

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)
REVISION OF THE UNIVERSAL SERVICE) CASE NO. GNR-T-17-04
FUND SURCHARGES TO BECOME)
EFFECTIVE SEPTEMBER 1, 2017.) ORDER NO. 33851
_____)

The Idaho Telecommunications Act of 1988 created a Universal Service Fund (USF) 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 USF is funded by end-user surcharges on local exchange service, message telecommunication service (MTS), and wide area telecommunications service (WATS). *See* 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. *See Idaho Code* § 62-610(2). The surcharges are in effect for a 12-month period starting October 1. *See* IDAPA 31.46.01.104 (Telecom Rule 104).

As set out in greater detail below, the Commission finds that it is reasonable to adjust surcharge rates—to \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute—and inventories and maintain funding levels for 12 months, effective September 1, 2017. The Commission further finds that the Idaho Universal Service Fund’s (IUSF) ability to meet its obligations is in jeopardy. Therefore, we order that all stakeholders and interested parties convene in order to address the IUSF in terms of its current legal framework, its place in the evolving telecommunications landscape, and universal telecommunications services in Idaho generally.

BACKGROUND

The Commission annually distributes USF funds to qualifying high-cost local exchange telephone companies to supplement their annual revenue requirements. The USF Administrator submits an Annual Report to the Commission. *See Idaho Code* § 62-610 and IDAPA 31.46.01.102. In the report, the Administrator reviews the fund balance and recommends changes, if any, to the surcharge rates in order to maintain adequate funding levels. After reviewing the report, the Commission issues an Order prescribing USF surcharge rates for

the next 12 months. *See* IDAPA 31.46.01.104-106. As set forth in the Commission's 2016 Order, current monthly USF rates are \$0.12 per residential line, \$0.20 per business line, and \$0.005 per intrastate long-distance billed minute. *See* Order No. 33582.

THE 2017 REPORT

A. The 2017 Data and 2018 Proposed Budget

On July 14, 2017, the USF Administrator filed the Annual Report for the USF fiscal year from July 1, 2016 through June 30, 2017, including a proposed budget for fiscal year 2018. The Administrator reported that USF surcharge revenue for the past year totaled approximately \$1,291,532 – a decrease of approximately \$353,468 from 2016. The surcharge revenue from local exchange services during the reporting year totaled approximately \$647,667 – a decrease of approximately \$196,333 from 2016 – and the long-distance surcharge revenue decreased to approximately \$643,865 – a decrease of approximately \$157,135 from 2016. Approximately 50% of the total USF revenue was from local exchange services surcharges, and 50% was from long-distance surcharges.

Annual disbursements to the eight qualifying telephone companies – unchanged from 2016 – would total approximately \$1,699,000. The fund's annual year-end cash balance, after applying bank charges and administrative expenses, was approximately \$80,784. The Administrator estimated that if current surcharge levels are maintained, and no additional USF funding is authorized, the fund would not meet its obligations and have a negative balance of approximately \$504,036 on June 30, 2018.

The Administrator's expenses for the 2017 fiscal year were \$12,906. The Administrator proposed an annual administrative budget for fiscal year 2018 of \$24,100. This amount includes the Administrator's salary and all other relevant expenses, including a fund audit that is anticipated to cost \$8,000 scheduled for October 2017.

Based upon data submitted to the Administrator, as of May 1, 2017, Idaho's telecommunications companies reported that, on a monthly basis, approximately 152,290 residential lines were in service and 122,009 business lines were in service, for a total of approximately 274,299 lines. Comparing this data to the prior year, the Administrator calculated that the number of residential wire lines decreased by approximately 10% and business wire lines decreased by approximately 37%.

Long-distance service providers reported intrastate MTS/WATS billed minutes of 125,154,200, a decrease of approximately 37% from 2016. The statewide average switched access rate was \$0.031, a decrease from last year's rate of \$0.035. Based upon the data submitted by the wire line telephone companies and the long-distance companies, the Administrator calculated the statewide weighted average for one-party single line residential and business service and the corresponding 125% statewide weighted average as set out below:

Type of Service	2017 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate – 2016
Residential Service	\$21.83	\$27.28
Business Service	\$37.77	\$47.22

See Idaho Code §§ 62-605, -610 and IDAPA 31.46.01.106.

B. The Four 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. Therefore, the Administrator and Commission Staff asserted that it would be difficult to accurately calculate the funding requirements necessary to maintain adequate fund balances throughout the coming fiscal year. Consequently, the Administrator proposed four surcharge options for the Commission's review, all reflecting the decline in current line inventories and minutes of use by the average percentage decline over the last five years.

Option 1 – Maintain Current USF Rates: The Administrator calculated that USF revenues will decrease by about \$584,820 if current surcharge levels are maintained and no additional USF funding is authorized. Assuming the same disbursements as fiscal year 2016 (\$1,698,610), the year-end fund balance on June 30, 2018, is estimated to be approximately negative \$504,036 and obligations would not be met. Surcharge revenues would be approximately 45% from MTS/WATS services and 55% from local exchange services.

Option 2 – Adjust Funding Disbursement to the USF Recipients and Maintain the Current Surcharges: If current USF charges were maintained and disbursements to the eight USF recipients were adjusted to meet the 125% statewide averages, all eight recipients would receive reduced disbursements. The Administrator projected that Option 2 USF disbursements would be approximately \$266,104, while the year-end fund balance on June 30, 2018, would decrease to approximately negative \$185,320 and obligations would not be met. Under this

option, MTS/WATS services would contribute approximately 55% of the total surcharge revenue and the local exchange services would contribute approximately 45%.

Option 3 – Maintain Funding Levels and Adjust Surcharge Rates: In an attempt to more accurately calculate future fund balances, the Administrator adjusted inventories under this option to the most recent five-year trend. As a result, residential lines have been reduced by 12%, business lines by 10%, and intrastate MTS/WTS billed minutes by 12%. Under this option USF disbursement amounts would remain the same, but the USF surcharge rates would increase to \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate MTS/WATS billed minute. Overall, the Administrator projected that USF funding would increase by approximately \$307,797 and the year-end balance on June 30, 2018, would be approximately \$388,581. Under this option, MTS/WATS services would contribute approximately 49% of the total surcharge revenue and the local exchange services would contribute approximately 51%.

Option 4 – Adjust Funding to Meet Statewide Averages and Decrease Surcharge Rates: As with Option 3 above, the Administrator adjusted inventories based on the previous five-year averages. Under Option 4, the Administrator projects a need to increase surcharge rates. If local surcharge rates are increased to \$.20 per residential line, \$.35 per business line and the MTS/WATS rates are increased to \$.008 per intrastate billed minute, along with IUSF adjustments per Rule 106 (IDAPA 31.46.01.106), the fund will increase by approximately \$305,665. MTS/WATS rates would contribute approximately 52% of the surcharge revenue and local exchange services would contribute 48%. The fund would have a projected balance of approximately \$386,449 as of June 30, 2018.

Finally, the Administrator stated that during the past year there has been a 37% decline in both local business lines and MTS/WATS billed minutes, along with a 10% decline in local residential lines. The continued popularity and growth of wireless, cellular and VoIP services in Idaho are actively contributing to this decline and these trends do not appear to be changing. Therefore, the Administrator opined that in order to maintain disbursements and revenue, rates need to increase significantly. Toward that end, the Administrator recommended that the Commission adopt Option 3, as described above, which would allow the USF fund to meet all of its obligations as well as provide an appropriate reserve balance. Further, the Administrator recommended that the new surcharge rates should be made effective September 1, 2017.

STAFF COMMENTS

After conducting a thorough analysis of the Administrator's findings, supporting documentation and recommendations, Staff concurred with the Administrator as to the reasonableness of Option 3, including the proposed September 1, 2017, effective date. Staff also undertook additional analysis of FCC rate freezes and how certain FCC orders interact with Idaho's Universal Service Fund Rules (IDAPA 31.46.01), which led to Staff's conclusion that IUSF funding elements continue to be impermanent and difficult to predict.

Staff opined that, along with the Administrator, funding the IUSF in a declining industry, where land lines are being replaced by, among others, cellular and VoIP technologies, is becoming increasingly difficult. Further, Staff believes that increasing surcharges compounds financial effects on Idaho's dwindling land line and long-distance using population. Therefore, Staff recommended that the Commission order the opening of a docket in order to provide notice to stakeholders interested in the IUSF to participate in workshops and provide commentary related to the ongoing viability of the IUSF.

Finally, Staff recommended that the Administrator begin to provide quarterly cash flow analysis to Staff, so that Staff may aid in the monitoring of IUSF anomalies, and provide proactive response to unforeseen cash flow impacts due to further declines in line counts or long distance minute usage.

DISCUSSION

Over the last several years, local access lines and intrastate long-distance billed minutes have generally declined. During fiscal year 2017, the Administrator stated that there has been a 37% decline in both local business lines and MTS/WATS billed minutes, along with a 10% decline in local residential lines. The Administrator projected that for fiscal year 2018, the number of residential lines will decrease by approximately 10%, the number of billed long-distance minutes will decrease by approximately 12%, and the number of business lines by 10%. Simultaneously, the statewide average residential and business rates have steadily increased. These factors make it difficult to both predict the necessary USF fund balance for the next fiscal year and to determine appropriate rates so that qualifying telephone companies maintain USF eligibility.

To receive USF funding, a telephone company providing local exchange services 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, 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 USF Administrator. *See* IDAPA 31.46.01.106.01, 31.46.01.302. The Commission may revise a qualifying telephone company's rates in order for the company to maintain USF eligibility, based on the company's average rate or annual revenue as compared to the threshold rate or threshold rate's associated annual revenue. *See* IDAPA 31.46.01.106.02.

As we have noted in prior years, the true statewide average rate is difficult to determine because the large deregulated companies – those with the greatest market share and greatest impact on the threshold rate – have increased their stand-alone residential rates to encourage purchase of bundled services that include local residential service. *See* Order Nos. 32883 at 3; 32637 at 3. The shift to bundled services is not reflected in the USF Annual Report or the threshold rate calculations because companies are only required to report stand-alone residential rates. Also, in 2011 and 2014, the Federal Communications Commission (FCC) issued orders that had the effect of capping inter-carrier compensation rates, causing a decline in statewide average switched access rates, further impacting USF eligibility. *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; 32883 at 3-4.

Based upon our review of the 2017 Annual Report and the recommendations of Commission Staff and the fund Administrator, the Commission finds that the USF surcharges should be increased to \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WTS services, with IUSF disbursements maintained at current levels. Given the various complicating factors discussed above, the Commission finds that Option 3 represents a reasonable surcharge that will fulfill the purposes of the Telecommunications Act of 1988 and maintain a prudent USF fund balance.

The Administrator and Commission Staff have expressed concerns about the continuing viability of this program in light of the declining industry around it, as technology evolves and cell phones and VoIP technology have rapidly overtaken wireline telecommunication services and long-distance calling. Further, revenue impacts of increasing surcharges to fund current IUSF disbursements are rapidly eroding Idaho's land line customer base while simultaneously increasing the financial impacts on it. We share these important

concerns with Staff and find it prudent and necessary to take a hard look at the sustainability and viability of the IUSF.

In order to gain a better understanding of issues related to the IUSF, we find that a generic docket should be opened so that interested stakeholders, Staff, the Administrator, the companies utilizing the IUSF, and the general public, might provide insight and comments on how best to handle the IUSF in light of the complicating factors discussed throughout this Order. Staff and the Administrator should initiate this process as soon as reasonably possible.

Finally, the Commission accepts the Administrator's proposed fiscal year 2018 administrative budget. We commend her work as Administrator. We further find that it is important to maintain strict oversight of the IUSF balance, in order to avoid unforeseen cash flow impacts due to diminishing line counts and minutes. Therefore, Staff should receive quarterly cash flow analysis from the Administrator in order to provide monitoring aid as it relates to IUSF balances.

O R D E R


IT IS HEREBY ORDERED that the monthly USF surcharge rates shall be \$0.25 per residential line, \$0.44 per business line, and \$0.009 per MTS/WATS minute, effective for 12 months beginning September 1, 2017. The Commission also accepts the Administrator's proposed fiscal year 2018 budget.

IT IS FURTHER ORDERED that Staff and the Administrator shall initiate a generic docket before this Commission in order to allow a public forum for stakeholders to participate in a discussion of the IUSF as it relates to the current legal and regulatory framework, its place in the evolving telecommunications landscape, and universal telecommunications services in Idaho generally.

IT IS FURTHER ORDERED that the Administrator provide to Commission Staff quarterly cash flow reporting, as outline in this Order.

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 with regard to 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 and 62-619.

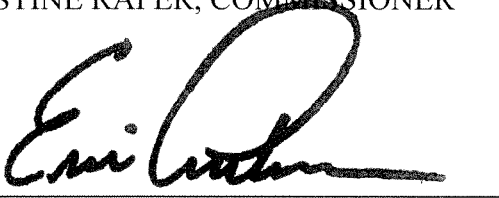
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 22nd
day of August 2017.



PAUL KJELLANDER, PRESIDENT

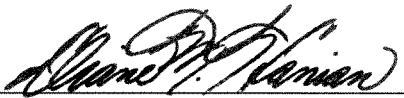


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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