



The South Carolina State Universal Service Fund

Report to the State Regulation of
Public Utilities Review Committee

South Carolina
Office of Regulatory Staff

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May 25, 2018

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Acronyms Used in this Report

ACT 181 – State Telecom Equity in Funding Act

COLR – Carrier of Last Resort

DOR – South Carolina Department of Revenue

LEC – Local Exchange Carrier

ORS – the South Carolina Office of Regulatory Staff

PSC – South Carolina Public Service Commission, Commission, or PSC

SCUSF or SUSF – South Carolina (or State) Universal Service Fund

VoIP – Voice Over Internet Protocol

Introduction

S.C. Code Ann. § 58-9-280 (E)(11)(a) requires the Office of Regulatory Staff (ORS), within two years after the effective date of Act 181, to “provide a report to the Public Utilities Review Committee (PURC) as to the State Universal Service Fund, the need for funding, and the appropriate level of distributions.”

The State Universal Service Fund

In 1996, the South Carolina General Assembly directed the Public Service Commission of South Carolina (PSC) pursuant to 1996 S.C. Acts 354 (Act 354) to establish a State Universal Service Fund (SUSF) for distribution to Carriers of Last Resort (COLR) in S.C. Code Ann. § 58-9-280(E).

In Order No. 2001- 996, dated October 10, 2001, the Commission approved guidelines for the administration of the SUSF. In this order, the Commission defined Universal Service as “the provision of basic local exchange telecommunications service, at affordable rates and upon reasonable request, to all single-party residential and all single-line business customers within a designated service area.” Along with this commitment to provide Universal Service, the Commission also established support for low-income consumers through the Lifeline program.

For a Local Exchange Company (LEC) to receive support from the SUSF, the Commission required them to assume the obligations of a COLR. A COLR must meet the following guidelines:

- The COLR must be willing and able and must certify its commitment to provide the defined services supported by the SUSF to any requesting customer's location within the designated service area;
- The COLR must advertise the availability of such services and service prices using media of general distribution;
- The COLR must provide its services at not more than the Commission-authorized maximum stand-alone rates for the defined basic local exchange telecommunications service, and must meet all service quality and provision rules established by the Commission for universal services; and

- The COLR may satisfy its obligation to provide the defined services over its own facilities or a combination of its own facilities and resale of another carrier's services. The COLR may also satisfy its obligation to provide the defined services in whole or in part through the lease of unbundled network elements (UNEs). A carrier that provides service solely through the resale of other carriers' facilities is not entitled to Universal Service support.

The SUSF was set up to be a revenue-neutral mechanism. To offset the amount received from the SUSF, the COLRs that withdrew monies from the SUSF were required to reduce prices for intrastate services that contained implicit subsidies for Universal Service. Originally, 25 COLRs in South Carolina received this revenue-neutral support from the SUSF. AT&T no longer draws money from the high-cost portion of the SUSF.¹ Currently, there are 24 fund recipients.

Contributions to the SUSF:

All telecommunications service providers in South Carolina are required to submit a Universal Service Fund Contribution Worksheet to determine if they are required to make contributions to the SUSF based on interstate and intrastate revenues generated by and/or billed to an end user in South Carolina. These carriers can recover their contribution to the SUSF through a surcharge, established annually, on end-user bills. Contributions are collected monthly by the ORS or South Carolina Department of Revenue (DOR), based on an invoice that is sent to each carrier.² The invoice is based on the proportionate share of each carrier's revenue in relation to the total amount required by the SUSF.³

Disbursements from the SUSF:

Currently, 24 companies receive high-cost support from the SUSF. Disbursements from the SUSF are made by the ORS on a monthly basis to each of the COLRs and are proportionately based on the amount authorized by the PSC in Order No. 2016-680 and the cash available in the SUSF at the end of each month. (Attachment 1: List of COLR recipients and approved support)

Lifeline Program:

The South Carolina Lifeline program provides support for qualified low-income consumers in South Carolina participating in the federal Lifeline program. The Lifeline program provides a \$3.50 discount on a qualified consumer's monthly bill for local phone service. The COLRs provide this discount and are reimbursed for it by the SUSF. At the end of each year the

¹ AT&T does provide State Lifeline support to a small group of customers.

² ORS bills those entities subject to the jurisdiction of the Commission. DOR collects from those entities who do not hold a certificate of public convenience and necessity.

³ Docket No. 1997-239-C, Order No. 2016-680.

COLRs report the number of Lifeline customers that have received support. (Attachment 2: Number of lifeline customers for 2017 receiving benefit from the SUSF)

Sizing the SUSF:

In 2017, the high-cost portion of the SUSF was capped and set at the annual amount of \$40,732,661 as determined by PSC Order No. 2016-680 implementing Act 181. Certain elements of the SUSF may vary from year to year. These include the SC Lifeline portion; the administrative fees for managing the SUSF (including the independent audit) and the Lifeline Program; and an administrative fee for DOR's billing and collection role. (Attachment 3: 2017 SUSF Expenditures)

Establishing Carrier and Prepaid Contributions to the SUSF:

The contribution portion of the SUSF is adjusted annually based on the intrastate and interstate revenues of the contributing carriers as well as on the estimated number of prepaid wireless transactions for the upcoming fund year. Each carrier completes a Universal Service Fund Contribution Worksheet and submits it to the ORS. This worksheet is due on or before August 1st of each year.

For prepaid wireless transactions, estimates and calculations are made to determine the contributions needed from each prepaid wireless transaction (recorded by contributing carriers or prepaid retail outlets) to equitably fund the prepaid portion of the SUSF.

Recent Changes in the SUSF

Changes in the way the SUSF is sized, operates, and in its mix of contributors began to take shape in 2016. On January 26, 2016 the Commission issued Order No. 2016-22, in Docket No. 2015-290-C, ordering that "wireless retail carriers operating in South Carolina are, therefore required, pursuant to S.C. Code Ann. § 58-9-280(E)(2), to contribute to the State USF in the same manner that other telecommunications service providers contribute."

Following on the action of the Commission, the South Carolina General Assembly passed 2016 S.C. Acts 181, the "State Telecom Equity in Funding Act," effective May 25, 2016. Act 181 implemented several changes to the SUSF. Below are the changes and resulting actions taken by the ORS:

- Act 181 merges the Interim Local Exchange Carrier Fund (Interim LEC Fund) into the SUSF and essentially caps the state high-cost support of the SUSF at \$40,732,661

million, the level of disbursements to providers from the two funds combined during 2015.

- Persons and entities that sell prepaid wireless telecommunications service to consumers must collect a SUSF fee with each transaction and remit the sum to DOR.
- The ORS is required to set the contribution amount for prepaid wireless sellers each year as a fixed per-transaction fee for each point-of-sale transaction.
- The 2017 per-transaction fee for prepaid wireless sellers was set by the ORS at \$0.50 per transaction, and DOR collected this fee through its Form ST-406. The ORS established this fee by forecasting the number of prepaid transactions for 2017, estimating the SUSF amount that the ORS would collect from each traditional wireless monthly bill, and using those forecasts and estimates to set the first-year rate. The fee continues at \$0.50 through 2018. Sellers may retain a 3% administrative fee.
- As required by PSC Order No. 2016-22, wireless carriers are required to contribute to the SUSF, DOR issues monthly invoices, and carriers must remit payment to DOR.
- The ORS has established each carrier's (wireline, VoIP, and wireless) contribution amount, and the ORS or DOR bills carriers monthly. DOR sends invoices to wireless carriers and VoIP providers, and ORS sends invoices to regulated/certificated wireline carriers.
- DOR is required to transfer the collections, less an amount equal to DOR's actual incremental increase in administrative cost, to the SUSF.

On October 19, 2016, the PSC issued Order No. 2016-756 in Docket No. 1997-239-C establishing guidelines for the ORS to administer the SUSF. On November 1, 2016, the ORS published on its website a Public Notice announcing the 2017 USF contribution factor of 1.85%.⁴ This Factor was established for all carriers, and this rate was the highest that wireless and wireline carriers could use to recover SUSF fees from their customers. The 2017 SUSF contribution factor was adjusted to 2.665% in July 2017, due to revenue-reporting errors by several carriers.

⁴ The earliest date allowed for implementation of Act 181 was January 1, 2017.

For 2018, the SUSF contribution factor has been set at 2.07%. The contribution factor increase from 1.85% in 2017 to 2.07% in 2018 was due to a reduction in the base revenue used to compute the factor. The revenue reduction came from two sources: the revenue corrections submitted by several of the contributing wireless carriers and additional reductions in the revenue reported by wireline carriers.

As the final step in the effort to revamp and modernize the SUSF, the PSC issued Order No. 2016-837 in Docket No. 2016-267-C on December 15, 2016, ordering all interconnected VoIP service providers, "regardless of whether they hold a Certificate of Public Convenience and Necessity issued by the Commission," to contribute to the State USF based on their retail voice communications services. Interconnected VoIP service providers not currently contributing were directed to contribute on a prospective basis and to submit appropriate information to the ORS the next reporting cycle. Based on Order 2016-837, many VoIP service providers began reporting with the SUSF Worksheet filed on August 1, 2017, and are now contributing to the SUSF as of January 2018. The ORS is currently working to bring all VoIP service providers into compliance. Since VoIP service providers are not regulated or certificated by the Commission, the ORS has found that many seem to be unaware of the change in SUSF reporting and contribution requirements.

Defining Need and Level of Distribution

To address the question of need and level of distribution, the ORS first sought input from the stakeholders who were involved during the legislative session and the development of Act 181. The ORS sought input from a cross-section of the telecommunications carriers including traditional regulated telephone utilities, VoIP providers, and the wireless communications industry serving South Carolina.

The ORS received responses from six organizations, and their comments can be found in Attachment 4. Each organization provided its own perspective, offering the criteria or information they believed should be used to evaluate "the need for funding, and the appropriate level of distributions." Several of the ideas are summarized below:

- Several responses indicated that Act 181 eliminated the requirement for cost studies
 - "therefore state law no longer requires State USF to be sized based on cost" [SCTC]
- The USF is frozen at the 2015 level of the USF and Interim LEC Fund Combined

- “The Legislature left the determination of the relevant information necessary to demonstrate need to the ORS’s discretion.”
- “The size of the SCUSF...should be made with consumers, and not companies, in mind.” [CTIA]
- “...the definition of ‘need’ should not include support for areas already served by an unsubsidized competitor.” [CTIA]

While § 58-9-280 (E)(11)(a) does not specifically describe how the ORS should determine “the need for funding, and the appropriate level of distributions,” guidance can be found in § 58-9-280 (E)(11). The support provided by the SUSF should create an environment that ensures financial stability necessary to encourage long-term investment by COLRs.

The ORS believes that the term “need” found in Section 58-9-280 (E)(11)(a) should be defined.

- (1) Need can be defined, in its broadest terms, based on the needs of the local community, the consumers and businesses in that community, and the COLR that serves the community. To do this a methodology must be developed.
- (2) Need can be defined more narrowly and based solely on the company’s ability to meet its COLR responsibility of providing basic local telephone service, which requires a determination of need based on current network design and use but also will require allocation of the costs, investments, and revenues of the COLR. However, doing expensive, data intensive, and subjective cost studies (a vestige of the rate-of-return, rate-base regulation for regulated telephone utilities) is not best designed for establishing a COLR’s need for financial support while providing for appropriate oversight.
- (3) ORS believes need can best be defined by examining all revenues and all expenses. Basic telephone service is no longer the primary cost causer of network investment and associated cost. The same network supporting basic local service delivers multiple services. Furthermore, the COLR network supports the interconnection of wireless services and, as technology evolves, requires the COLR to upgrade its network to meet future demands. From a revenue perspective for the COLR, many customers are connected to the network for Internet and/or cable TV service, but do not subscribe to telephone service. Nonetheless, the COLR is required to maintain the network to serve any customer if service is requested. As such, total

revenues, total costs, and investments of the COLR should be analyzed – rather than a subset of these revenues, costs, and investments. By reviewing only capital and operating expenditures and associated revenue represented as regulated, the financial stability necessary to encourage long-term investment by each COLR may not be ensured, is open to dispute, and fails to provide a complete picture of the COLR’s financial health and need. The ORS believes a change in law is required to implement this type of examination of need.

ORS Examination

The ORS designed a set of questions to collect the information needed to provide the PURC with the information required by S.C. Code Ann. § 58-9-280 (E)(11)(a). The ORS questions may be found in Attachment 5. The ORS also examined documents made available by the COLRs but considered by them to be confidential or proprietary.

COLR Responses

The responses of each COLR are provided in Attachment 6.

ORS Review and Analysis

The 24 companies that currently receive \$40,732,661 from the SUSF have responded to the questions asked by the ORS, and those responses are reported in Attachment 6. Throughout the responses to the data requests and in this report the terms “regulated” and “unregulated” appear. These terms are a vestige of the history of regulation in the telephone industry. In South Carolina, there is one remaining rate of return telephone utility, Sandhill Telephone Cooperative. Thus, 23 of the 24 COLRs receiving SUSF support have no “regulated” revenues, expenses, or investments.

A. Documentation Requirements

Although not required by § 58-9-280(E)(11), the ORS incorporated into this report the requirement of ensuring that the SUSF support is being used for the programs for which it was intended. In addition, although § 58-9-280(E)(10) did not become effective until January 1, 2017, the ORS requested the COLRs to provide records for the period of July 1, 2016 through June 30, 2017. This approach demonstrated that the SUSF was used in compliance with the provisions of Act 181.

The responses of the companies regarding documentation vary in detail. Several companies provided what appears to be highly summarized income statement and balance sheet data. The COLRs did respond that the funds were used in South Carolina for the programs intended.

For instance, Frontier responded that it “used the SCUSF funds it received to install and maintain its local exchange network. These costs include, among other things, wages for technicians and engineers who design, build, maintain and repair the network; materials to maintain and repair facilities; supplies to operate, maintain and repair vehicles used by employees for transportation to and from work sites. Costs also include the wages for call center employees who respond to customer requests for new service, changes to existing service, and repairs. SCUSF funds may also be used to help pay for the cost of extending Frontier’s network into new neighborhoods, replacing obsolete network equipment, and moving network facilities to accommodate state and local road construction projects.”

On May 14, 2018, the ORS received records detailing capital expenditures (CAPEX) information for the 21 South Carolina Telephone Companies (SCTC). In addition, the ORS received similar CAPEX detail from CenturyLink, Frontier, and Windstream. The ORS will work with the COLRs to ensure that the records they maintain are adequate to demonstrate that the support received was used to support the programs for which it was intended. The ORS expects company reporting to improve with the next reporting cycle.

In addition, the ORS required each COLR to submit an affidavit certifying SUSF funds are used for the programs intended in South Carolina. The ORS is implementing, as part of its current audits, specific requirements to identify that SUSF support is being utilized in South Carolina for the programs intended.

Due to the sensitive nature of the companies' confidential commercial information regarding the details of their business operations in a competitive environment, the companies assert that public disclosure of this information would be harmful. Consequently, this information is not included in this report.

B. Current Need for Funding

Below is a summary of the responses to the data requests that the ORS issued to the COLRs regarding the current need for funding:

South Carolina Telephone Companies (SCTC)

"The National Exchange Carrier Association, Inc. (NECA) Cost Study Information demonstrates that SCTC Companies in the aggregate had regulated Operating Expenses of \$342,181,207 and regulated Operating Revenues of \$340,484,395 in 2016, for a Regulated Net Income (loss) of (\$1,696,812)."

"In the absence of SCUSF (which is included in Operating Revenues), the SCTC Companies in the aggregate would have negative regulated net income of approximately (\$27. 7) million." This total does not reflect amounts needed either for capital expenditures or to realize a reasonable return on investments made by the SCTC Companies.

Each of the companies anticipates that the level of its operating expenses and capital expenditures... for 2018... will be similar to those incurred in 2016 and 2017... The companies believe the amounts (and, therefore SCUSF) are needed to support the networks – namely, to allow the companies to continue offering high-quality service at affordable rates upon reasonable request to customers within their respective service areas. SCTC asserts that "SCUSF is becoming increasingly important as levels of federal high-cost support for rural telephone companies continue to decline and/or the obligation to build out to additional locations increases."

CenturyLink

"On an intrastate basis, the company's revenues are less than its expenses."

"With 2016 intrastate revenues at approximately \$28.3 million including SUSF and 2016 intrastate expenses totaling \$30.4 million, CenturyLink has a deficit before consideration of return on investment and capital expenditures."

"A reasonable return on investment would only add to the intrastate deficit -- further demonstrating the company's continued need for support to keep rates affordable in rural areas."

CenturyLink's "revenues have been declining over the last several years as competition increases and access lines decrease. Because fixed costs make up a significant portion of these intrastate expenditures, the decline in expenditures associated with the loss of access lines is not commensurate with the decline in intrastate revenues."

CenturyLink states that this financial information shows that “CenturyLink continues to need USF funding to meet its COLR and Universal Service obligations.” It contends that “continued support from the SUSF will allow the company to make long-term investments in its network so that it can provide high-quality service for its South Carolina customers.” In addition, CenturyLink believes that “the SUSF support the company receives is needed to operate and maintain a telecommunications network that benefits the rural customers in South Carolina.”

Frontier

“The tariffed rates for basic service covered less than half of the associated service costs,” and further declines in funding are expected.

“The FCC’s 2011 Access Reform Order reduced terminating access rates,” and it mandated “that rates be transitioned to bill-and-keep arrangements over the coming years. The FCC’s Order also reduced federal high-cost funds for price-cap companies (of which Frontier is one).” Instead, it allocated most of “those funds exclusively to deployment of broadband services in select high-cost areas,” thereby “leaving nothing for many areas of Frontier’s SC territories.”

Frontier asserts that “the decline in funding available to support provision of basic local telephone service makes the predictable funding from the South Carolina Universal Service Fund even more critical than in the past.”

Windstream

“Windstream receives approximately \$2 million” from the SCUSF and “has approximately \$34 million in capital expenditures and operating expenses. The gap between support received and spending clearly exhibits Windstream’s need for continued funding.”

C. Current level of distributions

Each company stated independently that it believed SUSF funds were being distributed as directed by the General Assembly.

SCTC expanded its response in addressing the level of distributions:

The funds are distributed as directed by the General Assembly in Act No. 181 of 2016. The General Assembly directed that the SCUSF would

be frozen at 2015 levels and distributed proportionately to COLRs in the same amounts. Prior to the freeze, funds were distributed to COLRs based on reductions those carriers made to rates that included implicit support for basic local service. In Order No. 2001-419, the Commission found that a system of implicit support for basic local telephone service built into rates for other services could not be sustained in a competitive environment, and that erosion of the implicit support due to natural competitive forces would adversely impact the availability of affordable basic local telephone service to all South Carolina citizens. The Commission required COLRs to file detailed cost data clearly demonstrating that implicit support existed in the rates the COLR proposed to reduce. In essence, the COLRs who receive SCUSF had to make a demonstration of need before they could begin drawing the funding for which they are eligible and, thus, the Companies' need for SCUSF is inherent in the mechanism adopted by the Commission.

For fund year 2017, the required distributions as identified in Attachment 1 were completely met in compliance with Act 181 and PSC Order No. 2016-680.

Conclusion

The ORS found that the revenue and cost information provided by the 24 COLRs is consistent with the past Commission orders, rules, and regulations and is consistent with the SC Supreme Court's decision in *Office of Regulatory Staff v. South Carolina Public Service Commission, et al.*, 374 S.C. 46, 647 S.E. 2d 223 (2007). In this case, the Court upheld the Commission's decision to have the cost of the loop fully allocated to basic service. "Because the local loop is a "cost-causer," the entire cost of the loop is appropriately designated to one service." *Office of Regulatory Staff v. South Carolina Public Service Commission*, 374 S.C. at 65, 647 S.E.2d at 233.

Under this ruling, if the local loop is used to provide multiple services, then the cost is allocated to one service, not to all.

In addition, when the General Assembly required the establishment of a Universal Service fund to ensure "universally available basic local exchange telephone service at affordable rates and to assist with the alignment of prices and/or cost recovery with costs,..." it also required that the fund be "consistent with applicable federal policies,..." (1996 S.C. Acts No. 354, effective May 29, 1996 codified in S.C. Code Ann. 58-9-280(E) (Supp. 2008)). Recent Federal Communications Commission orders are directing significant portions of federal USF support to cover costs associated with the broadband portion of the loop.

With this background, the ORS reviewed cost information provided by SCTC and reviewed documents prepared to demonstrate that costs are being allocated between regulated and non-regulated services. The responses provided by the 21 SCTC companies are based on the "NECA Cost Study" and illustrate that these companies, in the aggregate, have a need for continued SUSF support.

The data and answers provided by all 24 COLRs indicate a continuing need for support from the SUSF. An examination of the documents provided to the ORS does reflect that the amount of federal Universal Service support has decreased, but none of the COLRs seek any change to the level of disbursements from the SUSF.

In 1996, the year that the federal Telecommunications Act was enacted, rural telecommunications networks carried mostly telephone (voice) traffic. Today, modernized rural telecommunications networks carry broadband services, cable TV and video services, and traffic for other communications vendors (e.g. wireless). Telephone (voice) traffic is no longer the dominant service in terms of network usage or cost. Evaluation methodologies of

USF support that continue to treat telephone (voice) traffic as the sole or dominant network cost-causer may lead to a misallocation of future funding. This approach would be to the detriment of consumers and communities most in need of USF support for telephone service and advanced networks.

The ORS believes a change of law would be required for the agency to apply a definition of need that encompasses total revenues, total expenses, and investments of the COLR as a whole, and any alteration to the levels of distribution of the SUSF to the COLRS requires legislative change. In a holistic approach, the examination includes both regulated and non-regulated revenues and expenses. Such a holistic examination would look at the overall financial stability of the COLR necessary to encourage long-term investment while providing for appropriate oversight, such that the level of distribution is appropriate.

ATTACHMENT 1

2017 STATE USF DISBURSEMENT TO EACH COLR

COLR	2015 TOTAL ILF DISBURSEMENT	2015 TOTAL USF DISBURSEMENT	2017 NEW USF DISBURSEMENT
Bluffton Telephone Company, Inc.	\$ 97,239	\$ 918,230	\$ 1,015,468
CenturyLink (United Telephone Co. of the Carolinas LLC)	\$ 2,420,910	\$ 3,583,267	\$ 6,004,177
Chesnee Telephone Company, Inc.	\$ 204,069	\$ 89,663	\$ 293,732
Chester Telephone Company	\$ 505,851	\$ 543,789	\$ 1,049,640
Comporium, Inc.	\$ 270,674	\$ 919,081	\$ 1,189,756
Farmers Telephone Cooperative Inc.	\$ 1,270,422	\$ 4,331,630	\$ 5,602,052
Fort Mill Telephone Company	\$ 97,832	\$ 249,778	\$ 347,610
Frontier Communications of the Carolinas, LLC	\$ 2,685,047	\$ 3,954,725	\$ 6,639,772
Hargray Telephone Company, Inc.	\$ 217,675	\$ 1,709,031	\$ 1,926,707
Home Telephone ILEC, LLC	\$ 450,406	\$ 2,386,487	\$ 2,836,893
Horry Telephone Cooperative, Inc.	\$ 442,872	\$ 3,573,325	\$ 4,016,197
Lancaster Telephone Company	\$ 241,216	\$ 461,311	\$ 702,527
Lockhart Telephone Company	\$ 17,565	\$ 11,814	\$ 29,379
McClellanville Telephone Company	\$ 275,399	\$ 91,657	\$ 367,056
Norway Telephone Company	\$ 28,420	\$ 28,040	\$ 56,460
Palmetto Rural Telephone Cooperative, Inc.	\$ 769,349	\$ 266,138	\$ 1,035,487
PBT Telecom, Inc.	\$ 1,003,496	\$ 1,514,144	\$ 2,517,640
Piedmont Rural Telephone Cooperative, Inc.	\$ 205,277	\$ 220,677	\$ 425,954
Ridgeway Telephone Company	\$ 17,872	\$ 48,333	\$ 66,205
Sandhill Telephone Cooperative, Inc.	\$ 160,527	\$ 346,537	\$ 507,064
St. Stephen Telephone Company	\$ 225,164	\$ 285,900	\$ 511,063
West Carolina Rural Telephone Cooperative, Inc.	\$ 601,629	\$ 271,528	\$ 873,157
Williston Telephone Company	\$ 480,707	\$ 190,506	\$ 671,213
Windstream South Carolina, LLC	\$ 569,953	\$ 1,477,497	\$ 2,047,450
	\$ 13,259,572	\$ 27,473,089	\$ 40,732,661

ATTACHMENT 2

2017 State Lifeline Customers by ILEC/COLR	
ILEC/COLR	Customers
BellSouth Telecommunications LLC	148
Bluffton Telephone Company, Inc.	17
CenturyLink (United Telephone Co. of the Carolinas LLC)	320
Chesnee Telephone Company, Inc.	94
Chester Telephone Company	345
Comporium, Inc.	518
Farmers Telephone Cooperative Inc.	429
Fort Mill Telephone Company	136
Frontier Communications of the Carolinas, LLC	191
Hargray Telephone Company, Inc.	16
Home Telephone ILEC, LLC	296
Horry Telephone Cooperative, Inc.	477
Lancaster Telephone Company	325
Lockhart Telephone Company	4
McClellanville Telephone Company	14
Norway Telephone Company	8
Palmetto Rural Telephone Cooperative, Inc.	578
PBT Telecom, Inc.	169
Piedmont Rural Telephone Cooperative, Inc.	49
Ridgeway Telephone Company	7
Sandhill Telephone Cooperative, Inc.	335
St. Stephen Telephone Company	41
West Carolina Rural Telephone Cooperative, Inc.	101
Williston Telephone Company	27
Windstream South Carolina, LLC	206
Total	4,851

ATTACHMENT 3

State USF Expenditures Summary - 2017	
Expense Category	\$ Amount
USF Support	\$ 40,732,661
Lifeline Support	\$ 203,742
ORS USF Admin	\$ 106,198
ORS Lifeline Admin	\$ 31,905
Outside Audit	\$ 12,000
DOR Admin Fee	\$ 51,430
Total USF Requirement	\$ 41,137,936

ATTACHMENT 4

The Need for Funding and the Appropriate Level of Distributions

As part of the preparation for completing this report, the ORS sought input on the definition of need and the appropriate level of distributions from a broad cross-section of the communications industry serving South Carolina.

ORS received responses from the following six organizations:

- 1) AT&T South Carolina
- 2) CenturyLink
- 3) CTIA - The Wireless Association
- 4) SCTC
- 5) TracFone Wireless Inc.
- 6) Windstream

AT&T South Carolina provides the following in response to your request for input on the requirements of the report due to the Public Utilities Review Committee (PURC) pursuant to Act 181.

The SC General Assembly and Public Service Commission recently took actions that:

- 1) capped the state USF and interim LEC Fund;
- 2) combined these two funds into a single (capped) fund;
- 3) expanded the funding base for the combined, capped fund to include wireless and VoIP providers; and
- 4) retained the flexibility to fund the state Lifeline program

The state USF was established to provide support for carriers of last resort. At the time the fund was established, all current recipients of cost-based (as opposed to Lifeline) state USF support reduced revenues in an amount equal to the amount of support they receive from the state USF. These current recipients remain carriers of last resort and, in AT&T's view, the need for the state USF remains at this time.

Existing state high-cost support mechanisms should not be transitioned to support broadband deployment, nor should new state broadband deployment support mechanisms be established at this time in light of the significant support for broadband deployment the FCC has made available through the Connect America Fund.

In light of the foregoing, AT&T is not advocating major changes to either the state high cost support fund or the current level of distributions at this time.

AT&T Contact responsible for response:

Cindy Cox
803-401-2252
cc2283@att.com

IN RE: Staff 3-9-17 E-mail
Subject: Act 181 – Section 5A – S.C. Code Section 58-9-280(E)(11)
Request for Comments

CENTURYLINK’S COMMENTS

On March 9, 2017 the Office of Regulatory Staff (ORS) requested input from CenturyLink regarding the ORS’s reporting obligations under Act 181, Section 5A, now codified as S.C. Code Ann. § 58-9-280(E)(11). Specifically, the ORS requested input regarding the definition of “need” and the appropriate level of distributions and how “need” could be standardized and presented to the PURC for each fund recipient. CenturyLink is both a contributor to and recipient of the fund.

The Act, as codified in the statutes, requires the ORS to “provide a report to the Public Utilities Review Committee (PURC) as to the State Universal Service Fund, the need for funding, and the appropriate level of distributions.” The first report is due two years after the effective date of the Act (May 25, 2018). Subsequent reports are due every four years thereafter.

The South Carolina Universal Service Fund (USF) was established through a series of Commission orders beginning in 1997. See, Docket No. 97-239-C. Through the orders, the size and appropriate distribution of the fund were determined based on the recipient carriers’ costs, as well as various rate caps and rate reductions implemented by the carriers. (Recipients are local exchange companies with carrier of last resort responsibilities in their service territories.) In Act 181, the Legislature confirmed and readopted the Commission’s previous determinations regarding the appropriate size and distributions of the fund by eliminating the statutory requirement for cost studies and freezing the fund, as well as carriers’ receipts from the fund, at 2015 levels. See, S.C. Code Ann. § 58-9-280(E)(4) and (5).

With the funding level set by statute, the reporting required under the Act is not properly focused on a determination of need through a recalculation of the recipient carriers' costs, particularly for the ORS informational reporting. Rather, CenturyLink believes that the legislative intent of this informational reporting requirement is to ensure there is a continued need for state USF and that by removing the statutory language requiring cost studies, the Legislature left the determination of the relevant information necessary to demonstrate need to the ORS's discretion. On this basis, CenturyLink suggests that the determination of need for these reporting purposes should be based on the proper use of the fund by recipient companies to accomplish the fund's purpose of ensuring affordable and available basic service throughout the recipient companies' local serving areas. See, SC Code Ann. § 58-9-280(E). Reporting on this basis is consistent with the intent of the legislation and the historical basis of the fund.

To demonstrate that recipients are properly using the funding received consistent with its statutory purpose, USF recipients should demonstrate that their expenses and capital expenditures exceed the state USF support that they receive. This approach properly reflects each carrier's investments and expenditures needed to continue to meet its carrier of last resort obligations. Further, it is consistent with the approach used in other states with high cost funds as well as the approach used in many states to evaluate whether federal high cost support for voice services was used appropriately prior to the implementation of the Connect America Fund to support broadband.

Respectfully submitted on June 1, 2017 by Deloris Carroll, CenturyLink State Regulatory & Legislative Affairs Director, who can be contacted at (919) 554-7298 or deloris.carroll@centurylink.com.



June 1, 2017

Nanette S. Edwards, Deputy Exec. Dir.
South Carolina Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201

Dear Ms. Edwards,

CTIA¹ appreciates the opportunity to comment regarding the requirements of the State Telecom Equity in Funding Act and the Office of Regulatory Staff's ("ORS's") report due to the Public Utilities Review Committee ("PURC"). CTIA provides the following input to the ORS on behalf of its member companies, many of which received an inquiry about said report from the ORS via email on March 9, 2017. The ORS's inquiry seeks input on the definition of "need" for South Carolina Universal Service Fund ("SCUSF") support, the appropriate level of distributions from the SCUSF, and how "need" can be standardized and presented to the PURC for each fund recipient.

Defining "Need." The SCUSF should be no larger than the minimum size necessary to achieve statutorily defined universal service goals. Thus, any definition of "need" relative to SCUSF support should be crafted in a manner that ensures that the SCUSF is the minimum size necessary to achieve its goals. Such a definition will ensure that SCUSF goals are achieved without imposing any excess burden on consumers.² In particular, wireless consumers, who are subject to surcharges for federal and state universal service funding, bear this burden acutely. South Carolinians already pay a combined 17.28% in federal and state taxes and fees on their wireless service, including SCUSF surcharges.³ Accordingly, the definition of "need" for SCUSF support, which implicates the size of the fund, will directly impact these consumers. The size of the SCUSF – and indeed, any reforms to the SCUSF – should be made with consumers, and not companies, in mind.⁴

Additionally, the ORS's report should reflect the basic policy principle of competitive neutrality for the SCUSF. Any changes to the SCUSF, including the size of the fund (as impacted by the definition of "need"), must be considered carefully so as not to distort competition within the telecommunications

¹ CTIA – The Wireless Association® ("CTIA") (www.ctia.org) represents the U.S. wireless communications industry and the companies throughout the mobile ecosystem that enable Americans to lead a 21st century connected life. The association's members include wireless carriers, device manufacturers, suppliers as well as apps and content companies. CTIA vigorously advocates at all levels of government for policies that foster continued wireless innovation and investment. The association also coordinates the industry's voluntary best practices, hosts educational events that promote the wireless industry and co-produces the industry's leading wireless tradeshow. CTIA was founded in 1984 and is based in Washington, D.C.

² CTIA notes that the ORS's inquiry seems to assume that the SCUSF is necessary to meet the state's universal service goals, a point CTIA does not concede. Indeed, in a previous proceeding on the subject of the SCUSF, CTIA's expert witness testified that telephone penetration in South Carolina is no different than in neighboring states with substantially smaller, or no, state USF funds. See Responsive Testimony of Don Price on Behalf of CTIA – The Wireless Association®, Docket 2015-290-C (October 13, 2015) ("Price Testimony"), at 26-27.

³ Tax Foundation Fiscal Fact, *Wireless Tax Burdens Rise for the Second Straight Year in 2016*. Publication no. 527. Scott Mackey & Joseph Henchman, Sept. 2016.

⁴ Along those lines, CTIA believes that the ORS's report should note that wireless carriers should be eligible for Lifeline funding from the SCUSF. This change to the fund would better support low-income consumers, who rely disproportionately on wireless for their telecommunications needs, and would reflect these consumers' contributions into the fund.



marketplace. SCUSF support should not determine or influence “winners and losers” amongst telecommunications providers. As such, the definition of “need” should not include support for areas already served by an unsubsidized competitor.⁵ A vibrant, competitive telecommunications marketplace operates to the benefit of consumers, and is consistent with the goal of universal service.⁶

The Appropriate Level of Distributions. Because wireless carriers are not eligible to receive SCUSF support,⁷ properly defining “need” so that the SCUSF is appropriately sized is of greater concern to wireless carriers than are the levels of distributions. Nevertheless, any definition of “need” lacks value without mechanisms to ensure that SCUSF funding supports only that need. As previously noted by CTIA, it is important that any changes to the SCUSF promote transparency and accountability for the fund.⁸ All consumers contributing to the fund deserve assurance that their contributions are spent in the most efficient manner possible. To accomplish this goal, recipient companies should be required to produce full data and information regarding their use of SCUSF support and the level of support they require. The appropriate level of distribution is the level that reflects the definition of “need” expressed herein, and is set based on a review of actual data. Establishing transparency in the fund will help ensure that the actual use of funds appropriately reflects the theoretical principle of need.

CTIA encourages the ORS to include in its report a definition of need and a recommendation regarding distributions levels that will minimize the economic burden on South Carolina’s consumers, promote transparency and accountability to its taxpayers, and protect competition within the telecommunications marketplace to the benefit of all.

Respectfully submitted,

Benjamin J. Aron
CTIA

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202-736-3228

⁵ Wireless service, which South Carolinians overwhelmingly prefer, is available in nearly all of South Carolina. As of mid-2014, 99.6% of South Carolinians had access to 3G or better wireless service, with 96% able to choose such service from three or more providers. National Broadband Map (June 30, 2014 data), available at <https://www.broadbandmap.gov/summarize/state/south-carolina>.

⁶ *Id.*

⁷ See fn. 4 *supra*.

⁸ Price Testimony, at 28-29.

June 1, 2017

South Carolina Telephone Coalition's Comments
Regarding ORS Report to PURC

The South Carolina Telephone Coalition submits the following comments in response to the Office of Regulatory Staff's ("ORS's") request for input on the requirements of the report ORS must file with the Public Utilities Review Committee ("PURC") pursuant to Act No. 181 of 2016. Specifically, ORS requested input, summarized in two pages or less, on the definition of "need" and the appropriate level of distributions, and how "need" can be standardized and presented to the PURC for each fund recipient.

As long as there is a need to ensure access to affordable basic local telecommunications service for all South Carolina citizens, and as long as there are carriers of last resort ("COLRs") who are willing to undertake the obligation to provide such service, there will be a need for funding to ensure the need can be met. The question is not whether there is a need for State USF, but how to verify the need that exists. Act No. 181 froze State USF at 2015 levels (a fraction of the amounts needed for COLRs to recover their cost of providing basic local service), and therefore state law no longer requires State USF to be sized based on cost. It has long been determined and established that the cost of providing basic local telephone service in rural areas far exceeds the amount COLRs can charge for the service.

Keeping in mind the General Assembly's elimination of the cost requirement in determining the size of the State USF, along with its expressly stated intent in S.C. Code Ann. § 58-9-280(E)(11) "to ensure financial stability necessary to encourage long-term investment by carriers of last resort," we respectfully submit that ORS should not reinvent the wheel or impose additional burdensome requirements on COLRs, but should utilize existing sources of information to complete its report. COLRs must continue to be able to recover the cost of long-term

investments made in the past, and must have certainty in future funding if they are to continue to undertake investments whose costs will not be recovered for many years; thus, there is a need for State USF in order to encourage such investment.

Furthermore, requiring COLRs to undertake additional data production without providing additional funding would cut even further into the revenues COLRs need to maintain and operate their rural networks. The funding COLRs receive from the State USF is even more critical today, as federal high-cost USF continues to decline precipitously¹ and the gap between rural companies' revenue requirements and federal USF receipts continues to grow.

SCTC recommends that ORS review regulated capital expenditures and operating expenditures for each COLR. Such an analysis would demonstrate need to the extent those expenditures exceed the amounts received by the COLR from customers and from universal service funding. It would also show that the current distribution levels are appropriate, and that State USF funds are being spent as the General Assembly intended – for long-term investment and maintenance of networks that benefit the citizens of South Carolina.

Consistent with federal and state USF policy, and the General Assembly's stated interest in encouraging investment by COLRs, SCTC believes that the need for USF and the appropriate level of distributions can be demonstrated without imposing additional requirements on small telecommunications companies. SCTC believes that an analysis of regulated capital expenditures and operating expenditures for each COLR operating in South Carolina, as described above, would demonstrate need in a standardized fashion for all COLRs, and would allow for a finding on the appropriate level of distributions, thereby enabling ORS to prepare an appropriate report to PURC.

¹ According to published FCC and USAC reports, High-Cost Support projections for South Carolina's rate of return carriers show a decrease of 13.7% in projected federal High-Cost support from 2011 to 2016 (using annualized 4th Quarter projections).

**COMMENTS OF TRACFONE WIRELESS, INC. PROVIDED TO OFFICE OF
REGULATORY STAFF PURSUANT TO 1976 CODE § 58-9-280(E)(11)(a)**

TracFone Wireless, Inc. (“TracFone”) provides the following information to the Office of Regulatory Staff (“ORS”). This information is for the purpose of providing input to ORS for preparation of its report to the Public Utilities Review Committee (“PURC”) regarding the need for State Universal Service Fund funding and the appropriate level of distributions.

One of the paramount purposes for the South Carolina Universal Service Fund (or for any state universal service fund) is to support affordable telecommunications service for low-income households. This is accomplished through a well-funded and vibrant Lifeline program with a multiplicity of providers competing to use federal and state support to deliver the greatest value to Lifeline-eligible low-income households.

Since becoming designated by the South Carolina Public Service Commission (“PSC”) as an Eligible Telecommunications Carrier in 2010, TracFone has emerged as the state’s largest provider of Lifeline service. Approximately 50,000 low-income South Carolina households receive wireless Lifeline service through TracFone’s SafeLink Wireless® program. TracFone’s pre-December 2016 Lifeline customers receive 500 minutes of wireless airtime per month. Customers enrolling after December 1, 2016 receive 350 minutes of voice service and 500 MB per month of mobile broadband Internet access service, plus a smartphone device (device provided at TracFone’s expense). Those services meet the Lifeline minimum service standards established in 2016 by the Federal Communications Commission (“FCC”) and are funded solely by the federal Universal Service Fund. Subsequent to TracFone’s successful entry into the South Carolina Lifeline market, other wireless providers also began to provide Lifeline service in the State. Today, well in excess of 90% of South Carolina’s low-income households participating in Lifeline have chosen to receive their Lifeline service from TracFone or other wireless providers. That mass migration from traditional wireline telephone company programs to wireless Lifeline reflects the existence of strong consumer preference for wireless solutions. ORS, the PURC and the PSC should remain mindful of South Carolinians’ overwhelming consumer preferences in considering what services to support with the State Universal Service Fund, and ensuring that there is sufficient State support for all qualified Lifeline programs serving low-income South Carolina households.

The PSC’s January 2016 order in Docket No. 2015-290-C (Order No. 2016-22) expanded the obligation to contribute to the State USF to all telecommunications service providers – wireline and wireless, postpaid and prepaid, traditional technology and Voice over the Internet Protocol. Now that the Legislature has required all telecommunications providers to contribute, it seems unfair, discriminatory and, most importantly, inconsistent with the interests of low-income South Carolinians, to limit Lifeline disbursements from the State fund to certain providers or to favor or disfavor certain technologies. It seems especially inappropriate to limit access to State support to those Lifeline providers who are labeled “carriers of last resort.” The definition of “carrier of last resort” contained at Section 58-9-10(10) of the 1976 Code simply is not relevant to Lifeline as Lifeline has evolved. Moreover, limiting State support to Lifeline providers who fall within that definition would violate federal law.

That definition begins with the words “a facilities-based local exchange carrier” Section 214(e)(1) of the federal Communications Act (47 U.S.C. § 214(e)(1)) requires that recipients of support from the federal USF provide service using their own facilities or a combination of their own facilities and resale of another carrier’s services. On its face, that requirement would seem consistent with Section 58-9-10(10). However, first, in 2005 and again in 2012, the FCC exercised its statutory obligation to forbear from application or enforcement of the “facilities” requirement of Section 214(e)(1). Section 10 of the federal Communications Act (47 U.S.C. § 160) prohibits the FCC from applying or enforcing any provision of the Communications Act or any regulation once a three part determination has been made. Importantly, Section 10(e) of the federal Communications Act (47 U.S.C. § 160(e)) prohibits any state commission from continuing to apply or enforce any provision of the federal Communications Act that the FCC has determined to forbear from applying. Nothing in Section 10 states or suggests that the scope of Section 10(e) would be limited to federal USF support.

The Section 58-9-10(10) definition of carrier of last resort mentions “basic local exchange telephone service” – a term defined at Section 58-9-10(9) to include access to basic voice grade local service, including available emergency services and directory assistance, access to operator services, and one annual directory listing.” That definition also seems anachronistic in 2017. Unlike wireline telephone service, with wireless service, there are no domestic calling restrictions. There is no such thing as “local” or “long distance” service as existed in the wireline world of the 20th Century. For example, TracFone Lifeline customers may use their Lifeline benefits to call across the street, across the state, or across the nation. Further, each of the service features included in the basic local exchange telephone service definition (except for directory listings which consumers of wireless services overwhelmingly do not want) are requirements of all Lifeline providers – wireline and wireless.

TracFone further directs the attention of ORS and PURC to Section 254(f) of the federal Communications Act (47 U.S.C. § 254(f)). That section explicitly authorizes state commissions to establish their own programs to advance universal service (including state Lifeline programs to assist low-income households). However, that delegation of authority by Congress to the state commissions is subject to one very specific and important condition: that any such regulations by a state commission not be inconsistent with the FCC’s rules to preserve and advance universal service. The federal Lifeline program is open to all qualified providers – wireline and wireless, facilities-based and resale. Imposition of a requirement which limits availability of State Universal Service Fund support to wireline telephone companies or carriers of last resort as defined in the statute would be inconsistent with requirements governing the federal program and therefore in violation of Section 254(f).

Accordingly, TracFone respectfully urges ORS, in preparing its report to PURC, to consider the applicable federal law requirements and that it advocate for sufficient funding to provide state Lifeline support to all Lifeline programs available to low-income households in South Carolina, including those of all providers without regard to technology (wireline or wireless) so that all South Carolina households participating in the Lifeline program have available services supported both by the federal USF and by the State fund.

Persons responsible for these comments:

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May 31, 2017

**Windstream Response to ORS Request for Comments on
Act 181 – Section 5A Codified as S.C. code Section 58-9-280(E)(11)**

The State Universal Service Fund was established through Commission orders as indicated by S.C. Code Section 58-9-280(E) with the stated purpose “to continue South Carolina’s commitment to universally available basic local exchange telephone service at affordable rates and to assist with the alignment of prices and cost recovery with costs...”. Section (11) was added as a result of Act 181, which froze the USF and receipts at 2015 levels. The Act, as codified in Section 58-9-280(E) (11), also requires ORS to report to the Public Utilities Review Committee (PURC) “as to the State Universal Service Fund, the need for funding, and the appropriate level of distributions”. The initial report is due within two years and every four years thereafter.

ORS requested input regarding the definition of “need” and the appropriate level of distributions and how “need” could be standardized and presented to the PURC for each fund recipient.

As both a recipient and contributor to the State USF, Windstream offers the following brief comments in response the request from ORS.

The language in Section 58-9-280(E) (11) suggest the Legislature is seeking information as to the overall need for a state USF. Windstream agrees that if there is a need to ensure access to affordable basic local exchange service, there is then a need for universal service funding.

Windstream believes that the need for USF can be demonstrated with an overall showing of capital expenditures and operating expenditures compared to funding for each COLR. To the extent that expenses and capital expenditures exceed state USF receipts, there is a demonstrated need for funding to meet the financial obligations of providing ubiquitous, affordable basic service. This exercise demonstrates that state USF funds are being spent as intended by the Legislature to upgrade and maintain the network, and provides proper oversight by ORS.

Respectfully submitted by: Bettye Willis, VP- State Government Affairs
Phone: 678.351.2049
Email: bettye.j.willis@windstream.com

ATTACHMENT 5

ORS Examination

Requests:

- 1-1 South Carolina Code § 58-9-280(E)(10) requires all COLRs to retain records demonstrating that SCUSF support was used for the programs for which it was intended.
 - a) For the period of July 1, 2016 to June 30, 2017, provide the records demonstrating that SCUSF support was used in South Carolina for the programs for which it was intended.
 - b) Explain how your Company used the SCUSF funds received.
 - c) Provide documentation supporting that the SCUSF funds received were expended for the programs provided in South Carolina.
- 1-2 Based on the requirements of South Carolina Code § 58-9-280(E)(11)(a), explain and support with financial documentation why your Company continues to have a “need for funding” in 2017, 2018, and beyond.
- 1-3 In your Company’s opinion, are the funds collected through the SCUSF distributed in an equitable manner?
- 1-4 Does your Company receive an equitable portion of these funds?
- 1-5 If the answer to either Question 1-3 or 1-4 is “no,” please provide a detailed explanation.
- 1-6 Please provide the most recent version of your Company’s FCC Form 499 for South Carolina.
- 1-7 Identify the amount of Federal High Cost Fund Support your Company received from July 1, 2016 through June 30, 2017. Include and identify by support classifications, all USF funds received except Lifeline support.

ATTACHMENT 6

COLR Responses to ORS Questions

The ORS received responses from the COLRs and those responses follow:

- 1) The South Carolina Telephone Coalition (SCTC) reported for 21 rural LECs or COLRs
- 2) CenturyLink (United Telephone Co. of the Carolinas LLC)
- 3) Frontier Communications of the Carolinas, LLC
- 4) Windstream South Carolina, LLC

Response of the South Carolina Telephone Coalition Companies

January 30, 2018

ORS Information and Data Requests for ILEC Recipients of South Carolina USF (SCUSF).

The South Carolina Office of Regulatory Staff ("ORS") hereby requests, pursuant to S.C. Code Ann. §§ 58-4-55 (Supp. 2015) that the recipients of this request provide responses in writing and under oath and serve the undersigned by September 15, 2017 to ORS at 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. If you are unable to respond to any of the audit requests, or parts thereof, in a timely manner please specify the reason for your inability to respond and state what other knowledge or information you have concerning the unanswered portion.

As used in these audit requests, when asked to identify or provide a document, "identify" and "provide" mean to provide a full and detailed description of the document and the name and address of the person who has custody of the document. In lieu of providing a full and detailed description of a document, you may attach to your responses a copy of the document and identify the person who has custody of it. When the word "document" is used herein, it means any written, printed, typed, graphic, photographic, or electronic matter of any kind or nature and includes, but is not limited to, statements, contracts, agreements, reports, opinions, graphs, books, records, letters, correspondence, notes, notebooks, minutes, diaries, memoranda, transcripts, photographs, pictures, photomicrographs, prints, negatives, motion pictures, sketches, drawings, publications, and tape recordings.

Wherever in this audit request a masculine pronoun or possessive adjective appears, it refers to both males and females in accordance with traditional English usage.

IT IS THEREFORE REQUESTED:

- I. That all information shall be provided to ORS in the format requested.
- II. That all responses to the audit requests below be labeled using the same numbers as used herein.
- III. Unless otherwise agreed, the requested information shall be provided electronically in MS Word or Excel format.
- IV. That if information requested is found in other places or other exhibits, reference shall not be made to those; instead, that the information be reproduced and placed in the audit request in the appropriate numerical sequence.
- V. That any inquiries or communications relating to questions concerning clarification of the information requested below should be directed to Chris Rozycki [803-737-0819] of ORS.
- VI. That each question be reproduced and placed in front of the response provided.
- VII. That all exhibits be presented in MS Word or Excel format.
- VIII. If the response to any audit request is that the information requested is not currently available, please state when the information requested will be available and provided to the ORS. This statement is not a waiver of the deadline for all other responses.
- IX. That in addition to the signature and verification at the close of the Company's responses, the Company witness(es) or employee(s) or agent(s) responsible for the information contained in each response be indicated.
- X. For information requested herein where the information is kept, maintained, or stored using spreadsheets, please provide electronic versions of the spreadsheets, including the formulas used and embedded in the spreadsheet.

REQUESTS:

- 1-1 South Carolina Code § 58-9-280(E)(10) requires all COLRs to retain records demonstrating that SCUSF support was used for the programs for which it was intended.
- a) For the period of July 1, 2016 to June 30, 2017, provide the records demonstrating that SCUSF support was used in South Carolina for the programs for which it was intended.

RESPONSE:

For the period of July 1 to December 31, 2016, the South Carolina Telephone Coalition ("SCTC") Companies were all participants in the NECA Tariff and/or one or more of the NECA Access Pools to some extent. Commencing January 1, 2017, Home Telephone, West Carolina, and the TDS companies (Norway, McClellanville, St. Stephen, and Williston Telephone Companies) elected A-CAM model support, effectively exiting NECA's Common Line Pool. Home Telephone and Williston file their own company-specific interstate Traffic Sensitive tariffs and, therefore, are not participants in NECA's Traffic Sensitive Access Pool/Tariff. All other SCTC Companies continue to participate in the NECA Tariff and/or one or more of the NECA Access Pools.

In addition, all SCTC Companies receive Federal Universal Service Support through various FCC Programs administered by the Universal Service Administrative Company ("USAC"). In conjunction with receipt of these support revenues, The SCTC Companies are required to file annual financial information with both NECA and USAC. Both entities subsequently engage in review and validation of the submitted information to ensure that the financial information is presented in accordance with all pertinent FCC rules and regulations. These rules include Part 32 Accounting guidelines and requirements for the removal of all costs associated with Non-Regulated operations as indicated in the FCC Part 64 Regulations. In addition, the FCC and NECA/USAC periodically issue updated procedures and requirements that must be followed in connection with receipt of Federal USF support, and compliance with these requirements is subject to review. NECA and USAC engage in reviews up to and including on site audits, including audits performed by contracted Accounting firms as well as audits performed by FCC and USAC Staff Members. These audits may

be randomly assigned or may be targeted based on USAC requirements. The Financial information provided by the SCTC Companies in this response matches the information filed with NECA and USAC, and will be referred to as "NECA Cost Study Information" in subsequent responses.¹ Calendar year 2016 is the most recent period for which this information is available.

The NECA Cost Study information shows that the SCTC Companies in the aggregate had regulated Operating Expenses in 2016 of \$342,181,207.

Additionally, the SCTC Companies expended over \$125,000,000 to upgrade and enhance their networks in 2016.²

The amounts expended by the SCTC Companies to operate, maintain, and improve their networks are well in excess of the approximately \$26 million the SCTC Companies collectively are eligible to receive annually pursuant to S.C. Code Ann. § 58-9-280(E)(4)(a), thereby demonstrating that the SCTC Companies are using SCUSF to support the programs for which SCUSF was intended - i.e., to operate and maintain their networks, and to make long-term investments to support, upgrade and enhance those networks.

As required by South Carolina Code § 58-9-280(E)(J0), each Company retains records documenting that the Company incurred the above expenses to maintain and upgrade telecommunications facilities necessary to support the provision of universal service and, therefore, that the SCUSF support received by each Company was used in South Carolina for the programs for which it was intended. The companies' books and records are available to ORS for review/audit at any time upon reasonable notice. However, due to the competitively sensitive nature of the Companies' confidential commercial information regarding the details of their business operations in a competitive environment, the Companies believe that public disclosure of this

¹ The NECA Cost Study information contains detailed information about individual companies' business operations. This detailed information is confidential and is treated as such by the FCC, USAC and NECA. The NECA Cost Study Information is subject to review and audit by NECA and USAC. While individual company information is not (and should not be) available to the public (which includes actual and potential competitors of the individual SCTC member companies), it is available for review by ORS at any time upon reasonable notice.

² Breakouts of capital expenditures by category for each company are confidential, and are available for review upon request.

information would be harmful to the Companies. Each Company is a small rural telephone company and operates in a limited area of the State of South Carolina. Despite the rural nature of its service area and the limited market in which it operates, each of the Companies has a number of non-regulated competitors. Having access to the Companies' private commercial information would give actual or potential competitors a significant competitive advantage in the marketplace.

- b) Explain how your Company used the SCUSF funds received.

See response to 1-1(a).

- c) Provide documentation supporting that the SCUSF funds received were expended for the programs provided in South Carolina.

See response to 1-1(a).

- 1-2 Based on the requirements of South Carolina Code § 58-9-280(E)(11)(a), explain and support with financial documentation why your Company continues to have a "need for funding" in 2017, 2018, and beyond.

RESPONSE:

In South Carolina Code § 58-9-280(E)(11), the General Assembly expressly stated its intent "to ensure financial stability necessary to encourage long-term investment by carriers of last resort" COLRs must continue to be able to recover the cost of long-term investments made in the past, and must have certainty in future funding if they are to continue to undertake investments whose costs will not be recovered for many years; thus, there is a need for State USF in order to encourage such investment. These amounts expended on long-term capital projects to enhance and upgrade the network are in addition to amounts expended to operate and maintain the network.

In 2016, the FCC released the Connect America Fund Rate-of-Return Reform Order.³ In that Order, the FCC instituted some changes to the way it provides federal High Cost support. In addition to the ongoing requirement for COLRs to maintain and improve existing networks, the FCC imposed build-out

³ *Connect America Fund et al., WC Docket No. 10-90 et al., Report and Order et al., 31 FCC 3087 (2016) (Rate-of-Return Reform Order).*

requirements to certain areas that were considered unserved or underserved, including some areas of South Carolina. The FCC Order instituted an overall cap on the Federal Universal Service Fund. As a result of this budget cap, SCTC companies that receive legacy federal support are seeing their support reduced by double-digit percentage points. Overall, on a composite basis, federal USF support is projected to decrease for these legacy SCTC rate-of-return companies by 17.25% for the fiscal year ending June 30, 2018, thus putting more pressure on future state funding needs.

The NECA Cost Study Information demonstrates that SCTC Companies in the aggregate had regulated Operating Expenses of \$342,181,207 and regulated Operating Revenues of \$340,484,395 in 2016, for a Regulated Net Income (loss) of -\$ 1,696,812. In the absence of SCUSF (which is included in Operating Revenues), the SCTC Companies in the aggregate would have negative regulated net income of approximately -\$27.7 million. This does not take into account amounts needed for capital expenditures and to realize a reasonable return on investments made by the SCTC Companies. Clearly, there is a need for SCUSF to ensure not only continued long-term investment by COLRs, but even to operate and maintain their existing networks.

Each of the Companies anticipates that the level of its operating expenses and capital expenditures for the remainder of 2017, as well as for 2018 and beyond, will be similar to those incurred in 2016 and 2017 to date, and that such amounts (and, therefore SCUSF) are needed in order to support the networks that allow the Companies to continue to offer high quality service at affordable rates upon reasonable request to customers within their respective service areas. Furthermore, SCUSF is becoming increasingly important as levels of federal high cost support for rural telephone companies continue to decline and/or the obligation to build out to additional locations increases.

- 1-3 In your Company's opinion, are the funds collected through the SCUSF distributed in an equitable manner?

RESPONSE:

Yes. The funds are distributed as directed by the General Assembly in Act No. 181 o/2016. The General Assembly directed that the SCUSF would be frozen at 2015 levels and distributed proportionately to COLRs in the same amounts. Prior to the freeze, funds were distributed to COLRs based on reductions those carriers made to rates that included implicit support for basic local service. In Order No. 2001-419, the Commission found that a system of implicit

support for basic local telephone service built into rates for other services could not be sustained in a competitive environment, and that erosion of the implicit support due to natural competitive forces would adversely impact the availability of affordable basic local telephone service to all South Carolina citizens. The Commission required COLRs to file detailed cost data clearly demonstrating that implicit support existed in the rates the COLR proposed to reduce. In essence, the COLRs who receive SCUSF had to make a demonstration of need before they could begin drawing the funding for which they are eligible and, thus, the Companies' need for SCUSF is inherent in the mechanism adopted by the Commission.

1-4 Does your Company receive an equitable portion of these funds?

RESPONSE:

Yes. Each Company receives an amount equal to the same amount distributed to the Company from the Interim LEC Fund and the SCUSF in 2015, as determined by the South Carolina General Assembly in Act No. 181 of 2016. While freezing SCUSF limits the availability of total funding that may be needed by COLRs to support universal service in South Carolina, each SCTC Company believes its portion of the available funding vis-a-vis other COLRs is equitable.

1-5 If the answer to either Question 1-3 or 1-4 is "no," please provide a detailed explanation.

Not applicable.

1-6 Please provide the most recent version of your Company's FCC Form 499 for South Carolina.

See attached.

1-7 Identify the amount of Federal High Cost Fund Support your Company received from July 1, 2016 through June 30, 2017. Include and identify by support classifications, all USF funds received except Lifeline support.

See attached.

- 1-2 Based on the requirements of South Carolina Code § 58-9-280(E)(11)(a), explain and support with financial documentation why your Company continues to have a “need for funding” in 2017, 2018, and beyond.

RESPONSE:

As long as there is a need to ensure access to affordable basic local telecommunications service for all South Carolina citizens, and as long as there are carriers of last resort (“COLRs”) who are willing to undertake the obligation to provide such service, there will be a need for funding to ensure the need can be met. COLRs provide services to rural and high-cost areas that may not be served, or may not have access to affordable service, in the absence of a State USF. The availability of funding helps COLRs recover the cost of providing service to these areas, and allows COLRs the financial stability necessary to encourage continued long-term investment in rural and high-cost areas of the State. This continued investment benefits the citizens of South Carolina both directly and indirectly, providing access to affordable service and allowing the State to attract and retain businesses and jobs like Volvo (in Home Telecom’s service area) and GiTi Tire (in TruVista’s service area).

In South Carolina Code § 58-9-280(E)(11), the General Assembly expressly stated its intent “to ensure financial stability necessary to encourage long-term investment by carriers of last resort” COLRs must continue to be able to recover the cost of long-term investments made in the past, and must have certainty in future funding if they are to continue to undertake investments whose costs will not be recovered for many years; thus, there is a need for State USF in order to encourage such investment. These amounts expended on long-term capital projects to enhance and upgrade the network are in addition to amounts expended to operate and maintain the network.

In 2016, the FCC released the Connect America Fund Rate-of-Return Reform Order.¹ In that Order, the FCC instituted some changes to the way it provides federal High Cost support. In addition to the ongoing requirement for COLRs to maintain and improve existing networks, the FCC imposed build-out requirements to certain areas that were considered unserved or underserved,

¹ *Connect America Fund et al., WC Docket No. 10-90 et al., Report and Order et al., 31 FCC 3087 (2016) (Rate-of-Return Reform Order).*

including some areas of South Carolina. The FCC Order instituted an overall cap on the Federal Universal Service Fund. As a result of this budget cap, SCTC companies that receive legacy federal support are seeing their support reduced by double-digit percentage points. Overall, on a composite basis, federal USF support is projected to decrease for these legacy SCTC rate-of-return companies by 17.25% for the fiscal year ending June 30, 2018, thus putting more pressure on future state funding needs.

The NECA Cost Study Information demonstrates that SCTC Companies in the aggregate had regulated Operating Expenses of \$342,181,207 and regulated Operating Revenues of \$340,484,395 in 2016, for a Regulated Net Income (loss) of -\$ 1,696,812. In the absence of SCUSF (which is included in Operating Revenues), the SCTC Companies in the aggregate would have negative regulated net income of approximately -\$27.7 million. This does not take into account amounts needed for capital expenditures and to realize a reasonable return on investments made by the SCTC Companies. Clearly, there is a need for SCUSF to ensure not only continued long-term investment by COLRs, but even to operate and maintain their existing networks.

Each of the Companies anticipates that the level of its operating expenses and capital expenditures for the remainder of 2017, as well as for 2018 and beyond, will be similar to those incurred in 2016 and 2017 to date, and that such amounts (and, therefore SCUSF) are needed in order to support the networks that allow the Companies to continue to offer high quality service at affordable rates upon reasonable request to customers within their respective service areas. Furthermore, SCUSF is becoming increasingly important as levels of federal high cost support for rural telephone companies continue to decline and/or the obligation to build out to additional locations increases.

Office of Regulatory Staff South Carolina
Re: CenturyLink's Revised Response
Data Request for ILEC Recipients of USF

- 1-1 South Carolina Code § 58-9-280(E)(10) requires all COLRs to retain records demonstrating that SCUSF support was used for the programs for which it was intended.
- a) For the period of July 1, 2016 to June 30, 2017, provide the records demonstrating that SCUSF support was used in South Carolina for the programs for which it was intended.

Response:

South Carolina Code § 58-9-280 (E) states the intent of the state Universal Service Fund as:

continuing South Carolina's commitment to universally available basic local exchange telephone services at affordable rates and to assist with the alignment of prices and cost recovery with costs, consistent with federal policies...

Consistent with this intent, United Telephone Company of the Carolinas, LLC dba CenturyLink ('the 'Company') continues to invest in central office equipment, loop plant, and interoffice facilities to improve its call-carrying capacity, maintain high quality service, and to keep basic local exchange service available at affordable rates in South Carolina. The South Carolina Universal Service Fund support the Company received was utilized to maintain and upgrade telecommunications facilities as necessary to meet evolving service requirements and to provide advanced telecommunications in South Carolina.

Based on information provided in the company's 2016 Annual Report, the Company incurred approximately \$30 million in intrastate operating expenses providing service in South Carolina for the year.¹ Confidential Exhibit A provides details on intrastate expenses. The Company also invested significant dollars in 2016 and year to date July 2017 in capital expenditures to upgrade and enhance the network. Confidential Exhibit B provides a list of specific

¹ In its 2016 annual report on file with the Commission, the company stated approximately \$44 million in total operating expenses. A composite intrastate factor of .6929 applied to total expenses of \$44 million will yield the intrastate expense amount.

**Office of Regulatory Staff South Carolina
Re: CenturyLink's Revised Response
Data Request for ILEC Recipients of USF**

capital expenditures in 2016 and YTD July 2017 respectively.² These amounts are well in excess of the approximately \$5.9 and \$3 million Universal Service Fund support the Company received in 2016 and YTD July 2017 and demonstrate that CenturyLink has expended the USF dollars it receives for these intended purposes.

- b) Explain how your Company used the SCUSF funds received.

Response: See response to 1-1 (a).

- c) Provide documentation supporting that the SCUSF funds received were expended for the programs provided in South Carolina.

Response: See response to 1-1 (a).

- 1-2 Based on the requirements of South Carolina Code § 58-9-280(E)(11)(a), explain and support with financial documentation why your Company continues to have a "need for funding" in 2017, 2018, and beyond.

Response:

South Carolina Code § 58-9-280(11) requires the ORS to report on the need for USF and appropriate level of distribution "in order to create an environment that ensure financial stability necessary to encourage long term investment by carriers of last resort, while providing appropriate oversight."

The Company anticipates its operating expenses and capital expenditures for 2018 and beyond to be at levels similar to that being experienced in 2016 and 2017. From the 2016 Annual Report, the intrastate revenue CenturyLink received for the year was approximately \$28.3 million (which includes state USF support of approximately \$5.9 million).

² In accordance with Section 58-4-55, S.C. Code Ann., CenturyLink designates the specific operation, capital expenditure and revenue information provided in Exhibits A, B and C as confidential and trade secret information which contain compilations of proprietary information that are not otherwise publicly available and that in the hands of its competitors may result in a competitive disadvantage to CenturyLink. Section 58-4-55 provides that the records obtain by the ORS in connection with its audit and investigation authority may be designated confidential and must be maintained as such by the ORS unless the agency objects to such designation in a filing with the Commission.

**Office of Regulatory Staff South Carolina
Re: CenturyLink's Revised Response
Data Request for ILEC Recipients of USF**

On an intrastate basis, the company's revenues are less than its expenses. With 2016 intrastate revenues at approximately \$28.3 million including state USF and 2016 intrastate expenses totaling \$30.4 million, CenturyLink has a deficit before consideration of return on investment and capital expenditures. A reasonable return on investment would only add to the intrastate deficit further demonstrating the company's continued need for support in order to keep rates affordable in rural areas. (See Confidential Exhibit C)

It should also be noted that revenues have been declining over the last several years as competition increases and access lines decrease. Because fixed costs make up a significant portion of these intrastate expenditures, the decline in expenditures associated with the loss of access lines is not commensurate with the decline in intrastate revenues.

The aforementioned financial information shows that CenturyLink continues to need USF funding to meet its carrier of last resort and universal service obligations. Continued support from the SUSF will allow the company to make long term investments in its network so that it can provide high quality service for its South Carolina customers. In addition, the SUSF support the Company receives is needed to operate and maintain a telecommunications network that benefits the rural customers in South Carolina.

1-3 In your Company's opinion, are the funds collected through the SCUSF distributed in an equitable manner?

Response: Yes.

1-4 Does your Company receive an equitable portion of these funds?

Response: Yes.

1-5 If the answer to either Question 1-3 or 1-4 is "no", please provide a detailed explanation.

Response: Not applicable.

1-6 Please provide the most recent version of your Company's FCC Form 499 for South Carolina.

Office of Regulatory Staff South Carolina
Re: CenturyLink's Revised Response
Data Request for ILEC Recipients of USF

Response: See attached Confidential Exhibit D for the Company's most recent FCC Form 499. The Company files a consolidated return under Embarq Corporation.

- 1-7 Identify the amount of Federal High Cost Fund Support your Company received from July 1, 2016 through June 30, 2017. Include and identify by support classifications, all USF funds received except Lifeline support.

Response: The Company received Connect America Fund Phase II (CAF II) support of \$2,952,228 from July 1, 2016 through June 30, 2017. The CAF II funds are provided to assist in enabling and maintaining a network that is capable of providing both voice and broadband in certain areas with explicit broadband unit enablement targets. Extremely high cost areas of the company have not been funded through CAF II.

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC

RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

1-1 South Carolina Code §58-9-280(E)(10) requires all COLRs to retain records demonstrating that SC USF support was used for the programs for which it was intended.

a) For the period of July 1, 2016 to June 30, 2017, provide the records demonstrating that SCUSF support was used in South Carolina for the programs for which it was intended.

RESPONSE: Attached below are excerpts from Frontier's 2012, 2013, 2015 and 2016 Local Exchange Carrier Annual Reports. They show that Frontier's local exchange operating expenses exceed local exchange operating revenues each year by increasing amounts. Also attached is a file containing general ledger data for local exchange related expense accounts for the year ending June 30, 2017. This data shows that Frontier has spent well in excess of the amount it received from the SC USF during the same timeframe. Lastly, attached is a file containing the dollar amount of Frontier's gross additions to plant in service in each of the past 5 years, as reflected in Frontier's general ledger.



Frontier Excerpts
from SC Annual Repo



SC Annual Report for
YE 12.31.13.xls



SC REG Expenses
72016-62017.xlsx



SC Gross Adds to
Plant in Service 2012

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC

RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

1-1 South Carolina Code §58-9-280(E)(10) requires all COLRs to retain records demonstrating that SC USF support was used for the programs for which it was intended.

b) Explain how your Company used the SCUSF funds received.

RESPONSE: Frontier has used the SCUSF funds it received to install and maintain its local exchange network. These costs include, among other things, wages for technicians and engineers who design, build, maintain and repair the network; materials to maintain and repair facilities; supplies to operate, maintain and repair vehicles used by employees for transportation to and from work sites. Costs also include the wages for call center employees who respond to customer requests for new service, changes to existing service, and repairs.

SCUSF funds may also be used to help pay for the cost of extending Frontier's network into new neighborhoods, replacing obsolete network equipment, and moving network facilities to accommodate state and local road construction projects.

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC

RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

- 1-1 South Carolina Code §58-9-280(E)(10) requires all COLRs to retain records demonstrating that SC USF support was used for the programs for which it was intended.
- c) Provide documentation supporting that the SCUSF funds received were expended for the programs provided in South Carolina.

RESPONSE: See responses to part (a) and (c) of this request.

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC

RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

- 1-2 Based on the requirements of South Carolina Code §58-9-280(E)(11)(a), explain and support with financial documentation why your Company continues to have a “need for funding” in 2017, 2018, and beyond.

RESPONSE: Historically, Frontier Communications of the Carolinas LLC used funds from multiple sources to support availability of basic telephone service in SC. These sources included intrastate and interstate access rates, Federal High Cost Funds for Loops and Switching, the South Carolina Universal Service and Interim LEC Funds, and customer subscriptions for high margin feature and toll services. The tariffed rates for basic service covered less than half of the associated service costs.

Many of these funding sources have declined and further declines are expected. Specifically, the FCC’s 2011 Access Reform Order reduced terminating access rates and mandates that rates be transitioned to bill and keep arrangements over coming years. The FCC’s Order also reduced Federal High Cost Funds for Price Cap Companies (of which Frontier is one) and instead allocated the majority of those funds exclusively to deployment of broadband services in select high cost areas, leaving nothing for many areas of Frontier’s SC territories.

The decline in funding available to support provision of basic local telephone service makes the predictable funding from the South Carolina Universal Service Fund even more critical than in the past.

See also revenue and expense trends of data provided in response to Request 1-1.

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC

RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

1-3 In your Company's opinion, are the funds collected through the SCUSF distributed in an equitable manner?

RESPONSE: Yes.

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC
RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

1-4 Does your Company receive an equitable portion of these funds?

RESPONSE: Yes.

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC
RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

1-5 If the answer to either Question 1-3 or 1-4 is “no,” please provide a detailed explanation.

RESPONSE: Not applicable.

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC
RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

1-6 Please provide the most recent version of your Company's FCC Form 499 for South Carolina.

RESPONSE: (to be provided September 20, 2017)

FRONTIER COMMUNICATIONS OF THE CAROLINAS LLC

RESPONSE TO SOUTH CAROLINA OFFICE OF REGULATORY STAFF
UNIVERSAL SERVICE FUND DATA REQUEST

September 15, 2017

- 1-7 Identify the amount of Federal High Cost Fund Support your Company received from July 1, 2016 through June 30, 2017. Include and identify by support classifications, all USF funds received except Lifeline support.

RESPONSE: Other than Lifeline support and \$3,378,036 for Connect America Fund II support, Frontier Communications of the Carolinas LLC did not receive Federal High Cost Fund Support for the period specified.

WINDSTREAM SOUTH CAROLINA, LLC

Mailstop B1F03-53A
4001 Rodney Parham Road
Little Rock, Arkansas 72212

Tim Loken
Director – Regulatory Reporting

501.748.7442

Email: Tim.P.Loken@windstream.com



September 15, 2017

Chris Rozycki
Director of Telecommunications
South Carolina Office of Regulatory Staff

**Re: Data Requests for ILEC Recipients of USF
Responses for Windstream South Carolina, LLC**

Dear Mr. Rozycki:

Windstream South Carolina, LLC. (“Windstream”) provides the following responses to the CRCR information request received from the ORS on August 23, 2017.

Due to the confidential nature of the information, Windstream is providing a “Public” version and a “Confidential” version. In addition, Windstream is also providing the required list of confidential information.

If you have any questions or would like to discuss this further please feel free to contact Nicole Winters, Legal Analyst at (501) 748-6313 or nicole.winters@windstream.com or myself at the number above.

Sincerely,

A handwritten signature in blue ink, appearing to be "TL", written over a horizontal line.

Tim Loken
Director – Regulatory Reporting
Windstream

Enclosures

1-1 South Carolina Code § 58-9-28E(10) requires all COLRs to retain records demonstrating that SCUSF support was used for the programs for which it was intended.

RESPONSE: Please see Confidential Exhibit A, which contains a breakdown of Windstream's Capital Expenditures and Operating Expenses for the time period requested.

a) For the period of July 1, 2016 to June 30, 2017, provide the records demonstrating that SCUSF support was used in South Carolina for the programs for which it was intended.

RESPONSE: Please see Confidential Exhibit A.

b) Explain how your Company used the SCUSF funds received.

RESPONSE: Please see Confidential Exhibit A.

c) Provide documentation supporting that the SCUSF funds received were expended for the programs provided in South Carolina.

RESPONSE: Please see Confidential Exhibit A.

1-2 Based on the requirements of South Carolina Code § 58-9-280(E)(11)(a), explain and support with financial documentation why your Company continues to have a "need for funding" in 2017, 2018, and beyond.

RESPONSE: Windstream receives approximately two million (\$2 million) in SCUSF and as shown in Exhibit A has approximately thirty-four million (\$34 million) in capital expenditures and operating expenses. The gap between support received and spending clearly exhibits Windstream's need for continued funding.

1-3 In your Company's opinion, are the funds collected through the SCUSF distributed in an equitable manner?

RESPONSE: Windstream believes that funds collected through the SCUSF program are distributed in an equitable manner and no changes are recommended at this time.

1-4 Does your Company receive an equitable portion of these funds?

RESPONSE: Windstream does believe it receives an equitable portion of these funds.

1-5 If the answer to either Question 1-3 or 1-4 is no, please provide a detailed explanation.

RESPONSE: N/A.

1-6 Please provide the most recent version of your Company's FCC Form 499 for South Carolina.

RESPONSE: Please see Confidential Exhibit B.

1-7 Identify the amount of Federal High Cost Fund Support your Company received from July 1, 2016 through June 30, 2017. Include and identify by support classification, all USF funds received except Lifeline support.
RESPONSE: Please see Exhibit C.

VERIFICATION


STATE OF ARKANSAS)
) SS
COUNTY OF PULASKI)

I, Tim P. Loken, Director – Regulatory Reporting for Windstream South Carolina, LLC, hereby verify and affirm that I have read the foregoing Data Request Responses, and that the statements contained therein are true and correct to the best of my information and belief.



Tim P. Loken

Subscribed and sworn to before me on this 15 day of September, 2017.



Notary Public

My Appointment Expires:

April 8, 2021

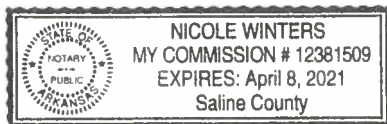


EXHIBIT A – CONFIDENTIAL

EXHIBIT B - CONFIDENTIAL

EXHIBIT C

Document 1-7
Windstream South Carolina

498 ID=Service Provider and Billed Entity Identification Number; HCL=High Cost Loop; HCM=High Cost Model; IAS=Interstate Access Support; ICLS=Interstate Common Line Support; LSS=Local Switching Support; SNA=Safety Net Additive Support; SVS=Safety Valve Support; FHCS=Frozen High Cost Support; IS=Incremental Support; **ICC=Connect America Fund Intercarrier Compensation**; Mobility I=Mobility Fund Phase One; **CACM=Connect America Cost Model**; RBE = Rural Broadband Experiments Fund; ACAM = Alternative Connect America Model; BLS = Connect America Fund Broadband Loop Support; AK PLAN = Alaska Plan Fund.

State	498 ID	Study Area Code	Study Area Name	HCL	HCM	IAS	ICLS	LSS	SNA	SVS	FHCS	IS	ICC	Mobility I	CACM	RBE	ACAM	BLS	AK PLAN	Year	Month	
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$29,106	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2017	Jun
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2017	May
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2017	Apr
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2017	Mar
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2017	Feb
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2017	Jan
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2016	Dec
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2016	Nov
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2016	Oct
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2016	Sep
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$124,190	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2016	Aug
SC	143030766	240517	WINDSTREAM SC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,186	\$0.00	\$147,311	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	2016	Jul
													\$229,152		\$1,513,401							