

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)
REVISION OF THE UNIVERSAL SERVICE) **CASE NO. GNR-T-16-12**
FUND SURCHARGES TO BECOME)
EFFECTIVE OCTOBER 1, 2016.) **ORDER NO. 33582**
)

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 maintain the current USF surcharges for 12 months, effective October 1, 2016.

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 beginning annually on October 1. *See* IDAPA 31.46.01.104-106. As set forth in the Commission’s 2015 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. 33378.

THE 2016 REPORT

A. The 2016 Data and 2017 Proposed Budget

On July 15, 2016, the USF Administrator filed the Annual Report for the USF fiscal year from July 1, 2015 through June 30, 2016. The Administrator reported that USF surcharge

revenue for the past year totaled approximately \$1,645,000 – a decrease of approximately \$401,000 from 2015. The surcharge revenue from local exchange services during the reporting year totaled approximately \$844,000 – a decrease of approximately \$238,000 from 2015 – and the long-distance surcharge revenue decreased to approximately \$801,000 – a decrease of approximately \$163,000 from 2015. Approximately 51% of the total USF revenue was from local exchange services surcharges, and 49% was from long-distance surcharges.

Annual disbursements to the eight qualifying telephone companies – unchanged from 2015 – would total approximately \$1,699,000. The fund’s annual year-end cash balance, after applying bank charges and administrative expenses, was approximately \$501,000. The Administrator estimated that if current surcharge levels are maintained, and no additional USF funding is authorized, the fund will decrease by approximately \$22,000.

The Administrator’s expenses for the 2016 fiscal year were \$12,841. The Administrator proposed an annual administrative budget for fiscal year 2017 of \$16,050. This amount includes the Administrator’s salary and all other relevant expenses.

Based upon data submitted to the Administrator, as of May 1, 2016, Idaho’s telecommunications companies reported that, on a monthly basis, approximately 170,000 residential lines were in service and 193,000 business lines were in service, for a total of approximately 363,000 lines. Comparing this data to the prior year, the Administrator calculated that the number of residential wire lines decreased by approximately 7% and business wire lines decreased by approximately 14%.

Long-distance service providers reported intrastate MTS/WATS billed minutes of 197,135,000, an increase of approximately 18% from 2015. The statewide average switched access rate was \$0.035, a slight change from last year’s rate of \$0.036. 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 | 2016 Statewide Weighted Average Rate | 125% Statewide Weighted Average Rate – 2016 |
|------------------------|---|--|
| Residential Service | \$21.77 | \$27.21 |
| Business Service | \$36.94 | \$47.42 |

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. However, the 2016 fiscal year brought some unexpected increases in the number of MTS/WATs billed minutes. Therefore, the Administrator and Commission Staff asserted that it would be difficult to 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 \$22,000 if current surcharge levels are maintained and no additional USF funding is authorized. Assuming the same disbursements as fiscal year 2015 (\$1,698,610), the year-end fund balance on June 30, 2017, is estimated to be approximately \$479,000. Surcharge revenues would be approximately 42% from MTS/WATS services and 58% 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 \$1,344,249, while the year-end fund balance on June 30, 2017, would increase to approximately \$833,000. Under this option, MTS/WATS services would contribute approximately 58% of the total surcharge revenue and the local exchange services would contribute approximately 42%.

Option 3 – Maintain Funding Levels and Adjust Surcharge Rates: Under this option, USF disbursement amounts would remain the same, but the USF surcharge rates would increase to \$0.14 per residential line and \$0.25 per business line, and decrease to \$0.004 per intrastate MTS/WATS billed minute. Overall, the Administrator projected that USF funding would decrease by approximately \$137,000 and the year-end balance on June 30, 2017, would be approximately \$364,000. Total surcharge revenues raised from MTS/WATS services versus local exchange services would be approximately equal.

Option 4 – Adjust Funding to Meet Statewide Averages and Decrease Surcharge Rates: Under Option 4, the Administrator decreased the amount of USF disbursements and also proposed to decrease the surcharge rates to \$0.10 per residential line, \$0.17 per business line, and \$0.003 per intrastate MTS/WATS billed minutes. Under Option 4, funding would decrease by approximately \$444,000 and the year-end balance would be approximately \$56,000. Under this option, MTS/WATS services would contribute approximately 58% of the total surcharge revenue and the local exchange services would contribute approximately 42%.

Given the anticipated decline in the number of local access lines and long-distance minutes, the Administrator and Commission Staff have recommended that the Commission adopt Option 1, which would have the effect of maintaining USF disbursements at the current level. Again, the Administrator calculated that the Option 1 year-end balance on June 30, 2017, would be approximately \$479,000. The Administrator opined, and Commission Staff agreed, that Option 1 would allow the USF fund to meet all of its obligations as well as provide an appropriate reserve balance.

DISCUSSION

Over the last several years, local access lines and intrastate long-distance billed minutes have generally declined. For fiscal year 2017, the Administrator has projected that the number of residential lines will decrease by approximately 10%, the number of billed long-distance minutes will decrease by approximately 4%, and the number of business lines will decrease by 2.5%. 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 in order 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 – 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 2016 Annual Report and the recommendations of Staff and the fund Administrator, the Commission finds that the USF surcharges should be maintained at the current, or fiscal year 2016, rates. Given the various complicating factors discussed above, the Commission finds that Option 1 represents a reasonable surcharge that will fulfill the purposes of the Telecommunications Act of 1988 and maintain a prudent USF fund balance.

The Commission also accepts the Administrator's proposed fiscal year 2017 administrative budget. We commend her work as Administrator.

ORDER

IT IS HEREBY ORDERED that the monthly USF surcharge rates shall be \$0.12 per residential line, \$0.20 per business line, and \$0.005 per MTS/WATS minute, effective for 12 months beginning October 1, 2016. The Commission also accepts the Administrator's proposed fiscal year 2017 budget.

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 8th
day of September 2016.


PAUL KJELLANDER, PRESIDENT


KRISTINE RAPER, COMMISSIONER


ERIC ANDERSON, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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