

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: DANIEL KLEIN
ERICK SHANER

DATE: AUGUST 27, 2021

RE: 2021 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT AND
RECOMMENDATIONS; CASE NO. GNR-T-21-07

BACKGROUND

The Idaho Universal Service Fund (Idaho USF) rules were adopted under the general legal authority of the Telecommunications Act of 1988, Chapter 6, Title 62, *Idaho Code*, and the specific authority of § 62-610, *Idaho Code*. The Commission established a universal service fund for the purpose of maintaining the universal availability of local exchange service at reasonable rates and to promote the availability of message telecommunications service (MTS) at reasonably comparable rates throughout the state of Idaho. Idaho Code § 62-610(1). The Idaho USF is funded through a statewide end-user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) type services. The Idaho USF Administrator submits an Annual Report to the Commission detailing the program activities of the previous year and recommending surcharge rates to meet the next year's funding requirements. The Commission issues an Order in response to the Administrator's report, establishing statewide end-user surcharges to be in effect for the next twelve months beginning October 1.

THE 2021 ANNUAL REPORT

On July 13, 2021, the Administrator of the Idaho USF, Alyson Anderson, filed the Annual Report for the USF fiscal year from July 1, 2020 through June 30, 2021. Included with

the report is the Administrator's proposed budget for the next fiscal year—July 1, 2021 through June 30, 2022.

The current Idaho USF monthly surcharge rates are \$.25 per residential line, \$.44 per business line, and \$.007 per intrastate MTS/WTS billed minute. See Order No. 34427. Surcharge revenue for the year totaled \$2,000,824. Local exchange services contributed \$1,249,708 (62%), and \$751,116 (38%) was contributed by MTS/WATS services. Surcharge revenue from local exchange services increased by approximately \$115,270 and MTS/WATS surcharge revenue decreased by approximately \$32,183. The Administrative expenses for the year were \$19,108. This amount includes the Administrator's salary, expenses, bank charges.

Currently, eight qualifying incumbent local exchange carriers (ILECs) receive annual payments from the fund, and those payments remain unchanged at \$1,698,610. If no changes occur, the annual disbursements to the ILECs are expected to remain the same for the next fiscal year (July 1, 2021 through June 30, 2022). The end-of-year cash balance for fiscal year 2021, after applying bank charges and administrative expenses, was \$1,254,623.

2021-2022 Administrative Budget

Ms. Anderson proposes an annual administrative budget of \$26,750. This amount includes the Administrator's salary and other expenses along with an audit that is anticipated to cost \$7,500.

Local Residential and Business Service

The Idaho USF surcharge is attached to residential and business lines, and long-distance billed minutes, of wireline companies. Thus, the Administrator annually obtains reports from these companies. As of May 1, 2021, companies reported an average monthly inventory of 97,154 residential lines and 101,719 business lines, for a total of 198,873 lines. This is an increase in lines of approximately 16,731 (9%) with residential lines increasing by 3% and business lines increasing by 16%.

The adjusted statewide weighted average rates for one-party single line residential and business service and the corresponding threshold average rates are:

	2020 Statewide Weighted Average Rate	2021 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate - 2020	125% Statewide Weighted Average Rate - 2021
Residential Services	\$23.56	\$24.68	\$29.45	\$30.85
Business Services	\$38.21	\$39.22	\$47.77	\$49.02

Switched Access Service

Long distance service providers reported intrastate MTS/WATS billed minutes of 90,893,786 compared to the 2020 reported minutes of 107,374,568, a 15% decrease. The statewide average switched access rate was \$0.036, a change from last year’s rate of \$0.042.

Funding Adjustments Review—Rule 106

The Administrator also reviews the residential, business, and switched access rates of the recipient ILEC companies to determine eligibility to receive Idaho USF funding. A company’s average one-party, single-line rate must equal or exceed the 125% statewide weighted average line rate and the average rates per minute for MTS/WATS access rate must exceed 100% of the statewide weighted average access rate. IDAPA 31.46.01.106. If the difference in the company’s current average rate and the statewide average threshold rate is greater than three percent (3%), and the difference in the annual revenue associated with the company’s current rate and the revenue associated with the statewide average threshold rates is over \$6,000, the company may need to revise rates to meet or exceed the statewide threshold rates. The Commission may also calculate the weighted statewide average rates by using the residence and business basic local exchange rates in effect on July 1, 2005 to determine the eligibility of ETCs for distributions from the USF. See Rule 106.04, and *Idaho Code § 62-605(e)*.

ADMINISTRATOR’S OPTIONS

The Administrator reports that over the last several years, both the number of local access lines and intrastate MTS/WATs billed minutes have, on the average, steadily declined. This year does present an anomaly and local exchange lines increased for the first time in recent history. As a result, it is difficult to accurately calculate the funding requirements necessary to maintain

adequate fund balances throughout the fiscal year. With this in mind, the Administrator presents the following funding options.

ADMINISTRATOR'S OPTIONS

OPTION 1: STATUS QUO

If current surcharge rates (\$.25 per residential line, \$.44 per business line, and \$.007 per intrastate MTS/WATS billed minute) are maintained and no additional Idaho USF funding is authorized, the fund will decrease by approximately \$260,565 (page 57). The 2021-2022 Idaho USF authorized disbursements will be \$1,698,610. MTS/WATS services would contribute approximately 43% of the surcharge revenue and local exchange services would contribute 57% of the surcharge revenue. The fund would have a balance of approximately \$994,058 on June 30, 2022.

OPTION 2: ADJUST SURCHARGE RATES & MAINTAIN FUNDING

If surcharge rates are reduced to \$.15 per residential line, \$.23 per business line, and \$.005 per intrastate MTS/WATS billed minute and current funding levels are maintained, the fund will decrease by approximately \$815,270 (page 57). MTS/WATS services would contribute approximately 50% of the surcharge revenue and local exchange services would contribute 50% of the surcharge revenue. The fund would have a balance of approximately \$439,354 on June 30, 2022.

OPTION 3: ADJUST SURCHARGE RATES & ADJUST FUNDING TO MEET STATEWIDE AVERAGES

Idaho Universal Service Fund Rule 106.02 indicates that to continue receiving Idaho USF funding after the first year of eligibility, the company may need to revise rates to meet or exceed the statewide threshold rates. If the rate is below the statewide threshold rate, and the difference between the rate is greater than 3% and \$6,000, the company must revise rates equal or exceed 100% of the statewide average for MTS/WATS access service, and 125% of the statewide average for local exchange service. The following applies Rule 106 to each company currently drawing from the Idaho USF.

- ATC Communications should increase local residential and business rates. Toll switched access rates do not need to be adjusted. ATC Communications annual Idaho USF draw would be reduced by \$110,590.
- Cambridge Telephone Company should increase toll switched access, local residential, and business rates. Cambridge Telephone Company annual Idaho USF draw would be reduced by \$158,708.
- Columbine Telephone /Silver Star Telecom should decrease toll switched access, and increase local residential and business rates. Silver Star Telecom annual Idaho USF draw would be reduced by \$128,009.
- Direct Communications Rockland should increase local residential and business rates. Toll switched access rates do not need to be adjusted. Direct Communications Rockland annual Idaho USF draw would be reduced by \$34,217.
- Fremont Telecom should increase toll switched access rates, local residential and business rates. Fremont Telecom annual Idaho USF draw would be decreased by \$96,741.
- Inland Telephone Company should decrease toll switched access, and increase local residential rates. Inland Telephone Company annual Idaho USF draw would be reduced by \$1,140.
- Midvale Telephone Company should increase local residential and business rates. Midvale Telephone Company annual Idaho USF draw would be reduced by \$53,087.
- Rural Telephone Company should increase local residential and business rates. Rural Telephone Company annual Idaho USF draw would be reduced by \$47,106.

The 2021-2022 Idaho USF authorized disbursements, including the adjustments to company funding per Rule 106, will be \$1,069,012. If surcharge rates are reduced to \$.02 per residential line, \$.03 per business line, and \$.0006 per intrastate MTS/WATS billed minute, the fund will decrease by approximately \$981,290 (page 58). MTS/WATS services would contribute 48% of the total surcharge revenue and local exchange services would contribute 52%

of the total surcharge revenue. The fund would have a balance of approximately \$273,333 on June 30, 2022.

OPTION 4: ADJUST INVENTORIES, ADJUST SURCHARGE RATES & MAINTAIN FUNDING LEVELS

In order to more accurately calculate future fund balances, the inventories have been adjusted according to the most recent five-year trend. Thus, the residential lines have been reduced 10%, the business lines reduced 10% and the MTS/WATS billed minutes have been reduced 13%. If the surcharge rates are reduced to \$.16 per residential line, \$.26 per business line, and \$.006 per intrastate MTS/WATS billed minute and Idaho USF disbursements are maintained at current levels, the fund will decrease by approximately \$799,169 (page 58). MTS/WATS services would contribute approximately 51% of the surcharge revenue and local exchange services would contribute 49% of the surcharge revenue. The fund would have a balance of approximately \$455,455 on June 30, 2022.

OPTION 5: ADJUST INVENTORIES, ADJUST SURCHARGE RATES & ADJUST FUNDING TO MEET STATEWIDE AVERAGES

In order to more accurately calculate future fund balances, the inventories have been adjusted according to the most recent five-year trend. Thus, the residential lines have been reduced 10%, the business lines reduced 10% and the MTS/WATS billed minutes have been reduced 13%. If the local surcharge rates are reduced to \$.02 per residential line, \$.03 per business line and \$.0007 per intrastate MTS/WATS billed minute, as well as Idaho USF disbursements adjusted per Rule 106, the fund will decrease by approximately \$986,678 (page 59). MTS/WATS services would contribute approximately 51% of the surcharge revenue and local exchange services would contribute 49% of the surcharge revenue. The fund would have a balance of approximately \$267,946 on June 30, 2022.

ADMINISTRATOR'S RECOMMENDATION

The Administrator recommends that the Commission adopt Option 5; adjust surcharge rates and adjust funding to meet statewide averages. Surcharge rates would adjust to \$.02 per residential line, \$. 03 per business line, and \$.007 per intrastate MTS/WATS billed minute. The

fund balance on June 30, 2022 would be approximately \$267,946, an amount that would allow the fund to meet all obligations as well as provide a reserve balance.

If the Commission wishes to keep current funding levels, then the Administrator recommends that the Commission adopt Option 4, which just adjusts surcharge rates. Surcharge rates would adjust to \$.16 per residential line, \$.26 per business line, and \$.006 per intrastate MTS/WATS billed minute. The fund balance on June 30, 2022 would be approximately \$455,455, an amount that would allow the fund to meet all obligations as well as provide a reserve balance.

STAFF ANALYSIS AND RECOMMENDATION

Staff has reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report. Staff also notes the impact to Rule 106 by the Federal Communication Commission's (FCC) USF/ICC Transformation Order, FCC 11-161, released on November 18, 2011, and the subsequent FCC 14-54, Seventh Order on Reconsideration, released on June 10, 2014. The first FCC Order established a schedule to reduce intrastate terminating access rates, including transport and reciprocal compensation, to bill-and-keep by July 1, 2019. The second FCC Order established a four-year transition of voice services to a rate floor of \$20.46 for carriers that receive federal high-cost support. In April, 2017, the FCC froze the rates at \$18.00 and issued a Notice of Proposed Rulemaking and Order seeking comments on the rate for basic voice services. Stakeholders argued that higher prices for basic voice service in rural high-cost areas created a significant and legitimate rate shock for rural customers. Therefore, the FCC has provided a freeze on the rate floor at \$18 pending further review and comments.

Given these Orders and uncertainty at the FCC, it makes it impractical for the Commission to apply Rule 106 to determine eligibility for the eight companies that receive state USF disbursements. All eight Idaho USF-funded companies have residential rates of \$25.76¹. If Rule 106 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

¹ On September 2, 2009, Commission Order No. 30894 was issued notifying the USF recipient companies that residential rates must be increased to the statewide threshold rate of \$25.76 to continue to receive funding. All eight companies complied by increasing the residential rates.

\$49.02. Staff is very concerned with increasing local residential exchange service rates by 20%. Staff believes it is important to complete a more in-depth analysis of potential changes in the federal high-cost support in relationship to the Idaho USF before increasing local rates by this magnitude.

Staff acknowledges that the funding elements are impermanent and difficult to predict. Staff, however, does not agree with Ms. Anderson's recommendation to the Commission to adopt Option 5 to adjust surcharge rates and adjust funding to meet statewide averages. Staff believes this option has the potential to lower the funding level too greatly for the 2021-2022 Idaho USF fiscal year and require the surcharges to be raised again within a year or two as line counts continue to decline.

Staff recommends adopting Option 1 to maintain the current surcharge rates of \$.25 per residential line, \$.44 per business line, \$.007 per intrastate MTS/WATS billed minute, and keeping the companies draws the same. The fund will decrease by approximately \$260,565. The 2021-2022 Idaho USF authorized disbursements will be \$1,698,610. MTS/WATS services would contribute approximately 43% of the surcharge revenue and local exchange services would contribute 57% of the surcharge revenue. The fund would have a balance of approximately \$994,058 on June 30, 2022.

A very important concern of Staff and the Administrator has been trying to fund the Idaho USF in a declining industry where land lines are being replaced with new technologies such as VoIP and cell phones. Per Commission Order No. 33851 the Staff and the Administrator initiated a generic docket before the Commission in order to allow a public forum for stakeholders to participate in a discussion of the Idaho USF as it relates to the current legal and regulatory framework, its place in the evolving telecommunications landscape, and universal telecommunications services in Idaho generally. Staff convened a workshop on January 17, 2018, Stakeholders filed position papers by January 31, 2018, Staff filed a summary report on April 4, 2018, Stakeholders filed reply comments on April 25. Staff filing a second summary and report on September 7, 2018 as well as Stakeholders Memorandum inviting parties to bring proposed legislative language to a workshop in October. Three parties responded on October 4, 2018, and the parties agreed to work on legislative language separately from Commission Staff and then bring back what they work out as a group. Thus far, the parties have failed to come to

agreement and are still working towards that end. Staff is still waiting on the parties to come together on legislative changes.

Staff does not want to see the fund return to the dire funding levels it was facing in 2017 and 2018. Staff believes the increase in local exchange lines was an anomaly, possibly driven by people working from home due to Covid and needing to add lines that normally would not have been added. Statewide inventories could reverse themselves very quickly as workers move back to office locations.

Finally, Staff recommends that the Administrator continue to provide quarterly cash flow analysis to the Staff. 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.

COMMISSION DECISION

Does the Commission wish to approve the Administrator's Idaho USF 2021-2022 budget?

Does the Commission wish to adopt Staff's recommended funding Option?

Does the Commission wish to accept Staff's final recommendation for quarterly cash flow reports to monitor revenue impacts from unforeseen changes in line counts or access minutes?

Daniel Klein

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