

1 **7. Fund Calculations**

2

3 **Q. Let's turn to the seventh major section of your testimony. How large will the**
4 **cost-based KUSF be?**

5 A. The size of the fund will vary depending upon the Commission's resolution of various
6 issues. Schedule 13 displays the fund amounts for SWBT and Sprint that result from
7 cost benchmarks ranging from 100% to 160% of the statewide average. Page one is
8 based upon the baseline inputs that were stipulated to by the parties, and page two is
9 based upon Staff's recommended inputs. On both pages I have assumed the fund pays
10 76% of costs in excess of the benchmark, including loop, switching and transport. Also,
11 all of the fund amounts are based upon the assumption that support will only be
12 provided to wire centers in which average costs exceed the benchmark by a substantial
13 margin—enough to indicate a support requirement in excess of \$1,000 per month.
14 Finally, estimated payments from the federal USF mechanism have been recognized as
15 an offset to the KUSF calculations.

16

17 **Q. The fund amounts you have calculated are net of the funds received through**
18 **the federal USF mechanism. Can you provide a more complete discussion of**
19 **the relationship between the federal and state USF mechanisms?**

20 A. Yes. As discussed in Staff's testimony in the previous phase of this proceeding the
21 federal USF support payments compensate for the same high cost problem which we
22 are dealing with here. To avoid double recovery, it is appropriate to reduce the KUSF
23 payments by the federal support amount. The FCC has recognized that

24

1 the primary federal role is to enable reasonable comparability among states
2 (i.e., to provide states with sufficient support so that states can make local rates
3 reasonably comparable among states), and the primary role of each state is to
4 ensure reasonable comparability within its borders (i.e., to apply state and
5 federal support to make local rates reasonably comparable within the state)
6 [Methodology Order, ¶ 38].
7

8 Thus, the federal mechanism deals with the same high cost problem, but it is focused on
9 a particular aspect of the problem—ensuring reasonable comparability of rates across
10 the country. FCC concluded that:

11
12 the federal mechanism should calculate support levels for non-rural
13 carriers by comparing the forward-looking costs of providing
14 supported services, averaged at the statewide level, to the national
15 benchmark. Of all the potential approaches suggested, we believe that
16 statewide averaging is the approach most consistent with the federal
17 role of providing support for intrastate universal service to enable
18 reasonable comparability of rates among states. [Id., ¶ 38].
19

20 In developing fund amounts, the level of granularity at which costs are averaged has a
21 significant impact on the calculated amount of support that must be provided. By
22 averaging costs at the state level, the FCC has limited the amount of support paid
23 through the federal mechanism.
24

25 **Q. So, the FCC is leaving a significant proportion of the high cost problem for the**
26 **states to resolve, correct?**

27 A. Yes. The FCC has left it up to the states to use their “substantial resources” to achieve
28 reasonably comparable rates within their borders. In fact, under the federal mechanism
29 adopted October 2, 1999, only Alabama, Kentucky Maine, Mississippi, West Virginia,

1 Vermont and Wyoming will receive any federal funds. At least with regard to SWBT,
2 under the FCC's approach, Kansas is required to solve the high cost problem entirely
3 through intrastate mechanisms—particularly if this philosophy is applied to Sprint and the
4 other smaller carriers, once the “hold harmless” provisions disappear. To the extent
5 federal support is currently available (or continues to be available in the future) this fact
6 should be recognized in the KUSF calculations. Otherwise, carriers could potentially
7 receive double payment for the same high cost problem—once through federal support
8 and again through the intrastate support.

9
10 **Q. Since the FCC is paying for costs in excess of a benchmark, why is it necessary**
11 **to also have a state funding mechanism?**

12 A While there is definitely a risk of double recovery of high costs if the two mechanisms
13 aren't co-ordinated, I don't mean to suggest that the federal mechanism is sufficient, or
14 that a state support mechanism would be superfluous. To the contrary, there are
15 significant differences between what the FCC has ordered and what the KCC has
16 undertaken in this proceeding, which justify moving forward with establishment of a
17 cost-based KUSF system.

18 First, the FCC has chosen to limit its support to disparate costs between states.
19 The FCC is looking at costs averaged across an entire statewide study area, and is only
20 providing support in those few cases where the high cost problem is so pervasive it
21 drives the overall statewide average above the federal benchmark. In contrast, the
22 KCC is examining differences in costs within the state. While the FCC determined that
23 SWBT doesn't require any federal support, it has reached this conclusion on the
24 assumption that adequate intrastate mechanisms exist or will be created to deal with any
25 high cost areas that may exist within Kansas. SWBT's high costs are currently being

1 recovered internally through the company’s access, local and other rates, and from its
2 draw from the current KUSF. From the FCC’s perspective this is sufficient, since it
3 isn’t concerned with whether the high costs are being recovered through averaging of
4 access charges, averaging of local rates, or some other mechanism. In this proceeding
5 the Commission is tackling a different problem—making sure the intrastate high cost
6 support is appropriate for an increasingly competitive environment.

7 Second, the benchmark used by the FCC is based upon a national average of
8 the large, non-rural carriers being studied. The benchmark used in this proceeding
9 should be based on the average level of costs in Kansas. Although both the FCC and
10 the KCC are looking at “average costs” there is little relationship between the two
11 different benchmark calculations.

12 Third, the FCC has only implemented a forward looking cost mechanism for
13 SWBT. The FCC classifies Sprint as a rural carrier for its purposes, and thus the
14 Federal USF mechanism continues to provide support for Sprint based upon
15 embedded costs. In Kansas, the State Act (K.S.A., 66-1,187(l)) considers Sprint a
16 non rural carrier, so the Commission has included Sprint as one of the non rural carriers
17 for the cost based KUSF determination. (9/30/99 order, ¶ 59) The federal programs
18 for both rural and non-rural carriers support the same categories of intrastate costs
19 being considered in the KUSF calculations, but there is no simple way to identify which
20 portion of the FCC model results are being supported by the federal program and
21 which portion remains to be supported by the KUSF. This is especially true in situations
22 where the federal payments are based upon embedded costs. The most logical way to
23 deal with this problem is to treat the KUSF payments as a residual--reducing the
24 KUSF support by the amount of federal USF support that is available to a carrier.

1 In conclusion, the FCC and the KCC are engaged in similar processes, but the
2 details differ drastically. Since the potential for double recovery exists, the most
3 appropriate solution is to reduce the KUSF support payments by the amount a carrier
4 is qualified to receive from the Federal USF programs.

5
6 **Q. Have you also prepared some fund calculations for the zone concepts discussed**
7 **earlier?**

8 **A.** Yes. Schedules 14 and 15 show detailed fund calculations for SWBT, using Staff's
9 recommended inputs and assuming a 135% benchmark, with the fund paying 76% of
10 costs in excess of the benchmark, including loop, switching and transport. Schedule 14
11 shows the per line support provided to each area, while Schedule 15 shows the total
12 support provided to each area.

13 The columns labeled "Wire Center Approach" do not rely upon the cost results
14 for individual zones within the wire centers. The KUSF support payments shown in
15 these columns would be provided to all primary lines in each of the 53 wire centers with
16 non-zero support amounts. All told, a total of 37,791 lines would be supported in these
17 53 wire centers. The columns labeled "Primary Zone Approach" show the support that
18 would be provided if the zone cost results are used to allocate KUSF support within
19 these same 53 wire centers. The support per line tends to increase while the number of
20 supported lines tends to decrease. In most wire centers, only lines in zone 2 receive
21 support, because these are the only lines that have high costs. The overall amount of
22 support in each wire center remains the same.

23 The columns labeled "Alternative Zone Approach" show the support that
24 would be provided if the zone cost information is used not only to allocate the KUSF
25 support, but also to determine the overall amount of that support. In most wire centers

1 the amount of support increases under this approach, because it eliminates the
2 averaging of low cost lines in zone 1 with high cost lines in zone 2.

3 Table 6 summarizes results for SWBT using the Staff inputs, and assuming
4 support for 76% of costs in excess of a 135% benchmark. The first row assumes the
5 fund is calculated at the wire center level without any consideration of zones. The
6 second row assumes the same support amount is allocated in accordance with the zone
7 results. The third row assumes the zone results are used both to size the fund and to
8 allocate support within each wire center.

9
10 **Table 6**
11 **KUSF Support @ 76% Above 135% - SWBT**
12

13

Approach	Support	Supported Lines	Number of WCs
Wire Center Approach	\$5,412,801	37,791	53
Primary Zone Approach	\$5,412,801	12,329	53
Alternative Zone Approach	\$27,356,261	48,315	154

14
15
16

17
18 Schedules 16 and 17 show the analogous information for Sprint, and Table 7
19 summarizes the results. Here again the first and second rows have the same total
20 amount of support, provided to the same wire centers. In the second row, this support
21 is concentrated on fewer lines, which are located primarily (but not exclusively) in zone
22 2. The third row shows the larger fund amount that would result if the zone-specific cost
23 results were used to determine the fund size, as well as the distribution of support.

24
25 **Table 7**

1

KUSF Support @ 76% Above 135% - Sprint

2

3	Approach	Support	Supported Lines	Number of WCs
4	Wire Center Approach	\$18,762,264	70,319	129
5	Primary Zone Approach	\$18,762,264	38,838	129
6	Alternative Zone Approach	\$24,718,140	43,964	143

7