COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN INQUIRY INTO THE STATE UNIVERSAL SERVICE FUND ) CASE NO. ) 2016-00059

JOINT TESTIMONY OF Q LINK WIRELESS LLC,

AMERIMEX COMMUNICATIONS CORP., AND

IM TELECOM, LLC D/B/A INFINITI MOBILE

March 7, 2016
I. INTRODUCTION

Q. Please state your names and positions.

A. My name is Issa Asad. I am the Chief Executive Officer for Q LINK WIRELESS LLC (hereinafter referred to as “Q LINK”).

My name is Stephen Klein. I am the President of AmeriMex Communications Corp. (hereinafter referred to as “AmeriMex”).

My name is Trevan Morrow. I am the Chief Operating Officer for IM Telecom, LLC d/b/a Infiniti Mobile (hereinafter referred to as “IM Telecom,” together with Q LINK and AmeriMex, the “Parties”).

Q. What is the purpose of your testimony?

A. The purpose of our joint testimony is to address the issues raised in the Kentucky Public Service Commission’s (“Commission”) February 1, 2016 Order initiating the instant administrative proceeding to investigate the current and future funding, distribution, and administration of the Kentucky Universal Service Fund (“KUSF”) (“Initial Order”).

II. GENERAL DESCRIPTION OF THE PARTIES AND CASE

Q. Please provide a brief description of the Parties.

A. Q LINK is a Delaware Limited Liability Company with its principal offices located at 499 East Sheridan Street, Suite 400, Dania, Florida 33004. Q LINK is a provider of commercial mobile radio service (“CMRS”). Q LINK is currently
designated as an Eligible Telecommunications Carrier (“ETC”) in Arizona, Colorado, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Missouri, Nevada, Ohio, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Texas, Utah, Vermont, Washington, West Virginia, and Wisconsin. Q LINK has been providing wireless Lifeline service in Kentucky since March 2013.

AmeriMex is a Georgia corporation with its principal offices located at 2323 Curlew Road, Suite 7B, Dunedin, Florida 34698. AmeriMex is a CMRS provider, and has been designated as an ETC in California, Colorado, Georgia, Kentucky, Michigan, Oklahoma, Pennsylvania, and Wisconsin. AmeriMex has been providing wireless Lifeline service in Kentucky since August 2014.

IM Telecom is an Oklahoma Limited Liability Company with its principal offices located at 1705 South Baltimore Ave., Tulsa, Oklahoma 74104. IM Telecom is a CMRS provider, and has been designated as an ETC in Oklahoma. IM Telecom does not currently provide service in Kentucky.

Q. Please provide a brief description of the Case and Case history.

A. Per the Initial Order, the solvency of the KUSF is in jeopardy, with projected depletion by the end of April 2016. Therefore, one of the first issues to be reviewed will be the necessity for increasing the current funding mechanism or reducing the support paid to carriers, on a temporary basis, to maintain KUSF solvency during the pendency of this investigation. The Commission has calculated that to maintain the existing $3.50 reimbursement rate, the current monthly per-line surcharge will need to be increased from $0.08 to $0.14 as soon
as possible, or current support will need to be decreased from $3.50 per line to approximately $2.00 per line as soon as possible. Comments were due by February 22, 2016 on this pressing issue. The Parties did not file comments, but concur with the comments filed by other parties in support of increasing the per-line surcharge temporarily in order to maintain the existing reimbursement rate during this investigation.

Remaining issues were to be addressed through the procedural schedule set forth in the Initial Order, and are addressed by this testimony, namely:

- the need for continuing the KUSF;
- the possibility of reducing the amount of KUSF support;
- how to review distributions from the KUSF to determine the accuracy of the distributions;
- future funding of the KUSF; and
- future practices for requesting and receiving support from the KUSF, with an emphasis on ensuring the accurate reporting of lines receiving Lifeline support and requested KUSF support.

III. KUSF SUPPORT

Q. Is there a need for continuing KUSF support?

A. The Federal Communications Commission (“FCC”) recently said that combined state and federal contributions to Lifeline have long been a critical part of the Lifeline program and expressed interest on ways to further encourage states to provide additional subsidies for Lifeline.\(^1\) The Commission has unwaveringly supported the KUSF ever since its inception, when the Commission determined

that there was evidence of a need for a Kentucky Lifeline program. Though
subscribership has increased, still more than half of eligible Kentuckians have not
yet availed themselves of the Lifeline program, and about one in ten Kentuckians
with income below $10,000 do not have household telephone service.\(^2\) Lifeline
service allows those adversely impacted by the economy or job loss to have
access to discounted or wholly-supported service to assist in emergency
situations, facilitate job search efforts, and to maintain contact with family
members and participate in society. Continued state funding is needed to support
public awareness efforts.

**Q. Please address potential effects of reducing support amount on a permanent
basis.**

**A.** State support directly benefits consumers by providing increased benefits to the
consumer not only congruent with the additional funding, but also by helping to
offset the costs involved with outreach, particularly to more rural areas, as well as
the ever-growing costs to carriers associated with regulatory compliance, thereby
allowing the ETC to focus its resources on enhanced outreach and offerings.

Lifeline participation has increased the most or is at its greatest in areas of
Kentucky where more ETCs with wireless coverage have entered the market and
engaged in a variety of promotional and outreach strategies to reach qualified
customers otherwise untouched through more traditional marketing channels.

The competitive marketplace and availability of state USF support has advanced
both outreach as well as the level of benefits offered to Lifeline customers. Such

\(^2\) See 2015 Universal Service Monitoring Report, Household Voice Penetration by State and
increased benefits range from more minutes to data-capable handsets. Even on plans with no or limited data, customers can use data-capable phones to access the internet through public Wi-Fi, which complements efforts to deploy broadband access to low-income consumers. A reduction in state support would no doubt decrease the incentives for and ability of ETCs to innovatively reach unserved Lifeline customers and adjust service offerings as the basic needs of customers become more and more robust.

In the FCC’s 2012 *Lifeline Reform Order,* the FCC adopted more comprehensive requirements to ensure support is being properly used. While the Parties support the FCC’s reforms and agree that the changes have had a positive impact on the program overall, the fact remains that the cost of providing Lifeline service has greatly increased. Any increase in regulation, while many times necessary and helpful, creates a larger cost burden for the carriers – as will be the case if the Commission adopts more stringent requirements related to requesting and receiving KUSF distributions as a result of this proceeding. A reduction in state Lifeline subsidies may make it uneconomical for the remaining ETCs doing business in the state to continue their targeted outreach efforts and could further decrease the number of ETCs willing to serve Lifeline customers in Kentucky.

**IV. KUSF FUNDING**

**Q. Do you support an increase in the Kentucky USF surcharge?**

**A.** Since the Commission began the Lifeline program in 1998, it has periodically

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seen the need to adjust the monthly end user charge to meet the changing needs of
the fund. The KUSF’s only income is from an eight cent end user charge that has
been constant for more than eleven years. The Commission is now considering a
modest six cent increase, one that would not drastically change overall monthly
telecommunications expenses for consumers and would be comparable to other
increases the Commission has directed in the past eighteen years, none of which
drew objection. The surcharge increased by five cents in five years from 1999 to
2004, but did so more gradually, with a $0.02 increase in 2000 followed by a
$0.03 increase in 2004. It is not surprising that a six cent increase is needed after
almost twelve years (an increase of only one cent for every two years). For an
average wireless customer, a six cent increase in the monthly bill would be
nominal; further, given that the price of wireless service has declined in the past
ten years, such increase would also effectively be inconsequential. Therefore, the
proposed increase needed to preserve the current levels of the KUSF is reasonable
considering the Commission’s past increases to the surcharge, the minimal effect
to average wireless customers, and the resulting preservation of affordable
telecommunications services for Kentucky’s most economically vulnerable
consumers.

Q. Should the Commission re-evaluate the surcharge on a more frequent or
consistent basis?

A. The Parties would support an annual or biennial review of KUSF support amount
by the Commission based upon requiring KUSF recipients to submit annual
projections of anticipated disbursements from the KUSF. While projections are
only best estimations, the practice would enable the Commission to anticipate funding changes on a more gradual basis. The ability for the Commission to collect information on a consistent, informal reporting basis, rather than through a formal proceeding, would also lower the associated cost to carriers for legal fees.

V. KUSF DISTRIBUTIONS

Q. Please address past distributions of the KUSF.

A. The Initial Order stated that the KUSF had its highest surplus in May 2012, and has since declined. Based upon the numbers cited in the Initial Order, the average monthly distribution prior to April 2012 compared to the remainder of 2012 increased more than sixty per cent. Average monthly distributions continued to increase into 2013, but have since gradually declined to the general level of distributions in 2012 after April.

Although a significant correlation is unknown, the majority of new recipients of the KUSF after May 2012 were Mobile Virtual Network Operators (“MVNOs”) like Q LINK, AmeriMex, and IM Telecom. It is important to note that the Lifeline participation rate in Kentucky prior to 2012 was estimated to be only between ten to twenty per cent (10-20%). However, according to recent data, that number has increased to thirty-eight per cent (38%). The entrance of wireless ETCs has undoubtedly had a positive effect on increasing the Lifeline

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4 According to the 2011 map of Lifeline Participation Rates by State, which was obtained from USAC, an independent not-for-profit corporation designated as the administrator of the federal Universal Service Fund by the FCC.

penetration rate (the goal of universal service), as increasingly more consumers, including qualified Lifeline customers, view the portability and convenience of wireless service not as a luxury, but as a necessity.

Q. Please address projected distributions of the KUSF.

A. With the implementations of Lifeline reform and added federal oversight, including the National Lifeline Accountability Database (“NLAD”), the chances of duplicate or ineligible subscribers have been drastically reduced. The amount of Lifeline-eligible customers is finite, thus KUSF distributions should increase only to the extent that previously unreached Lifeline customers are enrolled in the program. The Commission would need to seek projections from all Kentucky ETCs in order to best prepare for an increase in distributions, which would be expected (and should be celebrated) as more Lifeline-eligible customers are made aware of the service that was created for and is still intended for their benefit. As long as the economy remains stagnant or in decline, distributions should continue to increase at some level, as new Lifeline customers are enrolled and as existing subscribers remain eligible. However, at some point distributions will at least stabilize, as Kentucky reaches a higher Lifeline penetration rate and/or when the economy improves and results in fewer consumers in need of assistance.

Q. How can the Commission review distributions to determine accuracy?

A. In order to determine accuracy of federal USF distributions, the Universal Service Administrative Company (“USAC”) engages in periodic reviews such as Payment Quality Assurance (PQA) assessments\(^6\) and the Beneficiary and

\(^6\) See [http://www.usac.org/about/about/program-integrity/pqa.aspx](http://www.usac.org/about/about/program-integrity/pqa.aspx)
Contributor Audit Program (BCAP). The Commission certainly has the authority to engage in similar periodic audits of KUSF recipients. At a minimum, the Commission could obtain BCAP audit results for ETCs that are audited in regards to Kentucky customers.

Q. Please provide suggestions for how the Commission can ensure accurate reporting of lines receiving Lifeline support and requested KUSF support.

A. Currently, carriers include the number of access lines receiving Lifeline support and the requested monthly payment from the KUSF on the monthly KUSF remittance form. In order to ensure accurate reporting of lines, the Commission could require ETCs requesting KUSF support to also submit a copy of the corresponding Form 497 filed with USAC, and any revisions thereto, by which the carriers report Lifeline lines and request reimbursement from the federal USF.

Q. Do you have any other suggestions regarding future practices for requesting and receiving KUSF support?

A. The Parties assert that the current practice, with the addition of using carriers’ Form 497 as a line count accuracy check as mentioned above, is sufficient for requesting and receiving KUSF support.

VI. CONCLUSION

Q. Please summarize your positions stated herein.

A. As noted herein, there has been a significant increase in the Lifeline participation rate in Kentucky since 2012; nevertheless, current estimates reveal that still over half of Lifeline-eligible Kentuckians have yet to benefit from the program, and

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7 See http://www.usac.org/about/about/program-integrity/bcap.aspx
approximately ten per cent of Kentucky households with income below $10,000
do not have telephone service. Given such vivid statistical evidence, there is
clearly more that needs to be done, and the KUSF is a key component of
supporting more extensive outreach and increasing the benefits available to
Lifeline-eligible consumers. Increasing participation in the Lifeline program by
qualified low-income individuals furthers the goal of Congress to provide all
individuals with affordable access to telecommunications service, and thus any
incremental increases in Lifeline expenditures, including by the KUSF, are far
outweighed by the significant public interest benefits of expanding the availability
of affordable wireless services to low-income consumers.

Q. Does this conclude your joint testimony?

A. Yes.
VERIFICATIONS
VERIFICATION

I, Stephen Klein, first being duly sworn, depose and state that I am the President of AmeriMex Communications Corp., and do hereby declare under penalty of perjury that the foregoing testimony is true and correct to the best of my knowledge and belief.

Executed on ___________________

_____________________________________________
Stephen Klein, President
AmeriMex Communications Corp.
State of Florida

County of Broward

VERIFICATION

Personally appeared before the undersigned, an officer duly authorized to administer oaths, I, Issa Asad, first being duly sworn, depose and state that I am the CEO of Q LINK WIRELESS LLC, and do hereby declare under penalty of perjury that the foregoing testimony is true and correct to the best of my knowledge and belief.

Executed on 3/3/16

Issa Asad
CEO of Q LINK WIRELESS LLC

Subscribed and sworn to before me, a Notary Public, this 3 day of March, 2016.

My Commission Expires: October 11, 2017
State of Oklahoma
County of Tulsa

VERIFICATION

Personally appeared before the undersigned, an officer duly authorized to administer oaths, I, Trevan Morrow, first being duly sworn, depose and state that I am the COO of IM Telecom, LLC d/b/a Infiniti Mobile, and do hereby declare under penalty of perjury that the foregoing testimony is true and correct to the best of my knowledge and belief.

Executed on 3-4-16

[Signature]

Trevan Morrow, COO
IM Telecom, LLC d/b/a Infiniti Mobile

Subscribed and sworn to before me, a Notary Public, this 4th day of March, 2016.

(Notary Seal)

Notary Public

My Commission Expires: ________________

[Notary Public Seal]

JOSEPH T. HOWARD
Notary Public - State of Oklahoma
Tulsa County
Commission # 14005559
My Commission Expires June 20, 2018