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Item Number: 13

Addendum StartPage: 0

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PUBLIC UTILITY COMMISSION

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OF TEXAS

**APPLICATION OF GUADALUPE
VALLEY TELEPHONE COOPERATIVE,
INC. UNDER SECTION 56.023 OF THE
PUBLIC UTILITY REGULATORY ACT**

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COMMISSION STAFF'S RECOMMENDATION ON FINAL DISPOSITION

COMES NOW the Staff ("Staff") of the Public Utility Commission of Texas ("Commission"), representing the public interest, and files this Recommendation.

I. BACKGROUND

On December 27, 2017, Guadalupe Valley Telephone Cooperative, Inc. ("GVTC") filed a petition to determine financial need for continued support pursuant to PURA¹ § 56.023 and 16 Tex. Admin. Code § 26.405 ("TAC").² On January 24, 2017, Order No. 2 was entered, requiring Staff to file a recommendation or request a hearing by March 31, 2017. This pleading is timely filed.

II. RECOMMENDATION

Consistent with the attached memorandum of Fred Goodwin, Competitive Markets Division, Staff recommends approval of the application as filed. GVTC's application indicates that all of its supported exchanges except for Balcones, Bulverde, and Sattler remain eligible for continued support at the amount that GVTC will be eligible to receive on December 31, 2017, as

¹ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-58.303 (West 2016), §§ 59.001-66.017 (West 2007 & Supp. 2016) ("PURA").

² Petition (Dec. 27, 2016).

13

adjusted by de-averaging.³ As stated in Mr. Goodwin's memorandum, Staff recommends that GVTC has correctly applied the criteria in the Commission's rules.

Specifically, the Commission's rules set out a procedure by which certain Incumbent Local Exchange Companies may demonstrate a financial need for continued support from the Texas Universal Service Fund.⁴ Under the Commission's rules, there is no need for continued support with respect to an exchange if an Unsubsidized Wireline Voice Provider Competitor offers service in census blocks comprising 75% of the square miles of that exchange.⁵ Under these criteria, Staff recommends that all of GVTC's exchanges other than Balcones, Bulverde, and Sattler will remain eligible for support. Staff recommends that support for the Balcones, Bulverde, and Sattler exchanges be eliminated effective January 1, 2018.⁶

Staff notes that no intervenor requested a hearing in this proceeding. If Staff's recommendation is adopted in this proceeding, Staff does not request a hearing. Because no party is opposed to the application, this proceeding is eligible for informal disposition.⁷

Staff anticipates that the parties will file a stipulation, proposed order, and supporting evidence on the same day as this pleading, meeting the requirements of Order No. 2.⁸ Staff respectfully requests the entry of an order adopting the parties' forthcoming proposed order.

³ De-averaging is performed pursuant to 16 TAC § 26.405(g) and is discussed in further detail in Mr. Goodwin's memorandum. In short, de-averaging allows GVTC to decrease its monthly per-line support amount in denser exchanges and increase its monthly per-line support in less-dense exchanges without changing GVTC's overall eligibility for support. This results in support amounts for each exchange that are more likely to reflect the cost characteristics of each exchange and incorporates the costs of serving as the Provider of Last Resort.

⁴ 16 TAC § 26.405(d)–(f).

⁵ 16 TAC § 26.405(d).

⁶ 16 TAC § 26.405(e) ("The new monthly per-line support amounts shall be effective beginning with the first disbursement following a commission order . . . except that they shall not be effective earlier than . . . January 1, 2018 for an exchange with service supported by the SRILEC USP.").

⁷ 16 TAC § 22.35(a) and (b)(2).

⁸ Order No. 2 (Jan. 24, 2017) (requiring the filing of a proposed order by April 14, 2017).

Date: March 31, 2017

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

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Division Director

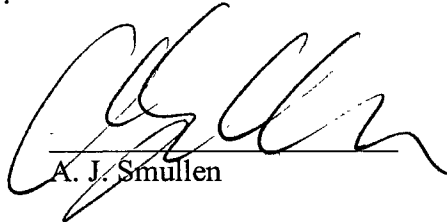
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CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on March 31, 2017 in accordance with 16 TAC § 22.74.



A. J. Smullen

Public Utility Commission of Texas

Memorandum

TO: A. J. Smullen, Attorney
Legal Division

FROM: Fred Goodwin, Competitive Market Analyst
Competitive Markets Division

DATE: March 31, 2017

RE: Docket No. 46700 – *Application of Guadalupe Valley Telephone Cooperative, Inc.
Under Section 56.023 of the Public Utility Regulatory Act*

STAFF RECOMMENDATION

I. INTRODUCTION

On December 27, 2016, Guadalupe Valley Telephone Cooperative, Inc. (GVTC or the company) filed a petition¹ requesting: (1) a determination of GVTC's financial need for continuing support from the Small and Rural Incumbent Local Exchange Company Universal Service Plan (SRILEC USP), which is part of the Texas Universal Service Fund (TUSF); (2) de-averaging of its per-line support amounts; and (3) the establishment of monthly per-line SRILEC USP support amounts in the exchanges with a financial need for continued support. GVTC's application also included a proposed form of *Texas Register* notice. On January 4, 2017, GVTC amended its application to include end-of-year line counts and other information which was not available at the time of its initial application.

GVTC's petition supports the need for continued SRILEC USP support in twelve of its fifteen exchanges. In support of its petition, GVTC submitted the direct testimony, including supporting exhibits, of Wesley Robinson, Manager of Regulatory Affairs for JSI in the Southwest regional office, as evidence that GVTC has a financial need for continued SRILEC USP support in twelve of its currently supported exchanges: Cost, Cranes Mill, Hancock,

¹ Petition of Guadalupe Valley Telephone Cooperative, Inc. Pursuant to Section 56.023 of the Public Utility Regulatory Act and 16 TAC § 26.405 (Dec. 27, 2016) (GVTC Petition).

Kenberg, Kingsbury, Leesville, Rocky Creek, Sabina, Saturn, Smithson Valley, Waelder, and Westhoff. GVTC determined that three of its currently supported exchanges do not meet the financial needs test for continued support: Balcones, Bulverde, and Sattler.

I reviewed GVTC's petition including the testimony of Mr. Robinson for all exchanges in GVTC's service area. In order to independently verify the process and information on which GVTC relied upon to determine the financial need for continued support, using a sample of six exchanges selected by Staff, I analyzed Mr. Robinson's methodology. As outlined in this memorandum, I conclude that GVTC has demonstrated that it has a financial need for continued support in all of its SRILEC USP supported exchanges except for the Balcones, Bulverde, and Sattler exchanges because GVTC identified unsubsidized wireline voice provider competitors in census blocks comprising at least 75% of the square miles in these three exchanges. I recommend that support in the remaining twelve exchanges be continued at the monthly per-line amounts which GVTC is eligible to receive on December 31, 2017, adjusted for de-averaging,² as discussed below. I recommend that the Public Utility Commission of Texas (Commission) grant GVTC's petition.

II. PURA AND SUBSTANTIVE RULE REQUIREMENTS

GVTC is an incumbent local exchange carrier (ILEC) that receives support from the SRILEC USP. PURA³ § 56.023(g) allows recipients from the SRILEC USP such as GVTC to petition the Commission to initiate a contested case proceeding to determine the company's eligibility to receive continued support from the SRILEC USP. If the petition is filed before January 1, 2017, as was the case with GVTC's petition, GVTC may receive continued support not exceeding 100 percent of the amount of the SRILEC USP support that the company is eligible to receive on December 31, 2017.

The Commission established in 16 Tex. Admin. Code § 26.405 (TAC) the criteria for an ILEC to demonstrate that it has a financial need for continued SRILEC USP support in currently supported exchanges. In order to receive continued SRILEC USP support in its

² De-averaging adjustments are discussed in further detail below on page 14.

³ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-58.303 (West 2016), §§ 59.001-66.017 (West 2007 & Supp. 2016) (PURA).

currently supported exchanges, GVTC must demonstrate its financial need for continued SRILEC USP support by showing that an unsubsidized wireline voice provider competitor does not provide service in census blocks comprising 75% of the square miles of each exchange.⁴ In addition, monthly per-line support amounts must be reduced for each exchange to the extent that disbursements received by GVTC from the SRILEC USP for the twelve months ended September 30, 2016 are greater than 80% of the total amount of expenses reflected in a summary of expenses that are attributable to GVTC's supported exchanges for which there exists financial need for continued support.⁵ If GVTC provides sufficient evidence regarding each determination, it can continue to receive the monthly per-line support amount for each exchange that it was eligible to receive on December 31, 2017, subject to GVTC's request to de-average its support.⁶

The Commission's rule establishes the criteria to demonstrate financial need for continued SRILEC USP support within a supported exchange.⁷ Financial need for continued SRILEC USP support within a supported exchange is determined based on the extent of the presence of an unsubsidized⁸ wireline voice provider competitor offering basic local service or broadband service of 3 megabits per second (Mbps) down and 768 kilobits per second (Kbps) up using wireline-based technology within that supported exchange.⁹ An ILEC has a financial need for continued support within an exchange if the percentage of square miles served by an unsubsidized wireline voice provider competitor does not exceed 75% of the square miles within the exchange.¹⁰ The Commission's rule requires the use of Version 7 of the National

⁴ 16 TAC § 26.405(d).

⁵ 16 TAC § 26.405(e)(2)(B) states that GVTC's disbursements received during the twelve-month period ending with the most recently completed calendar quarter prior to the petition shall be compared to certain expenses attributable to GVTC's supported exchanges. For GVTC, the relevant twelve-month period concludes on September 30, 2016. GVTC Petition at 6.

⁶ 16 TAC § 26.405(g)(4).

⁷ 16 TAC § 26.405(d).

⁸ For a competitor to be considered unsubsidized, it must not receive Texas High Cost Universal Service Plan (THCUSP) support, SRILEC USP support, Federal Communications Commission (FCC) Connect America Fund (CAF) support, or FCC Legacy High Cost support. 16 TAC § 26.405(d)(2).

⁹ The rule requires that the competitor provide qualifying service using wireline-based technology using either its own facilities or a combination of its own facilities and purchased unbundled network elements (UNEs). *Id.* No party in this proceeding has contested whether any unsubsidized wireline voice provider competitor meets this criterion.

¹⁰ *Id.*

Broadband Map (NBM) to identify the census blocks served by an unsubsidized wireline voice provider competitor within a specific exchange.¹¹ The data provided by the NBM creates a rebuttable presumption regarding the presence of an unsubsidized wireline voice provider competitor within a specific census block.

The Commission's rule also establishes the criteria for determining the amount of continued support.¹² For those exchanges in which the Commission determines that the ILEC has not demonstrated a need for continued support, the monthly per-line support would be reduced to zero.¹³ For those exchanges in which the ILEC has demonstrated a financial need for continued support, if the ILEC received support from the SRILEC USP, the amount of support the ILEC was eligible to receive on December 31, 2017, subject to any de-averaging, is reduced by the extent, if any, to which the disbursements received by an ILEC from the SRILEC USP in the four completed quarters prior to the filing of a petition by the ILEC are greater than 80% of the total amount of expenses from particular categories attributed to the supported exchanges.¹⁴

III. ANALYSIS

Based on the analysis below, I conclude that GVTC has demonstrated that it has a financial need for continued support in all of its SRILEC USP supported exchanges except for the Balcones, Bulverde, and Sattler exchanges because unsubsidized wireline voice provider competitors offer qualifying service in census blocks comprising at least 75% of the square miles of those three exchanges. I recommend that support for the remaining twelve exchanges be continued at the monthly per-line amounts which GVTC is eligible to receive on December 31, 2017, as adjusted by de-averaging.

1. Demonstration of Financial Need

¹¹ 16 TAC § 26.405(d)(2)(B).

¹² 16 TAC § 26.405(e).

¹³ 16 TAC § 26.405(e)(1).

¹⁴ 16 TAC § 26.405(e)(2).

Under 16 TAC § 26.405(d), a financial need for continued support for an exchange exists when there is not a unsubsidized wireline voice provider competitor offering qualifying service in census blocks comprising at least 75% of the square miles in that exchange. In adopting the rule, the Commission stated that “the presence of an unsubsidized wireline voice provider competitor in a market is a clear indicator that there is a business case to offer basic local service without the need for support from the TUSF.”¹⁵

GVTC's Evidence

Mr. Robinson described GVTC's process to determine whether the census blocks containing an unsubsidized wireline voice provider competitor comprise 75% or more of the square miles of a supported exchange.¹⁶ The process consisted of the following steps:

- 1) Utilize spatial analytic software to identify census blocks and associated square miles that were contained within or have a portion of their area that intersects GVTC's exchanges using digital representations of boundaries of GVTC exchanges;
- 2) Identify potential unsubsidized wireline voice provider competitors by comparing the list of census blocks to Version 7 of the NBM and review each identified provider to determine its qualification as an unsubsidized wireline voice provider competitor. A provider qualifies if it offers voice service or broadband service at 3 Mbps download and 768 Kbps upload within the GVTC exchanges; and
- 3) Calculate the square miles served by all unsubsidized wireline voice provider competitors within each GVTC exchange and the percentage of those square miles relative to the individual GVTC exchange's total square miles.

Based on the analysis performed for its fifteen currently supported exchanges, Mr. Robinson asserted that GVTC has a financial need for continued SRILEC USP support in all of its supported exchanges except for the Balcones, Bulverde, and Sattler exchanges¹⁷ because GVTC's analysis indicated that unsubsidized wireline voice provider competitors offer

¹⁵ Rulemaking to Amend Substantive Rules Relating to Telecommunications to Conform to PURA §56.023, Project No. 41608, Order Adopting Amendment to §§26.403 and 26.404 and New §26.405 as approved at the December 1, 2014 Open Meeting at 58 (Dec. 3, 2014).

¹⁶ GVTC Petition, Direct Testimony of Wesley Robinson (Robinson Testimony) at 16-23 and Exhibits WR-4 and WR-5.

¹⁷ *Id.* at 24.

qualifying service within census blocks comprising at least 75% of the square miles within those exchanges. Specifically, unsubsidized wireline voice provider competitors offer service in census blocks comprising 81.4% of the square miles within the Balcones exchange, 75.3% of the square miles within the Bulverde exchange, and 92.0% of the square miles in the Sattler exchange.¹⁸ Staff notes that these exchanges are relatively near to the greater San Antonio metropolitan area.

Staff's Review:

For purposes of demonstrating financial need for continued SRILEC USP support in each of its currently supported exchanges, GVTC must show whether the percentage of square miles served by an unsubsidized wireline voice provider competitor in a given exchange exceeds 75% of the square miles within that exchange. While Mr. Robinson's testimony described the process used by GVTC for determining continued financial need for the twelve exchanges listed in his petition, I verified Mr. Robinson's methodology by analyzing his work for a sample of six exchanges from the list of fifteen exchanges. It is appropriate to confirm Mr. Robinson's methodology using a sample of exchanges because of the intensive nature of recreating overlaid mapping information, and the sample I used accurately represents the overall validity of Mr. Robinson's methodology.

The six exchanges selected for Staff review included Cranes Mill, Hancock, Kenberg, Leesville, Saturn, and Smithson Valley. Several factors were considered by Staff in the selection of the exchanges such as the proximity of the selected exchange to metropolitan areas, the number of unsubsidized wireline voice provider competitors identified in the selected exchange, the percentage of square miles served by unsubsidized wireline voice provider competitors in the selected exchange and the location of the selected exchange within GVTC's service territory. For instance, Cranes Mill is close to the San Antonio metropolitan area, and, based on GVTC's analysis, it had a significant presence of competitors (46.3%).

On January 31, 2017, Staff met with GVTC's personnel, including Mr. Robinson, to review the process that GVTC followed to determine the financial need for continued support

¹⁸ *Id.*

in the six exchanges selected by Staff. At the meeting, Mr. Robinson described the process and methodology used by GVTC, which consisted of the following steps:

- (1) Identifying census blocks within an exchange and census blocks served by potential unsubsidized wireline voice provider competitors;
- (2) Establishing the existence of an unsubsidized wireline voice provider competitor and identifying census blocks served by such competitors; and
- (3) Determining the percentage of square miles served by an unsubsidized wireline voice provider competitor.

Mr. Robinson used the Cranes Mill exchange, one of Staff's selected exchanges, to illustrate the process and provided maps and data from the NBM Version 7 for the six selected exchanges.

After a review of the process employed by GVTC to determine the percentage of square miles served by an unsubsidized competitor and a review of the representative maps, I find the process used by GVTC to be reasonable for the reasons described below.

- (A) Identifying census blocks within an exchange and census blocks served by potential unsubsidized wireline voice provider competitors:

GVTC relied on publicly available information such as shape files of census blocks boundaries available from the United States Census Bureau and used Geographical Information Systems software to identify the census blocks within the exchange and adjust the census blocks located near the exchange boundary to include only the portion of the census block that is actually within the exchange boundary. I confirmed this process through my review of the maps of the Cranes Mill exchange provided by GVTC to illustrate these steps, and it is my understanding that GVTC used this process for the remaining five selected exchanges. It is also my understanding that GVTC relied on the shape files of its exchange boundaries that it submits to the FCC to arrive at the total squares within each exchange and confirmed the result by comparing it to an aggregation of census blocks square miles within the exchange.

GVTC relied on Version 7 of the NBM, as required by 16 TAC § 26.405(d), to determine the census blocks served by potential competitors. I reviewed the NBM for the six selected exchanges and verified that all the providers listed by GVTC for each

of the six selected exchanges are, in fact, listed on the broadband map file for the selected exchanges.

- (B) Establishing the existence of an unsubsidized wireline voice provider competitor and identifying census blocks served by such competitors:

GVTC's evidence details carriers in each exchange that may be unsubsidized wireline voice provider competitors. The list of potential unsubsidized wireline voice provider competitors identified by GVTC as serving in census blocks that are within or overlapping with the supported GVTC exchanges included ILECs or companies that are affiliates of ILECs, which GVTC describes as "adjacent ILECs." GVTC determined that the ILECs, including four ILECs in the selected exchanges, provided service in adjacent exchanges that included census blocks with no other wireline competitor that overlap into GVTC's serving area and, therefore, do not qualify as an unsubsidized wireline voice provider competitor. The four adjacent ILECs serving census blocks within or overlapping with the selected exchanges included AT&T Communications of Texas (Balcones, Bulverde, Cranes Mill, Kingsbury, Leesville, Sattler, and Smithson Valley exchanges),¹⁹ CenturyTel Inc. (Sattler exchange), Verizon Southwest (Kenberg exchange), and Hill Country Telephone Cooperative, Inc. (Kenberg and Sabina exchanges).²⁰ It was evident from the map of the Cranes Mill exchange that AT&T is an adjacent ILEC and the census blocks showing its presence straddles the exchange boundaries of the Cranes Mill exchange. With respect to the remaining three adjacent ILECs, it should be noted that ILECs can only serve in another ILEC's exchange through an affiliate or using a certification other than their Certificate of Convenience and Necessity, and there is no evidence to indicate that any of these ILECs identified by GVTC has an affiliate providing voice or eligible broadband service in the fifteen exchanges in GVTC's petition.

Time Warner Cable Inc. (TWC) provides service in a number of GVTC exchanges, including five of the six selected exchanges: Cranes Mill, Hancock,

¹⁹ AT&T Communications of Texas is a competitive local exchange carrier that is an affiliate of Southwestern Bell Telephone Company.

²⁰ Robinson Testimony, Exhibit WR-4. Colorado Valley Communications, Inc. may also be considered an adjacent ILEC, but that provider was eliminated as a potential unsubsidized wireline voice provider competitor because it does not provide sufficient broadband speeds. *Id.*

Kenberg, Saturn, and Smithson Valley. GVTC determined that TWC qualified as an unsubsidized wireline voice competitor because it offers basic local service or broadband service of 3 Mbps down and 768 Kbps up. My research of the TWC's website and the information about TWC in the NBM confirms GVTC's assertion regarding TWC's service offering and broadband speed. The presence of TWC is significant in Balcones (81.4%), Bulverde (75.3%) and Sattler (92.0%).²¹

After adjacent ILECs and tw telecom of texas, llc²² were excluded, the remaining providers on the broadband map for each of the six selected exchanges were determined to be unsubsidized wireline voice provider competitors. Based on the information contained in the Texas Universal Service Fund Financial Report and the list of the federal Universal Service Fund (FUSF) recipients in Texas derived from the website for the administrator of the FUSF program, Universal Service Administrative Company (USAC), I verified that none of the remaining competitive providers for the six selected exchanges were subsidized. I also checked the NBM files to determine whether the remaining providers for the six selected exchanges met the broadband speed requirements of 3 Mbps down and 768 Kbps up. My review showed instances where the provider did not meet the broadband speed test, such as in the case of Colorado Valley Communications, Inc. in the Rocky Creek exchange.

GVTC provided maps that showed the census blocks served by unsubsidized wireline voice provider competitors in the six exchanges selected by Staff. I confirmed the existence of unsubsidized wireline voice provider competitors by reviewing the representative maps.

- (C) Determining the percentage of square miles served by an unsubsidized wireline voice provider competitor:

As mentioned above, I reviewed the representative maps and confirmed that they showed the presence of the unsubsidized wireline voice provider competitors in census blocks within these exchanges. Based on the information provided by GVTC regarding the total square miles of each exchange and the square miles served by each unsubsidized wireline voice provider competitor, I verified the calculations performed

²¹ Robinson Testimony, Exhibit WR-5.

²² tw telecom of texas, llc was excluded because its broadband speeds were too low.

by GVTC to arrive at the percentage of square miles served by an unsubsidized wireline voice provider competitor within each selected exchange and found the results to be accurate. My analysis indicated that the percentage of square miles served by unsubsidized wireline voice provider competitors did not exceed the 75% threshold within five of the six selected exchanges. Sattler exceeded the threshold at 92.0%.

My analysis indicates that GVTC has demonstrated a financial need for continued support in all of its SRILEC USP supported exchanges except for the Balcones, Bulverde, and Sattler exchanges because unsubsidized wireline voice provider competitors offering qualifying service exist in census blocks comprising at least 75% of the square miles in the those exchanges.

I agree with GVTC's analysis that identified the Balcones, Bulverde, and Sattler exchanges as not having a financial need for continued support because each exchange has unsubsidized wireline voice provider competitors offering qualifying service within census blocks in excess of 75% of the square miles. Given the proximity of the three exchanges to the San Antonio metropolitan area, it is reasonable to expect significant competitive presence in them.

2. Amount of Continued SRILEC USP Support

In exchanges for which the ILEC has not demonstrated a need for continued support, the monthly per-line support shall be reduced to zero.²³ In exchanges for which the ILEC has demonstrated a financial need for continued support, the ILEC may receive the monthly per-line support amount for each exchange that it was eligible to receive on December 31, 2017 if the ILEC received support from the SRILEC USP, as adjusted by de-averaging, reduced by the extent to which the disbursements received by an ILEC from the SRILEC USP in the four completed quarters prior to the filing of a petition by the ILEC are greater than 80% of the total amount of expenses from particular categories attributed to the supported exchanges.²⁴

GVTC's Evidence

²³ 16 TAC § 26.405(e)(1).

²⁴ 16 TAC § 26.405(e)(2).

Mr. Robinson described the process used by GVTC to determine that disbursements received by GVTC from the SRILEC USP for the twelve months ended September 30, 2016 are not greater than 80% of the total amount of expenses reflected in the summary of expenses that are attributable to GVTC's supported exchanges.²⁵ Mr. Robinson provided evidence showing the summary of the Texas regulated expenses and property categories as well as the amount attributable to the SRILEC USP supported exchanges for GVTC.²⁶

For purposes of determining the amount of the total Texas-regulated expenses attributable to GVTC's SRILEC USP supported exchanges, GVTC used two different allocation factors, sheath miles and access lines. For plant-specific and plant nonspecific operations expenses, GVTC utilized a factor based on the ratio of sheath miles in its SRILEC USP supported exchanges to the total sheath miles for all GVTC exchanges. For the remaining expense categories, depreciation and amortization, customer operations, corporate operations, and other operating taxes, GVTC utilized the ratio of access lines in its SRILEC USP supported exchanges to the total access lines in all GVTC exchanges. GVTC used the supported access line counts from September 2016 as reported to the SRILEC USP fund administrator as the basis of its calculations.

Mr. Robinson presented the results of the analysis comparing the SRILEC USP support received by GVTC for all exchanges for the twelve months ended September 30, 2016 to the amount of expenses attributable to the SRILEC USP supported exchanges (other than the Balcones, Bulverde, and Sattler exchanges) to demonstrate that the SRILEC USP support for exchanges in the GVTC serving areas do not exceed 80% of the amount of expenses attributable to the SRILEC USP supported exchanges.²⁷ Mr. Robinson concluded that an adjustment to the December 31, 2017 per-line support amounts, other than its requested de-averaging, is not required for GVTC.²⁸

Staff's Review

I confirmed GVTC's proposed monthly per-line support amounts, as discussed below.

²⁵ Robinson Testimony at 24-29.

²⁶ *Id.*, Exhibit WR-6.

²⁷ *Id.* at 28-29.

²⁸ *Id.* at 28-29 and Exhibit WR-6.

- (1) Exchanges that do not have a financial need for continued support.

The monthly per-line support shall be reduced to zero in an exchange where GVTC has not shown a financial need for continued support due to the presence of unsubsidized wireline voice provider competitors in census blocks comprising at least 75% of the square miles in the exchange.²⁹ GVTC has not demonstrated a financial need for continued support in the Balcones, Bulverde, and Sattler exchanges. Therefore, I agree with GVTC that the monthly per-line support should be reduced to be zero.

- (2) Exchanges that do have a financial need for continued support.

With respect to the remaining twelve currently supported exchanges where GVTC has demonstrated a financial need for continuing support, GVTC is required to demonstrate that the disbursements received by GVTC from the SRILEC USP for the twelve months ended September 30, 2016 are not greater than 80% of the total amount of expenses reflected in the summary of expenses that are attributable to GVTC's supported exchanges.³⁰ In my review of GVTC's expenses that are attributable to supported exchanges, I verified that the summary of expenses attributable to GVTC's supported exchanges excluded the Balcones, Bulverde, and Sattler exchanges. I also verified the calculations of the ratio of the SRILEC USP support to the summary of expenses attributable to GVTC's supported exchanges and found them to be accurate.

For purposes of determining the amount of the total Texas regulated expenses attributable to GVTC's SRILEC USP supported exchanges, GVTC used two different allocation factors, sheath miles and access lines.

- (A) Use of Sheath Miles as an Allocation Factor:

For plant-specific and plant nonspecific operations expenses, GVTC utilized a factor based on the percentage of sheath miles. As Mr. Robinson notes in this testimony, plant specific and plant non-specific expenses are generated by the design, engineering and maintenance of the network.³¹ While other allocations factors such as percentage of access lines or percentage of exchanges could be used, I believe that percentage of sheath miles is an appropriate allocation factor to use for attributing expenses to plant-

²⁹ 16 TAC § 26.405(e)(1).

³⁰ 16 TAC § 26.405(e)(2).

³¹ Robinson Testimony at 27.

specific and plant non-specific expenses in low density areas supported by the SRILEC USP. There is a strong correlation between the low density and high costs of providing service which forms the basis for the support from SRILEC USP in such areas. Staff has previously recognized the importance of considering density of access lines in allocating TUSF support, such as the stipulation approved in Docket No. 40521.³² Since sheath miles is considered a strong indicator of the density of the network, it is reasonable to expect a proportionately greater amount of sheath miles per customer and higher associated amount of network related expenses in lower density high cost areas.

- (B) Use of Access Lines as an Allocation Factor: For the remaining expense categories, depreciation and amortization, customer operations, corporate operations, and other operating taxes, GVTC utilized the percentage of access lines in its SRILEC USP supported exchange to the total access lines in all GVTC exchanges. Given that the remaining expense categories are not generally influenced by the density of the area served and are more likely to be related to the number of customers served and activities associated with marketing, billing, and customer service,³³ I conclude that percentage of access lines is a reasonable allocation factor for attributing the remaining expenses to the supported exchanges.
- (3) Are the disbursements from the SRILEC USP greater than the 80% threshold established in 16 TAC § 26.405(e)(2)?

No. My review and verification of the calculation of the allocation factors and percentage of total SRILEC USP support compared to the total expenses attributable to supported exchanges indicate that the SRILEC USP support for exchanges in the GVTC serving areas do not exceed 80% of the amount of expenses attributable to the SRILEC USP supported exchanges. As mentioned earlier, the Balcones, Bulverde, and Sattler exchanges were excluded from the analysis because they were not shown to have a financial need for continued support. Therefore, an adjustment to the December 31, 2017 per-line support amounts for the remaining twelve currently supported exchanges is not required, other than for de-averaging.

³² See *Commission Staffs Petition to Establish a Reasonable Rate for Basic Local Telecommunications Service Pursuant to P.U.C. SUBST. R. 26.403*, Docket No. 40521, Direct Testimony of Mark T. Bryant, Ph.D. at 13-14 (Aug. 28, 2012).

³³ Robinson Testimony at 26-27.

- (4) New monthly per-line support calculations and de-averaging of monthly per-line support:

I reviewed Exhibit WR-10 which lists the monthly per-line support amounts to be effective on January 1, 2018, and I received confirmation from Solix, the TUSF administrator, that the monthly support amounts shown on Exhibit WR-10 accurately reflects the monthly per-line support amounts that GVTC is eligible to receive on December 31, 2017, as adjusted for de-averaging.

De-averaging allows an ILEC to reallocate its high-cost support among its exchanges based on the density of residential lines served by the ILEC within the exchange. While the de-averaging methodology does not affect the overall level of high-cost support available to the ILEC, it has the effect of reducing the monthly per-line support in denser exchanges and increasing the monthly per-line support in less-dense exchanges.

In adopting the de-averaging methodology, the Commission noted that support from the SRILEC USP “was originally awarded on a company-wide basis, meaning that support nominally provided in denser exchanges has historically been used to support service in less-dense exchanges.”³⁴ In simpler terms, support that may be needed to serve less-dense exchanges may have been historically embedded in the support amounts nominally associated with denser exchanges. As a result, an ILEC may elect to de-average its support “so that it is representative of the cost characteristics of each exchange and incorporates the costs of serving as the [Provider of Last Resort].”³⁵

De-averaging is permitted by the Commission’s rule if the ILEC’s petition is filed on or before January 1, 2017.³⁶ In order to de-average the support provided in the exchange, a “benchmark” level of support is calculated for each exchange is calculated taking the number of total eligible lines as of December 31, 2016 in an exchange and multiplying it by the appropriate proxy per-line support amount established in the Commission’s rule, which correspond to the residential line density of the exchange.³⁷ To the extent the total sum of the

³⁴ *Rulemaking to Amend Substantive Rules Relating to Telecommunications to Conform to PURA § 56.023*, Project No. 41608, Order Adopting Amendment to §§26.403 and 26.404 and New §26.405 as Approved at the December 1, 2014 Open Meeting at 107 (Dec. 1, 2014).

³⁵ *Id.* at 108.

³⁶ 16 TAC § 26.405(g).

³⁷ 16 TAC § 26.405(g)(1)-(2).

benchmark support amounts for the ILEC's supported exchanges exceed the total amount the ILEC would have been eligible to receive on December 31, 2017, the benchmark per-line supports are proportionally reduced by the same percentage.³⁸ The resulting monthly per-line support amounts are the support amounts that the ILEC is deemed to have been eligible to receive on December 31, 2017 for the purpose of implementing the Commission's rule.³⁹

GVTC used the "benchmark" monthly per-line support amounts in 16 TAC § 26.405(g)(1).⁴⁰ However, the total company benchmark amount exceeded the December 31, 2017 targeted total support amount. GVTC thus adjusted its per-exchange annual support amounts downward on a pro-rata basis so as to meet the December 31, 2017 targeted amount. I confirmed the GVTC calculations and confirmed that GVTC's use of the proxy per-line support amounts was in accordance with the rule's requirements.

I agree with GVTC that the support for the Balcones, Bulverde, and Sattler exchanges should be eliminated, as noted in GVTC's petition, and that the support for the remaining twelve exchanges should be continued at the monthly per-line support amounts which GVTC is eligible to receive on December 31, 2017, as adjusted for de-averaging.

IV. RECOMMENDATION

Based on my review of GVTC's application for the exchanges listed in GVTC's petition and my independent verification of the information provided by GVTC including the testimony of Mr. Robinson I conclude that GVTC's process for determining the financial need for continued support for its currently supported exchanges is reasonable and meets the requirements outlined in 16 TAC § 26.405. Additionally, I conclude that GVTC has demonstrated that it has a financial need for continued support in all of its SRILEC USP supported exchanges except for the Balcones, Bulverde, and Sattler exchanges and that support for the remaining twelve exchanges should be continued at the monthly per-line amounts which GVTC is eligible to receive on December 31, 2017, as adjusted for de-averaging pursuant to 16 TAC § 26.405(g). Therefore, I recommend that the Commission GRANT GVTC's petition.

³⁸ 16 TAC § 26.405(g)(3).

³⁹ 16 TAC § 26.405(g)(4).

⁴⁰ Robinson Testimony, Exhibit WR-3.