

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)
REVISION OF THE UNIVERSAL SERVICE) **CASE NO. GNR-T-19-06**
FUND SURCHARGES TO BECOME)
EFFECTIVE OCTOBER 1, 2019.) **ORDER NO. 34427**
_____)

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). *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 12 months starting 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), lower the intrastate MTS/WATS billed minutes to \$0.007, and maintain funding levels for 12 months, effective October 1, 2019.

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. *See Idaho Code* § 62-610 and IDAPA 31.46.01.102. In the report, the Administrator reviews the fund balance and recommends changes to the surcharge rates to maintain adequate funding levels. The Commission’s 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. *See* IDAPA 31.46.01.104-106. As set forth in the Commission’s 2018 Order, current monthly IUSF rates are \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate long-distance billed minute. *See* Order No. 34131.

THE 2019 REPORT

A. The 2019 Data and 2020 Proposed Budget

On July 17, 2019, the IUSF Administrator filed the Annual Report for the IUSF fiscal year from July 1, 2018, through June 30, 2019, including a proposed budget for fiscal year 2020. The Administrator reported IUSF surcharge revenue for fiscal year 2019 totaled about \$2,227,054. This amount consisted of: (1) total surcharge revenue from local exchange services of about \$1,197,390, a \$142,326 increase from fiscal year 2018; and (2) total long-distance surcharge revenue of about \$1,029,664, a \$195,235 increase from fiscal year 2018. About 54% of the total IUSF revenue was from local exchange services surcharges, and 46% was from long-distance surcharges.

Annual disbursements to the eight qualifying telephone companies – unchanged from 2018 – totaled approximately \$1,699,000. The fund’s annual year-end cash balance, after applying bank charges and administrative expenses, was about \$767,449.

The Administrator had \$10,752 in expenses for fiscal year 2019. The Administrator proposed an annual administrative budget for fiscal year 2020 of \$11,445. This amount includes the Administrator’s salary and all other relevant expenses.

According to the Administrator, as of May 1, 2019, Idaho’s telecommunications companies had reported that about 106,787 residential lines and 114,073 business lines were in service each month, for a total of about 220,860 lines. This represents a 13% decrease in residential wire lines, and a 0.25% decrease in business wire lines, when compared to the prior year.

Long-distance service providers reported intrastate MTS/WATS billed minutes of 117,572,337, a decrease of about 6%, from 2018. The statewide average switched access rate was \$0.032, a decrease from the 2018 rate of \$0.043. Based on data from wire-line telephone companies and long-distance companies, the Administrator calculated the 2019 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:

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Type of Service	2019 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate – 2019
Residential Service	\$22.65	\$28.31
Business Service	\$37.03	\$46.28

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

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. Therefore, the Administrator and Commission Staff asserted that it would be difficult to accurately calculate the funding needed to maintain adequate fund balances throughout the coming fiscal year. The Administrator thus proposed five 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 – Status Quo: The Administrator calculated that IUSF revenues would increase by about \$270,762 if current surcharge levels are maintained and no additional IUSF funding is authorized. Assuming the same disbursement as fiscal year 2019 (\$1,698,610), the year-end fund balance on June 30, 2020 is estimated to be about \$1,038,211. MTS/WATS services would contribute about 53% of the surcharge revenue and local exchange services would contribute 47% of the surcharge revenue.

Option 2—Adjust Surcharge Rates & Maintain Funding: If IUSF surcharges were reduced to \$0.19 per residential line, \$0.32 per business line, and \$0.006 per intrastate MTS/WATS billed minute, and if current funding levels were maintained, the fund balance would decrease by about \$323,107. 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, 2020 would decrease to about \$444,342.

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 in order to continue receiving IUSF funding after the first year of eligibility. If the company’s rate is more than 3% less than the statewide threshold rate and the annual revenue associated with the company’s current rate is over \$6,000 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.

If Rule 106 were applied to the eight companies that are eligible to receive IUSF disbursements, seven would receive reduced disbursements during the next fiscal year, and one would receive an increased disbursement. The total disbursements would be \$1,330,541. If surcharge levels were reduced to \$0.13 per residential line, \$0.21 per business line, and \$0.004 per intrastate MTS/WATS billed minute, the fund would decrease by about \$417,645. MTS/WATS services would contribute 51% of the total surcharge revenue, and local exchange services would contribute the remaining 49%. The fund balance would be about \$349,804 on June 30, 2020. In her report, the Administrator recommended the Commission adopt Option 3.

Option 4—Adjust Inventories, Adjust Surcharge Rates & Maintain Funding Levels: To more accurately calculate future fund balances, the line inventories would be adjusted to reflect the most recent five-year trend. Thus, the residential lines would be reduced 12%, the business lines reduced 12%, and the MTS/WATS billed minutes reduced 5%. If the surcharge rates were reduced to \$0.22 per residential line, \$0.36 per business line, and \$0.006 per intrastate MTS/WATS billed minute—and if IUSF disbursements were maintained at current levels—the fund disbursements would decrease by about \$363,044. MTS/WATS services would contribute about 50% of the surcharge revenue, and local exchange services would contribute the other 50%. The fund would have a balance of about \$404,405 on June 30, 2020.

Option 5—Adjust Inventories, Adjust Surcharge Rates & Adjust Funding to Meet Statewide Averages: To more accurately calculate future fund balances, the line inventories would be adjusted to reflect the most recent five-year trend. Thus, the residential lines would be reduced 12%, the business lines reduced 12%, and the MTS/WATS billed minutes reduced 5%. If the surcharge rates were reduced to \$0.15 per residential line, \$0.24 per business line, and \$0.004 per intrastate MTS/WATS billed minute—and if the IUSF disbursements were adjusted per Rule 106 (see Option 3 explanation)—fund disbursements would decrease by about \$440,215. MTS/WATS services would contribute about 49% of the surcharge revenue, and local exchange services would contribute the other 51%. The fund would have a balance of about \$327,234 at June 30, 2020.

STAFF RECOMMENDATIONS

Staff analyzed the Administrator's report and supporting documentation and recommendations. 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 3. 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 stated Option 3 would lower the funding level too much for the upcoming fiscal year.

Staff recommended keeping the local exchange surcharge at current levels (\$0.25 per residential line, \$0.44 per business line), lowering the intrastate MTS/WATS billed minutes to \$0.007, and keeping the fund's disbursements the same. Staff's recommendation would decrease the fund by about \$122,107. The fiscal year 2020 fund disbursements would be \$1,698,610. MTS/WATS services would contribute about 49% of the surcharge revenue, and local exchange services would contribute the other 51%. The fund balance would be about \$645,342 on June 30, 2020.

Finally, Staff recommended that the Administrator continue to provide quarterly cash flow analysis of the IUSF to Staff, as detailed in Order No. 33851.

FINDINGS AND DISCUSSION

We again acknowledge that local access lines and intrastate long-distance billed minutes have generally declined over the last several years. During the 2019 fiscal year, local business lines declined by 0.25%, local residential lines declined by 13%, and MTS/WATS billed minutes declined by 6%. Simultaneously, statewide average residential and business rates increased. These factors continue to make it difficult to predict the necessary IUSF fund balance for the next fiscal year, and to determine 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 threshold rate's associated annual revenue. *See IDAPA 31.46.01.106.02.*

As we have noted before, 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, 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.

Based upon our review of the Administrator’s 2019 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 reduced to \$0.007, and IUSF disbursements should be maintained at current levels. While the Commission appreciates the Administrator’s recommendation and arguments in favor of it, Option 3 risks being too aggressive of a solution by reducing both the funding to eligible telecommunications carriers and the IUSF fund balance. Given the 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 and maintain a prudent IUSF fund balance.

Finally, the Commission accepts the Administrator’s proposed budget for fiscal year 2020. We commend her work. 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 be \$0.25 per residential line, \$0.44 per business line, and \$0.007 per MTS/WATS minute, effective for 12 months beginning October 1, 2019. The Administrator’s proposed fiscal year 2020 budget is accepted.

IT IS FURTHER ORDERED that the Administrator provide to Commission 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 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, 62-619.*


DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this *28th* day of August 2019.



PAUL KJELLANDER, PRESIDENT




KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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