

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL) **CASE NO. GNR-T-23-05**
REVISION OF THE UNIVERSAL SERVICE)
FUND SURCHARGES TO BECOME) **ORDER NO. 35940**
EFFECTIVE OCTOBER 1, 2023)
_____)

The Idaho Telecommunications Act of 1988 created the Idaho Universal Service Fund (“IUSF”) to maintain “the universal availability of local exchange service at reasonable rates and to promote the availability of message telecommunication service ([“]MTS[”]) at reasonably comparable prices throughout the state of Idaho.” *Idaho Code* § 62-610(1). The IUSF is funded by end-user surcharges on local exchange service, MTS, and wide area telecommunications service (“WATS”). IDAPA 31.46.01.103-104. Each year, the Commission establishes the monthly surcharges levied upon local exchange service and intrastate MTS/WATS (long-distance) service. *Idaho Code* § 62-610(2). The surcharges are effective for 12 months beginning October 1. *See* IDAPA 31.46.01.104.

As explained below, the Commission finds it is reasonable to maintain the local exchange surcharge rates (\$0.25 per residential line and \$0.44 per business line), maintain the intrastate MTS/WATS billed minutes rate to \$0.007, and maintain funding levels for 12 months, effective October 1, 2023.

BACKGROUND

The Commission annually distributes IUSF funds to qualifying high-cost local exchange telephone companies to supplement their annual revenue requirements. The IUSF Administrator submits an annual report to the Commission. *Idaho Code* § 62-610 and IDAPA 31.46.01.303.02. In the report, the Administrator reviews the fund balance and recommends changes to the surcharge rates to maintain adequate funding levels. Commission Staff (“Staff”) then analyzes the report and submits recommendations to the Commission. After reviewing the report and recommendations, the Commission issues an order prescribing IUSF surcharge rates for the next 12 months. IDAPA 31.46.01.104-106. As set forth in the Commission’s 2022 order, current monthly IUSF rates are \$0.25 per residential line, \$0.44 per business line, and \$0.007 per intrastate long-distance billed minute. Order No. 35517.

THE 2023 REPORT

A. The 2023 Data and 2023-2024 Proposed Budget

On July 14, 2023, the Administrator of the IUSF, Alyson Anderson, filed the Annual Report of the IUSF for the fiscal year July 1, 2022, through June 30, 2023.¹ Included in the report is the Administrator’s proposed budget for the next fiscal year—July 1, 2023, through June 30, 2024. Surcharge revenues collected for the 2022-2023 fiscal year totaled \$1,420,072. Local exchange services contributed \$687,706, or 48%, and \$732,366, or 52%, was contributed by MTS/WATS services. The Administrative expenses for the year were \$19,360. This amount includes the Administrator’s salary, expenses, and bank charges. Total annual disbursements to the eight qualifying telephone companies remained unchanged at \$1,698,610. IUSF’s annual year-end cash balance, after applying bank charges and administrative expenses, was \$1,187,050.

The Administrator proposed an annual administrative budget for fiscal year 2023-2024 of \$29,300. This amount encompasses the Administrator’s salary and all other relevant expenses, including postage/copies, telephone, bank/investment charges, letterhead, and anticipated costs for an audit and legal fees.

According to the Administrator, as of May 1, 2023, companies reported an average monthly inventory of 65,516 residential lines and 68,257 business lines, for a total of 133,773 lines. Long distance service providers reported intrastate MTS/WATS billed minutes of 46,111,289 compared to the 2022 reported minutes of 89,781,375. The statewide average switched access rate is \$0.067 per minute, a change from last year’s rate of \$0.056. Based on data from wire-line telephone companies and long-distance companies, the Administrator calculated the 2023 statewide weighted average rates for one-party single line residential service and business service, and the corresponding 125% of the statewide weighted average rates, as set out below:

	2022 Statewide Weighted Average Rate	2023 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate – 2022	125% Statewide Weighted Average Rate - 2023
Residential Services	\$25.84	\$28.49	\$32.30	\$35.62
Business Services	\$42.27	\$54.31	\$52.84	\$67.88

¹ On August 21, 2023, August 25, 2023, and September 8, 2023, Ms. Anderson filed revised reports with additional updates and corrections.

B. The Five Surcharge Options

The Administrator has shown that over the last several years, both local access lines and intrastate MTS/WATS minutes have, on average, steadily declined.² Both the Administrator and Staff asserted that it is difficult to accurately calculate the funding needed to maintain adequate fund balances throughout the coming fiscal year. The Administrator thus proposed the following surcharge options for the Commission's review:

Option 1 – Status Quo: The Administrator calculated that IUSF revenues would decrease by about \$848,186 if current surcharge levels are maintained and no additional IUSF funding is authorized. Assuming the same disbursement as fiscal year 2022-2023 (\$1,698,610), the year-end fund balance on June 30, 2024, is estimated to be approximately \$40,882. MTS/WATS services would contribute about 37% of the surcharge revenue and local exchange services would contribute 67% of the surcharge revenue.

Option 2—Adjust Surcharge Rates & Maintain Funding: If IUSF surcharges were increased to \$0.27 per residential line, \$0.52 per business line, and \$0.014 per intrastate MTS/WATS billed minute, and if current funding levels were maintained, the IUSF balance would decrease by about \$444,157. MTS/WATS services would contribute about 50% of the surcharge revenue, and local exchange services would contribute the other 50%. The Administrator projected that the year-end fund balance on June 30, 2024, would be about \$444,911.

Option 3—Adjust Surcharge Rates & Adjust Funding to Meet Statewide Averages: IUSF Rule 106.02, IDAPA 31.46.01.106.02, provides that a qualifying telephone company may need to revise rates to meet or exceed the statewide threshold rates to continue receiving IUSF funding after the first year of eligibility. If the company's rate is 3% or less than the statewide threshold rate and the annual revenue associated with the company's current rate is \$6,000 or less than the revenue associated with the statewide average threshold rate, the company must revise its rates to equal or exceed the statewide threshold rate for MTS/WATS access service, and 125% of the statewide average for local exchange service.

If Rule 106.02 were applied to each of the eight companies that are eligible to receive IUSF disbursements, each would receive reduced disbursements during the next fiscal year. If surcharge rates are decreased to \$0.02 per residential line, \$0.04 per business line, and \$0.001 per intrastate

² In 2021, local exchange lines increased for the first time in recent history. However, the downward trend has since resumed.

MTS/WATS billed minute, the IUSF will decrease by approximately \$688,969 and the balance would be about \$200,099 on June 30, 2024.

Option 4—Adjust Inventories, Adjust Surcharge Rates & Maintain Funding Levels: To calculate future fund balances more accurately, the line inventories are adjusted to reflect the most recent five-year trend, resulting in residential lines being reduced by 11%, business lines being reduced 9%, and the MTS/WATS billed minutes reduced 14%. If the surcharge rates were increased to \$0.30 per residential line, \$0.57 per business line, and \$0.02 per intrastate MTS/WATS billed minute—and if IUSF disbursements were maintained at current levels—IUSF disbursements would decrease by about \$294,754. MTS/WATS services would contribute about 56% of the surcharge revenue, and local exchange services would contribute the other 44%. The IUSF would have a balance of about \$594,314 on June 30, 2024.

Option 5—Adjust Inventories, Adjust Surcharge Rates & Adjust Funding to Meet Statewide Averages: After adjusting the inventories as in Option 4, if the surcharge rates are increased to \$0.27 per residential line, \$0.52 per business line, and \$0.02 per intrastate MTS/WATS billed minute and IUSF disbursements are adjusted to meet statewide averages per rule 106, the IUSF will increase by approximately \$352,040. MTS/WATS services would contribute approximately 49% of the surcharge revenue and local exchange services would contribute 51% of the surcharge revenue. The IUSF would have a balance of approximately \$1,241,108 on June 30, 2024.

Option 6—Adjust Inventories, Adjust Surcharge Rates & Without Funding Adjustment: After adjusting the inventories as in Option 4, if the surcharge rates are increased to \$0.27 per residential line, \$0.52 per business line, and \$0.02 per intrastate MTS/WATS billed minute and disbursements are maintained at current levels, the IUSF will decrease by approximately \$592,303. MTS/WATS services would contribute approximately 49% of the surcharge revenue and local exchange services would contribute 51% of the surcharge revenue. The IUSF would have a balance of approximately \$296,765 on June 30, 2024.

In the report, the Administrator recommended the Commission adopt Option 5, increasing surcharge rates and applying Rule 106.02 to adjust funding to the eligible companies. If the Commission wishes to keep current funding levels, then the Administrator recommends that the Commission adopt Option 4, which increases the surcharge rates and would be adequate to meet the IUSF's obligations but leaves less of a reserve fund than Option 5 to address future industry changes.

STAFF RECOMMENDATIONS

Staff analyzed the Administrator's report and supporting documentation. Staff also analyzed Federal Communications Commission ("FCC") rate freezes and how specific FCC orders interact with IUSF Rules (IDAPA 31.46.01), particularly Rule 106. Based on its analysis, Staff disagreed with the Administrator's recommendation that the Commission adopt Option 5. Staff noted that, given the FCC's recent rate-freeze orders, the Commission should not apply Rule 106.02 to determine eligibility for the eight companies that receive state IUSF disbursements. Staff noted that if Rule 106.02 is strictly applied all eight companies would be required to increase the residential local exchange rate from the current \$25.76 to \$30.85 and the business local exchange rate to \$49.02. Staff expressed concern over increasing rates this amount. Additionally, Staff was also concerned that adopting either Option 4 or Option 5 might result in diminished funding levels for companies participating in the IUSF, necessitating increased surcharges rates in response to declining line counts.

Staff recommended adopting Option 1 to maintain the current surcharge rates of \$0.25 per residential line, \$0.44 per business line, \$0.007 per intrastate MTS/WATS billed minute, and keeping the companies draws the same. This will result in a fund decrease of approximately \$848,186. Staff calculated that the 2023-2024 IUSF authorized disbursements will be \$1,698,610. Accordingly, under this Option 1, the IUSF will meet its obligations for 2023-2024, ending with a positive projected balance of about \$40,000. Staff does not believe this projected cash balance jeopardizes the IUSF. In support of this position, Staff noted that, since 2017, the projected year-end cash balance for the IUSF has not accurately predicted the actual year-end balance for the IUSF.³

Staff and the Administrator were mainly concerned about trying to fund the IUSF in a declining industry where land lines are being replaced with new technologies such as VoIP and cell phones. Staff noted that even though the stakeholders agree that a legislative solution is necessary to mitigate funding issues related to IUSF, Order No. 34524, the stakeholders have not come together on a legislative change.

³ Staff's decision memorandum filed in this case contains a table titled "IUSF Fund Trend Analysis" detailing the projected and actual year-end cash balances of the IUSF since 2016. *See* Dec. Memo. at 8. According to the trend analysis described in the table, the projected year-end case balance for the IUSF overestimated the actual year-end balance for some years and underestimated it for others.

Finally, Staff recommended that the Administrator continue to provide quarterly cash flow analysis of the IUSF to Staff, as detailed in Order No. 33851. The quarterly cash flow review will allow Staff to monitor any anomalies that may arise and to proactively respond to any unforeseen cash flow impacts due to further declines in line counts or minutes.

FINDINGS AND DISCUSSION

As we have noted before, local access lines and intrastate long-distance billed minutes continue to decline. This complicates the task of predicting the necessary IUSF fund balance for the next fiscal year and determining appropriate rates so qualifying telephone companies can maintain IUSF eligibility. To receive IUSF funding, a telephone company providing local exchange and access services to long-distance providers must qualify for a distribution. *See Idaho Code* §§ 62-605, -610, and IDAPA 31.46.01.106. To qualify for a distribution, a telephone company's average rates for one-party, residential and business services, and per minute for long-distance access services must meet or exceed the weighted statewide averages – or threshold rate – as calculated by the IUSF Administrator. *See IDAPA 31.46.01.106.01 and 31.46.01.302.* The Commission may revise a qualifying telephone company's rates so the company can maintain IUSF eligibility, based on the company's average rate or annual revenue as compared to the threshold rate or rates' associated annual revenue. *See IDAPA 31.46.01.106.02.*

The actual statewide average rate is obscured by the large, deregulated companies – those with the greatest market share and greatest impact on the threshold rate – that have increased their stand-alone residential rates to encourage purchases of bundled services that include local residential service. *See Order Nos. 32883 at 3, and 32637 at 3.* The IUSF Annual Report and the threshold rate calculations do not reflect this shift to bundled services because companies are only required to report stand-alone residential rates. Also, in 2011 and 2014, the FCC capped inter-carrier compensation rates and caused statewide average switched access rates to decrease, further affecting IUSF eligibility. *See In the Matter of Connect America Fund, 26 F.C.C.R. 17663 (2011); In the Matter of Connect America Fund, etc., 29 F.C.C.R. 8769 (2014), and see Order Nos. 32637 at 4; and 32883 at 3-4.*

Considering the Administrator's 2023 Annual Report and Staff's recommendations, we find the IUSF local exchange surcharges should be maintained at \$0.25 per residential line and \$0.44 per business line. The surcharge for intrastate MTS/WTS billed minutes should be maintained at \$0.007, and IUSF disbursements should be maintained at current levels. The

Commission appreciates the Administrator's advocacy of Option 5, but it risks being too aggressive by reducing both the funding to eligible telecommunications carriers and the IUSF fund balance. Considering this and other complicating factors discussed above, the Commission finds that Staff's recommended funding option represents a reasonable surcharge that will fulfill the purposes of Idaho's Telecommunications Act of 1988.

Finally, the Commission accepts the Administrator's proposed budget for fiscal year 2023-2024. We further note it is important for the Commission to strictly monitor the IUSF balance to avoid unforeseen cash flow impacts due to diminishing line counts and minutes. The Administrator should continue to provide Staff with quarterly cash flow analysis to assist us in monitoring IUSF balances. *See* Order No. 33851 at 7.

ORDER

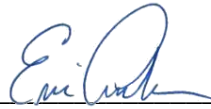
IT IS HEREBY ORDERED that the monthly IUSF surcharge rates shall remain \$0.25 per residential line, \$0.44 per business line, and \$0.007 per MTS/WATS minute, effective for 12 months beginning October 1, 2023. The Administrator's proposed fiscal year 2023-2024 budget is accepted.

IT IS FURTHER ORDERED that the Administrator shall provide Staff quarterly cash flow reports, as outlined above and in Order No. 33851.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order regarding any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* §§ 61-626.

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DONE by order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of September 2023.



ERIC ANDERSON, PRESIDENT

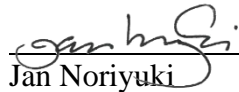


JOHN R. HAMMOND JR., COMMISSIONER



EDWARD LODGE, COMMISSIONER

ATTEST:



Jan Noriyuki
Commission Secretary

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