

In the Matter of the Commission,) Application No. C-2290/
 on its own motion, to investi-) NUSF-22
 gate and seek comment on method-)
 ologies for the following tasks)
 for rural companies:(1) determin-)
 ing a permanent funding mechanism)
 for Nebraska Universal Service) ORDER OPENING DOCKET
 Fund (NUSF) support; (2) deter-) AND SEEKING COMMENT
 mining deaveraged zones for NUSF)
 support;(3) evaluating adjustments)
 to access rates after the NUSF)
 transition period is complete; and)
 (4) ensuring that at least three)
 geographic rate zones are develop-)
 ed for unbundled network elements)
 (UNEs)on a statewide basis.) Entered: May 10, 2000

BY THE COMMISSION:

The Nebraska Public Service Commission (NPSC or Commission) is faced with several tasks for which it will need to develop methodologies and/or principles for rural companies. These tasks are: (1) determining a permanent funding mechanism for Nebraska Universal Service Fund (NUSF) support; (2) determining deaveraged zones for NUSF support; (3) evaluating adjustments to access rates that may occur after the end of the NUSF transition period; and (4) ensuring that at least three geographic rate zones are developed on a statewide basis.

On March 28, 2000, this Commission opened Application No. C-2256/PI-38 addressing the need to develop costing methodologies for the above purposes for both rural and non-rural companies. On April 10, 2000 a group of rural companies filed a motion to bifurcate this docket and establish a separate docket and timeline for rural companies. The motion explained that there was not an immediate need to address many of the tasks cited in C-2256 for rural companies, and that rural companies did not have sufficient time to review the cost models under consideration in the docket. Furthermore, the federal Rural Task Force will not issue a recommendation on a new federal universal service mechanism for rural companies until October 1, 2000. This recommendation could result in additional methodologies to be considered for determining NUSF support for rural companies. The motion was approved by the NPSC on April 11, 2000. This order opens a separate docket for rural companies.

B A C K G R O U N D

In its January 13, 1999 order in Application No. C-1628, the Commission stated that "In the past, universal service has been funded through a conscious policy of pricing certain incumbent local exchange carriers' (ILEC) services such as access service, toll service and local business service at levels that support primarily residential service." The Commission found that rates for services that provide support should be reduced, and that the lost support may be replaced through increases in rates and by state and federal universal service funds. In accomplishing this task, the Commission noted that "A change of this magnitude takes time and a concerted effort on behalf of all parties involved. Therefore the Commission proposes a transition period for adoption of

the goals addressed in this Order." The Order stated that "Rural companies will be allowed a transition period of four years."

The transition period started on September 1, 1999. The transition period for rural companies will end September 1, 2003. The January 13, 1999 order in C-1628 states "For the interim NUSF, ILECs will be eligible for interim funding as set forth in this Order." Thus, a determination will need to be made with regard to a permanent NUSF funding mechanism for rural companies to be effective September 1, 2003.

Universal Service Support

In its January 13, 1999 order in C-1628, the Commission stated that it had not yet adopted a method to determine costs for rural carriers, and that it would open a docket to address the issue. The Commission said "However, this docket may be postponed until the FCC makes its decision on costing methodologies for rural carriers." The federal Rural Task Force is scheduled to make a recommendation to the FCC on October 1, 2000 regarding a new federal universal service mechanism for rural companies.

In connection with the determination of a permanent NUSF funding mechanism for rural companies, the Commission will determine deaveraged zones for NUSF support. The Commission believes that creating zones for NUSF support is desirable because it will more closely target support to relatively high-cost customers on the network.

Access Rates

The January 13, 1999 order in C-1628 allowed rural companies to elect to structure their access rates under the same rules set forth for non-rural companies, or to set their access rates by electing provisions specific to rural companies. The provisions for setting access rates that were specific to rural companies remain in effect for all four years of the transition period. Therefore, a determination will need to be made in this docket with regard to the appropriate long-term level of access rates for rural companies which would begin implementation September 1, 2003.

Geographic Rate Zones for UNES

In promulgating rules to implement the local competition provisions of the Telecommunications Act of 1996, the FCC developed Section 51.507(f), which required states to ensure that there were "different rates for elements in at least three defined geographic areas within the state to reflect geographic cost differences." This rule was stayed shortly after it was released, and later vacated. The Supreme Court found that the FCC had authority to issue the rule on January 25, 1999. In an order in CC Docket No. 96-98 released on May 7, 1999, the FCC issued a stay of this rule until six months after it released its order in CC Docket No. 96-98 (Federal-State Joint Board on Universal Service) finalizing and ordering implementation of high-cost universal service support for non-rural LECs.

The FCC issued the stay to allow states time to come into compliance. The FCC linked the duration of the stay to the universal service proceeding so that states could consider in a coordinated manner the deaveraging issues that are affecting local competition in a variety of contexts. The FCC considered the level of geographic deaveraging to use in

determining universal service high-cost support for non-rural LECs. In addition, in the access charge reform proceeding, the FCC continues to assess the application of deaveraging to interstate access rates. In its stay, the FCC stated: "Applying different standards for, or degrees of, geographic deaveraging in different contexts might create arbitrage opportunities or distort entry incentives for new competitors." The stay was designed to allow state regulators time to consider the ramifications of deaveraging on the interconnection, universal service, and access reform trilogy.

The FCC issued an order lifting the stay in CC Docket No. 96-45, which was released on November 2, 1999. In accordance with the FCC order, geographical rate zones for UNEs are to be established by May 1, 2000. Due to the complexity of this issue, and because further study needed to be done, this Commission requested a waiver of the FCC deadline. This waiver was granted by the FCC to comply until October 31, 2000.

No rural company in Nebraska has received a bona fide request (BFR) for interconnection, thus, there is currently no need for deaveraged rate zones for UNEs for rural companies. However, in order for the Commission to comply with the FCC's requirement for deaveraged rate zones for UNEs in the event that a rural company would receive a BFR for interconnection, the Commission wishes to adopt an interim methodology. The Commission will consider proposals for density-based zones (for example, zones based on population or access lines) or distance zones (for example, zones based on distance from the central office) to be used as an interim methodology. The comment cycle for this interim solution is specified in Section II.

I. Request for Comments

The Commission seeks comments on the appropriate criteria to use in selecting methodologies for the tasks listed below. The Commission may allow more than one methodology to be used for each task, provided that all methodologies approved for the task meet the criteria adopted by the Commission.

1. Determination of permanent NUSF funding and zones.
2. Evaluation of the appropriate level of rural company access rates (after the transition period).
3. Ensuring that at least three geographic rate zones are developed on a statewide basis.

II. Comment Filing Schedule

The Commission finds that comments on the methodologies for the determination of permanent NUSF funding and zones shall be filed no later than 5:00 p.m., on February 1, 2001. The Commission will then accept reply comments from interested parties after the February 1, 2001, deadline and on or before April 1, 2001 at 5:00 p.m.

The Commission finds that comments on the methodologies for the evaluation of the appropriate level of rural company access rates shall be filed no later than 5:00 p.m., on January 1, 2002. The Commission will then accept reply comments from interested parties after the January 1, 2002 deadline and on or before March 1, 2002 at 5:00 p.m.

The Commission finds that comments on an interim methodology to develop deaveraged UNE rate zones shall be

filed no later than 5:00 p.m., on August 1, 2000. The Commission will then accept reply comments from interested parties after the August 1, 2000 deadline and on or before October 1, 2000, at 5:00 p.m.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that an investigation be commenced on the criteria to be used to select methodologies to perform the preceding tasks.

IT IS FURTHER ORDERED that all interested parties are invited to comment on the issues and recommendations they have prior to the adoption of a set of criteria to select methodologies for each defined task in the manner prescribed above. Parties commenting shall file five hard copies and one electronic copy on disk in WordPerfect 5.0 or later format. Filings will not be accepted via facsimile.

MADE AND ENTERED in Lincoln, Nebraska on this 10th day of May, 2000.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Chairman

ATTEST:

Executive Director