

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE ANNUAL** ) **CASE NO. GNR-T-22-04**  
**REVISION OF THE UNIVERSAL SERVICE** )  
**FUND SURCHARGES TO BECOME** ) **ORDER NO. 35517**  
**EFFECTIVE OCTOBER 1, 2022** )  
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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”). 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. *Idaho Code* § 62-610(2). The surcharges are effective 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), maintain the intrastate MTS/WATS billed minutes to \$0.007, and maintain funding levels for 12 months, effective October 1, 2022.

**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. *Idaho Code* § 62-610 and IDAPA 31.46.01.303.02. In the report, the Administrator reviews the fund balance and recommends changes to the surcharge rates to maintain adequate funding levels. Commission Staff (“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. IDAPA 31.46.01.104-106. As set forth in the Commission’s 2021 order, current monthly IUSF rates are \$0.25 per residential line, \$0.44 per business line, and \$0.007 per intrastate long-distance billed minute. Order No. 35180.

## THE 2022 REPORT

### *A. The 2022 Data and 2022-2023 Proposed Budget*

On July 15, 2022, the IUSF Administrator submitted the Annual Report for the IUSF fiscal year, July 1, 2021, through June 30, 2022, and a proposed budget for the 2022-2023 fiscal year. The Administrator reported IUSF surcharge revenue for the year totaled \$1,650,870. Total surcharge revenue from local exchange services was \$972,387 or (59%) of the total, and MTS/WATS surcharge revenue was \$678,483 or (41%) of the total. Revenue from local exchange services decreased by approximately \$227,321 and revenue from MTS/WATS decreased by approximately \$72,633. The administrative expenses for the year were \$19,833.

Total annual disbursements to the eight qualifying telephone companies remained unchanged at \$1,698,610. The fund’s annual year-end cash balance, after applying bank charges and administrative expenses, was \$1,187,050.

The Administrator proposed an annual administrative budget for fiscal year 2022-2023 of \$27,850. This amount encompasses the Administrator’s salary and all other relevant expenses, including postage/copies, telephone, bank/investment charges, letterhead, and anticipated costs for an audit and legal fees.

According to the Administrator, as of May 1, 2022, companies reported that 72,811 residential lines and 78,030 business lines were in service each month, for a total of 150,841 lines. This represents a 25% decrease in residential wire lines, and a 23% decrease in business wire lines from last year.

Long-distance service providers reported intrastate MTS/WATS billed minutes of 89,781,375, a decrease of 1%. The statewide average switched access rate is \$0.056, a change from last year’s rate of \$0.036. Based on data from wire-line telephone companies and long-distance companies, the Administrator calculated the 2022 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:

	<b>2020 Statewide Weighted Average Rate</b>	<b>2021 Statewide Weighted Average Rate</b>	<b>125% Statewide Weighted Average Rate – 2020</b>	<b>125% Statewide Weighted Average Rate - 2021</b>
<b>Residential Services</b>	\$24.68	\$25.84	\$30.85	\$32.30
<b>Business Services</b>	\$39.22	\$42.27	\$49.02	\$52.84

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. Last year was an anomaly as local exchange lines increased for the first time in recent history. The Administrator and 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 the following 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 decrease by about \$260,565 if current surcharge levels are maintained and no additional IUSF funding is authorized. Assuming the same disbursement as fiscal year 2022-2023 (\$1,698,610), the year-end fund balance on June 30, 2022, is estimated to be approximately \$719,490. MTS/WATS services would contribute about 50% of the surcharge revenue and local exchange services would contribute 50% of the surcharge revenue.

*Option 2—Adjust Surcharge Rates & Maintain Funding*: If IUSF surcharges were reduced to \$0.20 per residential line, \$0.33 per business line, and \$0.005 per intrastate MTS/WATS billed minute, and if current funding levels were maintained, the fund balance would decrease by about \$793,808. MTS/WATS services would contribute about 48% of the surcharge revenue, and local exchange services would contribute the other 52%. The Administrator projected that the year-end fund balance on June 30, 2022, would decrease to about \$393,241.

*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 to continue receiving IUSF funding after the first year of eligibility. If the company's rate is 3% or less than the statewide threshold rate and the annual revenue associated with the company's current rate is \$6,000 or 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 for MTS/WATS access service, and 125% of the statewide average for local exchange service.

If Rule 106 were applied to each of the eight companies that are eligible to receive IUSF disbursements, each would receive reduced disbursements during the next fiscal year. If surcharge

rates were suspended, the fund would decrease by about \$875,104 and the balance would be about \$311,946 on June 30, 2023.

Option 4—Adjust Inventories, Adjust Surcharge Rates & Maintain Funding Levels: To calculate future fund balances more accurately, the line inventories are adjusted to reflect the most recent five-year trend. Thus, the residential lines have been reduced 13%, the business lines reduced 7%, and the MTS/WATS billed minutes reduced 6%. If the surcharge rates were reduced to \$0.22 per residential line, \$0.37 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 \$733,066. MTS/WATS services would contribute about 51% of the surcharge revenue, and local exchange services would contribute the other 49%. The fund would have a balance of about \$453,983 on June 30, 2022.

In the report, the Administrator recommended the Commission adopt Option 3. If the Commission wishes to keep current funding levels, then the Administrator recommends that the Commission adopt Option 2, which reduces the surcharge rates and would be adequate to meet the fund obligations.

### **STAFF RECOMMENDATIONS**

Staff analyzed the Administrator's report and supporting documentation. 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 2 would lower the funding level too much over the next couple of years.

Staff recommended adopting Option 1 to maintain the current surcharge rates of \$0.25 per residential line, \$0.44 per business line, \$0.007 per intrastate MTS/WATS billed minute, and keeping the companies draws the same. This will result in a fund decrease of approximately \$260,565. Staff calculated that the 2022-2023 IUSF authorized disbursements will be \$1,698,610. 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 \$719,490 on June 30, 2023.

Staff and the Administrator were mainly concerned about trying to fund the IUSF in a declining industry where land lines are being replaced with new technologies such as VoIP and cell phones. Staff did not want to see the fund return to the dire funding levels it was facing in 2017 and 2018.

Staff noted that even though the stakeholders agree that a legislative solution is necessary to mitigate funding issues related to IUSF, Order No. 34524, the stakeholders have not come together on a legislative change.

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

### **FINDINGS AND DISCUSSION**

We again acknowledge that local access lines and intrastate long-distance billed minutes have declined over the last several years. Although we saw an increase last year, it appears to have been an anomaly likely created by the pandemic as people added lines to work from home. It remains a difficult task 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 rates' 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 2022 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 maintained at \$0.007, and IUSF disbursements should be maintained at current levels. While the Commission appreciates the Administrator's recommendation and arguments for it, Option 3 risks being too aggressive 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 2021-2022. 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, 2022. The Administrator's proposed fiscal year 2021-2022 budget is accepted.

IT IS FURTHER ORDERED that the Administrator shall provide 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 regarding 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.

DONE by order of the Idaho Public Utilities Commission at Boise, Idaho this 31<sup>st</sup> day of August 2022.



ERIC ANDERSON, PRESIDENT

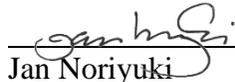


JOHN CHATBURN, COMMISSIONER



JOHN R. HAMMOND JR., COMMISSIONER

ATTEST:



Jan Noriyuki  
Commission Secretary

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