHED ACCESS RATES OF KENTUCKY INCUMBENT AND COMPETITIVE LOCAL EXCHANGE CARRIERS	)))))	ADMINISTRATIVE CASE NO. 2010-00398

COMMENTS OF TDS TELECOM
(LESLIE COUNTY TELEPHONE COMPANY,
LEWISPORT TELEPHONE COMPANY, AND
SALEM TELEPHONE COMPANY)

TDS Telecommunications Corp., on behalf of Leslie County Telephone Company, Lewisport Telephone Company, and Salem Telephone Company (collectively "TDS Telecom" or "TDS Companies"), appreciates the opportunity to provide general comments on the issues raised in the Order of the Kentucky Public Service Commission ("Commission") entered November 5, 2010 ("Order"). The TDS Companies are all "rural telephone companies" as defined under the Telecommunications Act of 1996 ("TCA-96") and are jointly owned by a common parent. The three TDS Companies filing these Comments serve some of the most rural and agrarian communities of Kentucky.

As the Commission expressly acknowledges in its Order, "intrastate access charges are a significant source of revenue for many carriers,"[1] a description which includes the TDS Companies. Serving rural Kentucky as a carrier of last resort ("COLR"), local rates are only maintained at an affordable level, comparable with urban rates, by contribution to network costs

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[1] Order at 1.

associated with access charges. As the COLR, the TDS Companies also provide continued investments that support economic development in the rural areas of Kentucky they serve. The contribution from access charges permits the TDS Companies to successfully meet the challenges of serving in rural Kentucky. Of course, the contribution to network cost recovery made by access charges has been eroding as a result of competition. Therefore, the TDS Companies appreciate the Commission's recognition of the challenges in maintaining their traditional voice services, while extending its broadband network, for the benefit of rural Kentuckians. The TDS Companies agree that decreases in revenue, without countervailing compensation from another source, will "highly impact" the rural telephone companies of Kentucky and should not be taken lightly.

The TDS Companies suggest an approach to access rate reform which is uncomplicated and practical. Recognizing that current revenue streams are not only critical to a financially stable RLEC community, but also a backbone of the Commission's universal service policies, the Commission should create a revenue replacement fund of the type adopted in many other states such as Pennsylvania and Michigan, and currently under consideration in Ohio. An access revenue replacement fund is a critical component of and the key to balancing access charge restructuring while maintaining affordable and comparable local rates and services.

Usually, the objective is to, in some general fashion, render support currently provided by access charges explicitly, rather than being implicitly included within the access charges themselves. A number of states have used intrastate rates at or near the interstate level as a proxy for this target. The FCC previously concluded that all federally allocated loop costs should be recovered from end users, but found that the resulting local rates were too high.[2] The

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[2] *In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers; Federal-State Joint Board on Universal Service;*

FCC's *CALLS Order* in 2000[3] and *MAG Order* in 2001 made specific reductions to remove all implicit support from the interstate access rates of non-rural and rural telephone companies, respectively, and initiated an increase in the end-user charge,[4] as well as new explicit federal universal service mechanisms.

It is a matter of dispute whether the FCC accomplished this result, and is dependent upon one's view of the costs properly allocated to access rates. The FCC determined that costs should not be recovered from access, but rather should be partially recovered from local rates and the remainder from the universal service funding. Other states that have considered the question have concluded that without the local loop, exchange access services could not be provided and that the local loop is a joint and shared cost. Therefore, interstate parity is not necessarily the appropriate target for intrastate rates.

Moreover, substantial consideration needs to be given to the effect of shifting intrastate access revenue streams to local service rates. The TDS Companies believe that, were revenues currently achieved from intrastate access rates that are above interstate parity to be imposed upon local ratepayers, the results would render rural Kentucky local rates neither affordable nor

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Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation; Prescribing the Authorized Rate of Return For Interstate Services of Local Exchange Carriers; CC Docket Nos. 00-256, 96-45, 98-77 and 98-166; Second Report and Order and Further Notice of Proposed Rulemaking In CC Docket No. 00-256, Fifteenth Report and Order In CC Docket No. 96-45, and Report And Order In CC Docket Nos. 98-77 and 98-166, released November 8, 2001 ("*MAG Order*") at ¶ 17 ("For example, the costs of the common line or loop that connects an end user to a LEC central office should be recovered from the end user through a flat charge, because loop costs do not vary with usage. Yet the SLC, a flat monthly charge assessed directly on end users to recover interstate loop costs, has, since its inception, been capped due to affordability concerns.")

[3] *In the Matter of Access Charge Reform Price Cap Performance Review for Local Exchange Carriers Low-Volume Long-Distance Users Federal-State Joint Board On Universal Service*, CC Docket No. 96-262, CC Docket No. 94-1, CC Docket No. 99-249 and CC Docket No. 96-45, Sixth Report and Order In CC Docket Nos. 96-262 and 94-1 Report and Order In CC Docket No. 99-249 Eleventh Report and Order In CC Docket No. 96-45 released May 31, 2000 ("*CALLS Order*").

[4] The residential and single line business SLC was increased by $3.00, from $3.50 to a cap of $6.50 per line, where it stands today.

comparable. For this reason, most states have recognized that the solution is a trilogy, which includes a universal service fund ("USF") or an access replace fund.[5]

With a USF, support is made explicit and, when spread across carriers that utilize the public switched telephone network ("PSTN"), the results are financially sustainable and competitively neutral. Most states include among the contributing carriers, incumbents, competitive local exchange companies, and wireless carriers. Now, most notably on the same date that this Commission entered its Order, the FCC determined that the states may require all interconnected VoIP carriers to contribute to state universal service funds.[6] The combined intrastate retail revenues of these carriers represent an enormous base across which the recovery of a universal service fund is but a modest imposition. All of these carriers utilize the PSTN in the network provided by the TDS Companies in Kentucky, thus benefitting from the carrier of last resort responsibilities carried out by the incumbent local exchange companies.

On the other hand, the TDS Companies do not recommend a course of action where the Commission would undertake a "high cost" type USF. First, such an exercise is the antithesis of a revenue replacement fund. Its calculation and establishment are complex and cumbersome. Costing techniques are extremely complex and controversial. The TDS Companies are not aware of any even partially-agreed upon cost methodology available for this purpose. Separations and allocations, particularly in today's "triple play" world, are nearly impossible. Defining whether there is "cross subsidy" is even harder. The TDS Companies do not recommend that the Commission go down this path.

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[5] According to a report of the National Regulatory Research Institute ("NRRI"), twenty-two states had functioning or transitioning intrastate funds in 2006. *See* http://nrri.org/pubs/telecommunications/06-09.pdf. Since NRRI published its 2006 statistic, at least three more states, Indiana, Louisiana, and Michigan, have implemented explicit functional funding sources for universal service support including for access restructuring.

[6] *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 Interstate Revenues*, WC Docket No. 06-122, Declaratory Ruling Released November 5, 2010.

In summary, the TDS Companies do not oppose a responsible and prudent approach to access reductions, which balances the interests of all parties, including the local ratepayers. Any changes in access charges should be realistically targeted and gradually implemented over a glide path long enough to allow gradual change and predictability. One such approach is that being considered by the Ohio Public Utilities Commission, a copy of which is attached.

The TDS Companies applaud the Commission's inquiry into access reductions and appreciate the difficulties of the Commission's challenge to balance the interests of all parties. The trilogy of access reductions, affordable local rates, and a revenue replacement USF is a tried and true solution successfully implemented in many other states.

Respectfully submitted,

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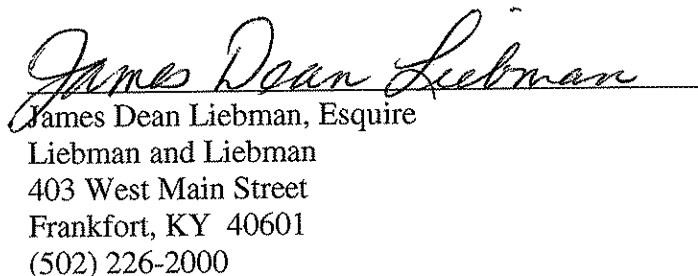

James Dean Liebman, Esquire
Liebman and Liebman
403 West Main Street
Frankfort, KY 40601
(502) 226-2000

Bruce Mottern
Manager - State Government Affairs - KY, OH, TN
9737 Cogdill Road, Suite 230
Knoxville, TN 37932
(865) 671-4753

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