

Idaho Public Utilities Commission  
Office of the Secretary  
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Boise, Idaho



**CenturyLink™**

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January 31, 2018

*Via Email and  
Overnight Delivery*

Diane Hanian, Secretary  
Idaho Public Utilities Commission  
472 West Washington  
Boise, ID 83702-5983

**RE: Case No.: GNR-T-17-05  
Idaho Universal Service Fund (IUSF)  
CenturyLink and Level 3 Position**

Dear Ms. Hanian:

Attached are an original and 7 copies of CenturyLink's and Level 3's position on the IUSF.

Please contact me with any questions regarding this filing.

Sincerely,

JBf/jga

Attachments

**CENTURYLINK AND LEVEL 3 - POSITION**  
**IDAHO UNIVERSAL SERVICE FUND (IUSF)**  
**CASE NO. GNR-T-17-05**  
**January 31, 2018**

**Background:**

In its August 22, 2017, Order No. 33851 in Case No. GNR-T-17-04, the Idaho Public Utilities Commission (IPUC) ordered a very significant percentage increase in the Idaho Universal Service Fund (IUSF) surcharges applicable to residential access lines, business access lines and to MTS/WATS minutes of use (MOU). The surcharge for residential access lines increase from \$.12 per month per line to \$.25 per month per line. The surcharge for business access lines increased from \$.20 to \$.44 per month per line. The surcharge for MTS/WATS increased from \$.005 to \$.009 per MOU. Attachment A provides more specific information regarding the IUSF program history along with the most recent increases.

In the same order, referenced above, the IPUC stated; *“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.”*<sup>1</sup> The IPUC also ordered its Staff and Administrator to initiate a generic docket<sup>2</sup> to address the IUSF.

On December 21, 2017, the IPUC in Order No. 33951 in this generic docket, sent out a notice of public workshops and provided the opportunity for interested parties to file position papers by no later than January 31, 2018.

**State USFs and high-speed internet (HSI) deployment incentives:**

CenturyLink supports the need for state USFs and/or state high speed internet (HSI) programs creating economic incentives for HSI providers to build HSI networks that are capable of

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<sup>1</sup> Pages 6 and 7, IPUC’s August 22, 2017 Order No.33851, Case No. GNR-T-17-04; PUC website link: [http://www.puc.idaho.gov/fileroom/cases/tele/GNR/GNRT1704/ordnotc/20170822FINAL\\_ORDER\\_NO\\_33851.PDF](http://www.puc.idaho.gov/fileroom/cases/tele/GNR/GNRT1704/ordnotc/20170822FINAL_ORDER_NO_33851.PDF)

<sup>2</sup> IN THE MATTER OF THE 2017 REVIEW OF IDAHO UNIVERSAL SERVICE FUND, CASE NO. GNR-T-17-05:

supporting voice service, especially in high cost unserved and underserved areas.<sup>3</sup> These incentives include HSI investment tax credits, sales and property tax abatement for HSI investment, along with targeted HSI funding as an aid to construction for specific projects to build HSI networks in high cost areas.

**Immediate recommendation to the IPUC:**

The IPUC rightfully has recognized the significant problems that exist with the current IUSF and that it is not sustainable to continue to increase the surcharges on access lines. It is clear that a complete solution to the problems will require legislative action. However, the IPUC in the interim, until the legislature has time to act, should not approve any additional increases to the access lines surcharges. This will only make the situation worse and harm remaining customers who subscribe to traditional phone service. As IUSF revenues decline because of access line loss, the IPUC should reduce IUSF distributions to providers based upon demonstrated needs and not increase the burden upon the remaining customers who pay the IUSF access line surcharge.

**Problems with the IUSF:**

The existing IUSF has major problems that will require action by the Idaho legislature to address, either fixing it or changing to something different to accomplish the goals of universal service. There are two major problems along with some other changes that need to be considered. First, the funding is broken, since the surcharge is collected on a declining base. The decline in access lines will continue due to migration to wireless and Voice over the Internet Protocol (VoIP) voice services. Increases in the IUSF surcharges on the existing declining base are not sustainable going forward.

The existing IUSF is not competitively and technology neutral, since wireless and VoIP providers are not required to pay into the IUSF. The IUSF should neither advantage or disadvantage any provider or technology in the collection of the IUSF surcharge or payment from the IUSF to providers. Additionally, rural telecom providers, who are rate-of-return regulated and receive ongoing draws from the IUSF, should be required to demonstrate continued need for the support they receive. This will most likely require allocation of more resources by the legislature to the IPUC necessary to support frequent rate cases/audits, along with development of a cost model or other cost methodology as an option to the rate case approach.

The Idaho legislature will need to make very important policy decisions regarding the future of the IUSF. There are at least two options that state policy makers should consider.

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<sup>3</sup> Within CenturyLink's and Frontier's service territory in Idaho, the FCC CAF II program did not fund the deployment of HSI to census blocks with over 12,400 high cost customer locations.

### Option 1 – Reform the IUSF, fixing the problems:

- **Parity of payment into the IUSF:** Require all providers of voice lines/connections<sup>4</sup> to pay into the IUSF on a non-discriminatory and competitively neutral basis. Wireless and VoIP providers will be required to start paying into the IUSF. Providers will be allowed to recover the IUSF surcharge from their end-user customers if they want to do so, but it will not be mandated.<sup>5</sup> Obtaining parity will allow the IPUC to significantly reduce the IUSF surcharge, making it the same for business and residential lines/connections, and also eliminating the need for the MTS/WATS MOU surcharge. Attachment B shows that if all providers of voice lines/connections in Idaho were paying into the IUSF, at the current level of funding of \$1.7 million a year, would only require a per line/connection surcharge of **\$.07** per month. This a very small cost to ensure that collection of the IUSF is competitively and technology neutral neither advantaging or disadvantaging any voice line service provider in Idaho.
  - At the same time the legislature fixes the parity problem with payment into the IUSF, it can ensure parity with the payment of the other fees and surcharges under the jurisdiction of the IPUC. Wireless and VoIP voice service providers should be required to pay the same fees and surcharges that access line voice service providers are required to pay. In addition to the IUSF this also includes the Telecom Relay Service (TRS), Idaho Telephone Service Assistance Program (ITSAP) and Public Utilities Regulatory Fees (PURF). The IUSF, TRS, ITSAP and PURF should be assessed on all voice service providers in Idaho based upon the number of voice lines/connections they provide in Idaho. Attachment C shows that current levels of funding will only require a per line/connection surcharge of **\$.15** per month. This is also a very small cost to ensure that the collection of the funds necessary to support the various telecommunications programs and the regulatory resources necessary to support universal service and telecommunications is done in a competitively and technology neutral manner.
- **Demonstration of continued need:** The legislature needs to ensure that the IPUC has the resources it requires to be able to have frequent rate cases/audits of the rate-of-return regulated telecom providers who receive ongoing draws from the ISUF. Additionally, the resources necessary to adopt a cost model or other cost methodology as an option to

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<sup>4</sup> A voice line/connection is defined as any voice service that can make calls to or receive calls from the Public Switched Telephone Network (PSTN) consistent with the FCC requirements.

<sup>5</sup> By not mandating an end-user surcharge, eliminates the need for the legislature to get involved in establishing a point of sale process for pre-paid wireless providers.

rate cases/audits and to also provide the opportunity for non-rate-of-return, carriers of last resort<sup>6</sup> (COLRs) to receive support for the high cost areas they serve.

- **Targeted, HSI deployment funding:** Provide the IPUC with the authority to approve targeted, one-time IUSF distributions as an aid to construction, to help COLRs fund specific projects to construct HSI facilities, capable of supporting voice service, in high cost areas that are underserved or unserved.<sup>7</sup>

**Option 2 –Change the IUSF to a HSI investment program:**

- **A new targeted HSI funding program, replacing the existing IUSF. (To be managed by the IPUC):**
  - One-time distributions as an aid to construction on specific projects to help COLRs fund the building of HSI networks, capable of supporting voice service in specific unserved or underserved high cost areas, that otherwise would not get HSI without the targeted funding.<sup>8</sup>
    - These distributions can also be used to help fund the backbone fiber facilities of COLRs necessary to serve wireless cell sites in high cost areas, where there is a significant public safety/public interest need for wireless service.
  - Initially funded through grants from the Idaho general fund.<sup>9</sup> In the future, depending upon the success of the program, the legislature may consider funding

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<sup>6</sup> Carrier of last resort (COLR), can be any, landline or wireless voice service provider, willing to be designated by the IPUC as the default carrier in an area in which they receive high cost IUSF support.

<sup>7</sup> The definition of underserved and unserved should be consistent with the FCC HSI goals. A COLR may qualify for one-time ISUF funding in any high cost area that is unserved or underserved. (The area can be at the sub census block level. Just because a portion of a census block is served by an unsubsidized competitor does not automatically exclude the rest of the census block that is not served.)

<sup>8</sup> During the January 17, 2018 workshop, at least one rural ILEC expressed concerns that one-time distributions as an aid to construction helps covers the capital costs, but not ongoing operating costs. This need not be a roadblock to implementing targeted one-time distributions on a project by project basis. The deployment of more fiber in the network for the most part helps reduce ongoing operating costs. However, it is also possible to provide one-time distributions at a level that not only covers a significant portion of the capital costs, but also a reasonable portion of the anticipated maintenance costs, that will not be covered by anticipated revenues in the project area.

<sup>9</sup> By initially funding it through the general fund, should reduce/eliminate opposition to getting the program started. This will provide time for the IPUC to be able to fully evaluate the cost/benefits of the program so that it can report to the legislature and provide recommendations concerning what changes should be made to the program to ensure that the program is effective and efficient, accomplishing the desired goals of incenting HSI deployment in high cost unserved and underserved areas. The legislature then can determine the best way to fund the program.

it through a per voice line/connection based surcharge on providers, implemented in a competitively and technologically neutral manner.

- **Economic incentives for overall HSI investment throughout Idaho:**
  - Enhance the existing HSI investment tax credits.
    - It is currently a 3% credit. Increase the tax credit in both urban and suburban areas, and significantly more in rural areas.
  - Implement sales and property tax abatement incentives for HSI investment.

**Conclusion:**

CenturyLink supports either of the two options for the legislature to take action in regards to the IUSF. Option 1 to reform the existing IUSF and fix the problems, or Option 2 to change the IUSF to a HSI investment program. CenturyLink defers to the legislature, who are the policy makers, to decide which approach will better serve the citizens in Idaho. However, CenturyLink strongly recommends that the IPUC not increase the IUSF surcharge on access lines in the interim, until the legislature has time to act. Otherwise this will cause significant harm to the customers that subscribe to the voice services currently subject to the access lines surcharges. If the amount of IUSF revenue decreases in the interim, the IPUC can adjust the payments accordingly.

**Attachment A – CenturyLink Position Paper (01/31/18) Case No. GNR-T-17-05  
Idaho Universal Service Fund (IUSF)**

	2000 <sup>1</sup>	2008 <sup>2</sup>	2016 <sup>3</sup>	2017 <sup>4</sup>
<b>Access lines<sup>5</sup></b>				
Residential Lines	531,879	418,844	169,987	152,290
Business Lines	<u>187,125</u>	<u>232,536</u>	<u>193,095</u>	<u>122,009</u>
Total	719,004	651,380	363,082	274,299
 <b>Minutes-of-Use (MOU)</b>				
Toll - MTS/WATS	302,160,126	313,436,250	197,135,147	125,154,200
 <b>Ordered Monthly Surcharge</b>				
Residential (per line)	\$.14	\$.10	\$.12	\$.25
Business (per line)	\$.26	\$.17	\$.20	\$.44
MTS/WATS (MOU)	\$.0045	\$.003	\$.005	\$.009
 <b>Annual Disbursement</b>				
8 Rural ILECs	\$2,212,761	\$1,943,523	\$1,698,610	\$1,699,000

**Percentage change between 2000 and 2017:**

Residential access lines:	71.4% decrease <sup>6</sup>
Business access lines:	34.8% decrease <sup>7</sup>
Total access lines:	61.9% decrease <sup>8</sup>
MOU MTS/WATS:	58.6% decrease <sup>9</sup>
Annual Disbursements:	23.2% decrease <sup>10</sup>

**Surcharge percentage change between 2016 and 2017:**

Residential access lines:	108% increase <sup>11</sup>
Business access lines:	120% increase <sup>12</sup>
MTS/WATS (MOU)	80% increase <sup>13</sup>

<sup>1</sup> Information - IPUC Order No. 28492, Case No. GNR-T-00-29, August 29, 2000.

<sup>2</sup> Information - IPUC Order No. 30635, Case No. GNR-T-08-03, September 9, 2008.

<sup>3</sup> Information - IPUC Order No. 33582, Case No. GNR-T-16-12, September 8, 2016, and the August 19, 2016, Decision Memorandum in the same case.

<sup>4</sup> Information – IPUC Order No.33851, Case No. GNR-T-17-04, August 22, 2017.

<sup>5</sup> Switched access lines – traditional phone lines. Wireless and VoIP currently are not required to pay.

<sup>6</sup>  $(531,879 - 152,290 = 379,589) / 531,879 = 71.4\%$  decrease.

<sup>7</sup>  $(187,125 - 122,009 = 65,116) / 187,125 = 34.8\%$  decrease.

<sup>8</sup>  $(719,004 - 274,299 = 444,705) / 719,004 = 61.9\%$  decrease.

<sup>9</sup>  $(302,160,126 - 125,154,200 = 177,005,926) / 302,160,126 = 58.6\%$  decrease.

<sup>10</sup>  $(\$2,213,761 - \$1,699,000 = \$514,761) / \$2,212,761 = 23.2\%$  decrease.

<sup>11</sup>  $(\$ .12 - \$ .25 = \$ .13) / \$ .12 = 108\%$  increase.

<sup>12</sup>  $(\$ .20 - \$ .44 = \$ .24) / \$ .20 = 120\%$  increase.

<sup>13</sup>  $(\$ .005 - \$ .009 = \$ .004) / \$ .005 = 80\%$  increase.

**Attachment B**  
**CenturyLink Position Paper**  
**(01/31/18)**  
**Case No. GNR-T-17-05**

**CALCULATED IUSF SURCHARGE PER VOICE LINE**

<u>Voice Lines - Idaho<sup>1</sup></u>	<u>June 2015</u>	<u>June 2016</u>	<u>% Change</u>
Wireless	1,515,000	1,586,000	4.7% increase
Switched access lines	342,000	325,000	7.9% decrease
Interconnected VoIP	106,000	114,000	7.5% increase
<b>TOTAL</b>	<b>1,963,000</b>	<b>2,025,000</b>	<b>3.2% increase</b>

Annual IUSF funding (current level) = \$1,700,000

Total voice lines as of June 2016 = 2,025,000

$\$1,700,000 / 2,025,000 = \$.84 / 12 \text{ months} = \mathbf{\$.07 \text{ per month per voice line}^2}$

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<sup>1</sup> Total Idaho voice lines as of June 2016 – calculated from the FCC’s report, State Level Subscriptions:  
Website link: <https://www.fcc.gov/voice-telephone-services-report>

<sup>2</sup> This analysis assumes the IUSF charge per voice line/connection will be the same for both residential and business. Also, the MTS/WATS MOU surcharge is eliminated.



**Attachment C**  
**CenturyLink Position Paper**  
**(01/31/18)**  
**Case No. GNR-T-17-05**

**CALCULATED PARITY SURCHARGE PER VOICE LINE**

<u>Voice Lines - Idaho<sup>1</sup></u>	<u>June 2015</u>	<u>June 2016</u>	<u>% Change</u>
Wireless	1,515,000	1,586,000	4.7% increase
Switched access lines	342,000	325,000	7.9% decrease
Interconnected VoIP	106,000	114,000	7.5% increase
<b>TOTAL</b>	<b>1,963,000</b>	<b>2,025,000</b>	<b>3.2% increase</b>

**Annual Funding requirement (most recent level of funding):**

Idaho Universal Service Fund (IUSF)	\$ 1,700,000
Idaho Telephone Service Assistance Plan (ITSAP)	\$ 123,000 <sup>2</sup>
Telecom Relay Service (TRS)	\$ 102,000 <sup>3</sup>
Public Utility Regulatory Fee (PURF)	\$ 1,600,000 <sup>4</sup>
<b>TOTAL ANNUAL FUNDING</b>	<b>\$ 3,525,000</b>

Annual funding = \$3,525,000 / 2,025,000 voice lines = \$1.74 per voice line

\$1.74 / 12 months = **\$.15** per month per voice line

<sup>1</sup> Total Idaho voice lines as of June 2016 – calculated from the FCC’s report, State Level Subscriptions: Website link: <https://www.fcc.gov/voice-telephone-services-report>

<sup>2</sup> Estimate based upon IPUC’s Order No. 33732, March 29, 2017, Case No. GNR-T-17-03: [http://www.puc.idaho.gov/fileroom/cases/tele/GNR/GNRT1703/ordnotc/20170329FINAL\\_ORDER\\_NO\\_33732.PDF](http://www.puc.idaho.gov/fileroom/cases/tele/GNR/GNRT1703/ordnotc/20170329FINAL_ORDER_NO_33732.PDF)

<sup>3</sup> Estimate based upon IPUC’s Order No 33730, March 22, 2017, Case No. GNR-T-17-02: [http://www.puc.idaho.gov/fileroom/cases/tele/GNR/GNRT1702/ordnotc/20170322FINAL\\_ORDER\\_NO\\_33730.PDF](http://www.puc.idaho.gov/fileroom/cases/tele/GNR/GNRT1702/ordnotc/20170322FINAL_ORDER_NO_33730.PDF)

<sup>4</sup> Annually, the legislature establishes the budget for the Public Utility Commission, and the PURF is collected from regulated utilities to cover the costs of the budget. For this analysis, an assumed 25% of the IPUC’s budget is needed to support universal service and telecommunications. All voice lines/connections in Idaho, regardless of the regulatory status of the service provider, benefit equally from the regulatory resources required to support universal service and telecommunications. Link to the 2017 budget <https://dfm.idaho.gov/publications/bb/eb/eb2017/sectionb/economic/puc.pdf>