

**BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE REQUEST OF)	
KNOLGY COMMUNITY TELEPHONE,)	TC08-084
INC. FOR CERTIFICATION)	SUPPLEMENTAL RESPONSE
REGARDING ITS USE OF FEDERAL)	
UNIVERSAL SERVICE SUPPORT.)	

Knology Community Telephone, Inc. (“Knology” or the "Company"), by and through the undersigned, files the following supplemental response to the South Dakota Public Utilities Commission’s inquiries in the above captioned docket. Knology appreciates the opportunity to clarify its previous written filings and looks forward to appearing before the Commission at its next available meeting to address the concerns expressed by the Commission at its meeting on August 12, 2008.

On May 30, 2008, Knology filed its Annual ETC Certification Filing and Submittal in accordance with 47 C.F.R. § 54.314 and pursuant to ARSD § 20:10:32:52, 20:10:32:53, and 20:10:32:54. Attached to the filing were confidential exhibits A, B, and C. Following that submission, the Staff of the Commission posed follow up questions, to which Knology filed a written response on June 9, 2008. Thereafter, additional questions were posed by the Commission, to which Knology filed a written response on July 24, 2008. Knology appeared at the Commission’s meeting on August 12, 2008, and fielded questions related to the above filings. Based on a review of Knology’s confidential exhibits, the Commission understandably raised questions about Knology’s commitment to South Dakota and its use of Universal Service Fund receipts in the ILEC territory of Knology Community Telephone, Inc. The Commission also requested that Knology

answer, more fully, the question previously posed by the Staff regarding capital improvement targets not met by the Company in 2007.

Knology may have inadvertently painted an incomplete picture of the level of investment and commitment Knology has made and continues to make in South Dakota since completing its merger with PrairieWave Communications. Without a doubt, Knology is committed to the State of South Dakota and hopes that today's filing will clarify its intention to provide state of the art video, data, and telephone services to consumers in this state for years to come.

Before elaborating on Knology's commitment to South Dakota, it is important to address the question posed by the Staff and reiterated by Commissioner Johnson at the August 12, 2008, Commission meeting. In Knology's previous USF certification filing in 2007, the Company had estimated that it would make \$ [REDACTED] in capital expenditures for the ILEC in 2007. In Knology's May, 2008 filing, the Company reported actual capital expenditures of \$ [REDACTED] for the ILEC in 2007. The Staff and the Commission questioned the difference in the 2007 estimated amount and the 2007 actual amount and asked Knology to explain which targets were not met.

Two projects included in the 2007 budget explain the difference between what was estimated and the actual number reported. First, it should be noted that the estimated capital expenditure number provided in May, 2007 was taken from the Company's budget as it was prepared and existed prior to the end of 2006.¹ That number included plans to purchase roughly \$ [REDACTED] of additional software for a new switch that had been

¹ Knology's prepares its budget beginning in the third to fourth quarter of the prior year. For instance, the 2007 capital budget was prepared in late fall 2006. Similarly, the 2008 budget was prepared in late fall, 2007.

purchased in 2006.² Even though it was originally predicted to be part of the 2007 capital expenditure amount, the software actually arrived before the end of 2006 and was paid for in 2006. When Knology filed its estimated capital expenditure in May, 2007, the number was taken from the budget as it had been prepared in late fall 2006, and therefore, still included this estimate for the software, even though the software was received and paid for in 2006. Therefore, this 2007 capital expenditure “target” was met, but was met at the end of 2006. In other words, of the \$ [REDACTED] estimated to be spent in 2007, the Company actually spent \$ [REDACTED], as reported, plus an additional \$ [REDACTED] targeted for 2007, but actually spent in 2006 because of the early arrival of the software. Taking this into account, \$ [REDACTED] or sixty percent (60%) of the 2007 estimate of \$ [REDACTED] was invested to the benefit of the ILEC.³

The other capital expenditure “target” that accounts for the remaining difference between the 2007 actual capital expenditure amount and the estimated amount, was a project to replace a small central office building in the Flyger exchange with a network fiber node. The plan was to replace the building with a fiber node – which would ultimately perform the same function as the current equipment, but would require less maintenance and upkeep than the current building.⁴ While this project was something the company targeted for 2007, it was not a project that was urgent, nor was it a project that was necessary to provide service to customers in the area. In fact, replacing the building with the fiber node cabinet would not have increased or decreased the

² Confidential Attachment B to Knology’s May, 2007 filing shows an actual capital expenditure number for the ILEC of \$ [REDACTED] for 2006. This number reflected the purchase of a soft switch and associated software in 2006.

³ The \$ [REDACTED] spent on the software at the end of 2006 would have been included in the actual capital expenditure amount of \$ [REDACTED] reported for 2006. For accounting purposes, the capital was spent in 2006 so that is where it is properly placed on the Company’s books.

⁴ A Fiber Node is simply a fiber-fed distribution cabinet that is about the size of a refrigerator. In this case, it would have been a 240 line cabinet.

functionality of the network serving the customers in that area. It was solely a project that was designed to reduce some maintenance expenses associated with an older building. The cost of the project was estimated to be approximately \$ [REDACTED].⁵ Ultimately this project was reevaluated and a decision was made to place the project on hold to be reconsidered at a later date.

Knology understands that the foregoing answers likely do little to assuage the concerns expressed by Commissioner Johnson regarding Knology's overall commitment to the State of South Dakota. The reality of Knology's overall investment and commitment to this state, in both its ILEC and CLEC areas, is much different than Knology's USF filings may be perceived to indicate.

Concurrent with this responsive pleading, Knology is filing revised confidential exhibits B and C to its annual ETC Certification filing for Knology Community Telephone, Inc. The purpose of the revised exhibits is to provide the most accurate and up to date estimates of ILEC capital expenditure for 2008, 2009 and 2010, which are \$ [REDACTED], \$ [REDACTED], and \$ [REDACTED] respectively. Knology was and is sincere in its assurances to the Commission that the 2007 actual capital expenditure number was an anomaly. As noted in the Company's latest response, Knology has already spent well over \$ [REDACTED] in 2008 and believes the final actual capital expenditure number for the year will be approximately \$ [REDACTED]. After a more thorough review of its past and

⁵ In anticipation of possible additional Commission questions, Knology acknowledges that in its 2007 filing, the Company provided estimated capital expenditures broken down by exchange. The Commission may wonder why the amount estimated for the Flyger exchange was significantly less than the \$ [REDACTED] budgeted for the building replacement just discussed. Knology's budget is not prepared or maintained on an "exchange" level. Therefore, when Knology is required to provide capital expenditure estimates to the Commission on a wire center basis, the overall estimated capital budget impacting the ILEC is allocated across all of the exchanges.

current capital expenditures for the ILEC territory, Knology is confident that its ILEC expenditures in 2009 and 2010 will also be in the same general range.⁶

Although not typically discussed in a USF certification filing for the ILEC, Knology hopes the Commission will also recognize the scope of Knology's overall investment in the state as further evidence of the Company's commitment. From the completion of the merger in April, 2007 through December, 2007, Knology's total overall actual capital expenditure in the South Dakota divisions was \$ [REDACTED]. Moreover, Knology's 2008 capital expenditure in the South Dakota divisions year-to-date is \$ [REDACTED]. Knology continues to upgrade its network in the state in order to bring new suites of services to consumers in South Dakota. In fact, South Dakota is one of the first markets where Knology has launched its Plexus suite of services, including iPlex and Matrix. Plexus is an IP based suite of services for small and medium sized businesses.⁷

⁶ Of course, capital expenditures are only one piece of the USF recovery puzzle. Knology also utilizes USF funding to offset significant plant specific operating expenses associated with maintaining the high cost loops in the ILEC service territory. In addition, a substantial portion of USF recovery comes in the categories of Local Switching Support to subsidize switching costs and Interstate Common Line Support, which is purely a mechanism to offset the transfer of cost from the IXC to the end user.

⁷ Plexus serves as the category name for Knology's suite of IP-based or "seriously advanced" business services. Based on the principles of Managed Service, Internet Protocol (IP) technology and the adoption of Ethernet networks, Plexus transforms services from "plain old" to "leading edge," offering flexible, manageable, and cost effective solutions for any size business. Included under the Plexus umbrella are iPlex and Matrix. Both are delivered over Knology's private and secure network.

iPlex is a Session Initiated Protocol (SIP) "Trunk" service that's designed to initiate, modify and terminate interactive communication sessions among users, including voice, chat, email, and other multimedia applications. It eliminates separate wiring for phone and data traffic and allows enhanced features like wireless/wireline integration, soft-phone support, teleworker/remote office applications, and click to dial capabilities. The single fiber optic connection for the IP-PBX gives businesses unlimited flexibility and boundless capacity. iPlex is software provisioned, so call and data capacity can be added or removed as needed. Access to traffic information, such as calling statistics, is available via a user-friendly web portal interface.

Matrix gives businesses a fully managed high-performance fiber connection to the desktop without equipment worries or capitol investment. Matrix delivers a virtually limitless amount of bandwidth and offers speeds up to 100mb. It also boasts a feature-rich phone service with caller ID, DID, call forwarding, 6-way conference calling, auto attendants, voice mail and unified messaging.

While the capital expenditures necessary to bring these enhanced services to the state cannot, in most cases, be directly attributed to the ILEC for USF certification purposes, and therefore do not show up in the numbers reported to the Commission, they do benefit consumers in the ILEC communities. Network upgrades that cannot be claimed for USF purposes are still utilized to bring new and innovative products to both ILEC and CLEC customers. What has been reported to the Commission over the years in the USF certification filings reflects only the capital expenditure and operating expense that is expected to be booked to the regulated telephone company. Unfortunately, that limited snapshot does not fairly portray the Company's overall investment and commitment to the state. This is particularly important when evaluating capital expenditures in ILEC communities where the demand for regulated telephone service is stagnant or declining.

In addition to investing in the network in South Dakota, Knology is investing in the people of South Dakota through the expansion of its call center in Sioux Falls. Despite opportunities and incentives in many other communities throughout Knology's service territory, the Company picked the Sioux Falls Center to integrate with our main Call Center in Augusta, Georgia. The Company is adding staff to the Sioux Falls Center to enhance our redundancy and to provide superior service to our customers. In the beginning of 2008, the Sioux Falls Center had a total of 95 employees, and we anticipate ending the year with 130 employees. In addition to South Dakota, Minnesota and Iowa calls, the Sioux Falls Center is currently taking over 10% of the legacy Knology calls for Sales, Service, Billing and General Information from customers in Florida, Georgia, Alabama, Tennessee and South Carolina.

CONCLUSION

From the inception of the merger with PrairieWave, Knology has been excited about serving the State of South Dakota and has been actively engaged in the business of bringing advanced products and services to the state, while at the same time integrating two very large businesses and their different operational support systems, billing systems, accounting methodologies, etc. The Company has deployed substantial capital and resources in South Dakota and fully intends to continue to do so. Although some of the foregoing explanation would not be relevant to a strict discussion of USF receipts and regulated capital investment in the ILEC territory, Knology hopes that with this additional information, the Commission will have a better understanding of Knology as a company and its commitment to the State of South Dakota. Knology stands ready to respond to any further questions the Commission may have and reiterates its request that the Commission issue an appropriate certification to the FCC and USAC indicating that Knology Community Telephone, Inc. is in compliance with 47 U.S.C. § 254(e) and should receive all federal universal service support determined for distribution to the Company in 2009.

Dated this 25th day of August 2008.

Respectfully submitted,

Kathryn E. Ford
Director of Legal Affairs