

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE ANNUAL** )  
**REVISION OF THE UNIVERSAL SERVICE** ) **CASE NO. GNR-T-12-07**  
**FUND SURCHARGES TO BECOME** )  
**EFFECTIVE OCTOBER 1, 2012.** ) **ORDER NO. 32637**  
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**BACKGROUND**

The Idaho Universal Service Fund (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 USF is funded through a statewide end-user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) services. The 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 12 months beginning October 1.

**THE 2012 ANNUAL REPORT**

On July 17, 2012, the Administrator of the Idaho USF filed her Annual Report to the Commission for the period of July 1, 2011 through June 30, 2012, including a proposed USF 2012-2013 Administration Budget. The current USF monthly surcharge rates are \$.12 per residential line, \$.19 per business line, and \$.0035 per intrastate MTS/WTS billed minute, established in 2010 and maintained in 2011. See Order Nos. 32058 and 32336. Surcharge revenue for the year totaled \$1,654,166. Local exchange services contributed \$914,350 (55%), and \$739,816 (45%) was contributed by MTS/WATS services. These amounts reflect a decrease in local exchange surcharge revenue of approximately \$30,761 (from \$945,111 in 2011), and a decrease in MTS/WATS surcharge revenue of approximately \$30,470 (from \$770,286 in 2011). Administrative expenses for the year totaled \$21,994, including Administrator’s salary,

expenses, bank and brokerage fees, and \$6,750 for professional services associated with an audit completed in 2011.

Currently eight qualifying incumbent local exchange carriers (ILECs) receive annual payments from the USF, and those payments remained unchanged at \$1,698,610. The ending cash balance, after applying bank charges, administrative expenses and interest received, was \$38,329. For the next fiscal year, beginning July 1, 2012, annual disbursements are expected to remain at \$1,698,610.

Because the USF surcharge attaches to the residential and business lines, and long-distance service minutes, of wireline companies, the Administrator annually obtains reports from those companies. As of May 1, 2012, companies reported a monthly inventory of 253,461 residential lines and 219,108 business lines, for a total of 472,569 lines. This is a net decrease in lines of approximately 41,477 (8%) with residential lines decreasing by nearly 13% and business lines increasing by almost 1%. The newly calculated statewide weighted average rates for a one-party, single-line residential and business service and the corresponding threshold average rates are:

	<b>2011 Statewide Weighted Average Rate</b>	<b>2012 Statewide Weighted Average Rate</b>	<b>125% Statewide Weighted Average Rate - 2011</b>	<b>125% Statewide Weighted Average Rate - 2012</b>
<b>Residential Services</b>	\$21.25	\$21.66	\$26.57	\$27.07
<b>Business Services</b>	\$32.08	\$33.37	\$40.10	\$41.71

Long-distance service providers reported intrastate MTS/WATS billed minutes of 257,750,454 compared to the 2011 reported minutes of 253,602,445, a 2% increase, although the increase appears to result from more accurate reporting by some companies. The statewide average switched access rate was \$0.054.

The Administrator also reviews the residential, business, and switched access rates of the recipient ILEC companies to determine eligibility to receive USF funding. A telephone company's average one-party, single-line rate must equal or exceed 125% of the 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 31.41.01.106. 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 by Order change a telephone company's USF funding in connection with the recalculation of the statewide average rates.

The Administrator recommended maintaining the USF funding levels and increasing the surcharge rates to \$.15 per residential line, \$.23 per business line, and \$.004 per intrastate MTS/WATS billed minute. At these rates, the Administrator projects USF fund increases of approximately \$376,260, resulting in an end-of-year balance on June 30, 2013 of approximately \$414,589. MTS/WATS service would contribute 49% of the surcharge revenue and local exchange services would contribute 51%. Staff supports the Administrator's recommendation that the Commission maintain the company disbursements at the current level, and increase the surcharge rates as recommended. This will approximate a 50-50 contribution of surcharge revenues from local exchange services and MTS/WATS services. The estimated fund balance at June 30, 2013 will provide a healthy three-month reserve.

#### **COMMISSION DECISION**

The last several years have seen a steady decline in both local access lines and intrastate MTS/WATs billed minutes. As a result, it is difficult to estimate the fund balance for the next fiscal year with precise accuracy. The Administrator reported that, "with the increased popularity of wireless/cellular services and VoIP services, as well as the decline in the economy, it would stand to reason that the decline in both local access lines and intrastate toll minutes will continue." The Administrator believes the increased popularity of wireless and VoIP services will continue to place a downward pressure on the number of local exchange lines and long distance minutes.

At the same time that wireline residential and business lines have declined, the statewide average residential rates have steadily increased for more than ten years, although determining the true statewide average rate has become more difficult. The large, deregulated wireline companies, those with the greatest market share and therefore the greatest impact on statewide average rates, have increased their standalone residential rates to encourage customers to purchase bundled services that include local residential service. The USF annual report, and the calculation of the statewide average rate, does not reflect this shift because those companies are required to report only the standalone residential rate shown in tariffs and price lists. This

shift from standalone residential local exchange services to bundled packages affects the statewide average rate calculations and the application of Rule 106 to the companies that receive USF funds.

Further complicating application of Rule 106 to USF surcharges are recent FCC Orders that directly impact switched access rates in Idaho. The Administrator noted the *USF/ICC Transformational Order*, released on November 18, 2011 and the *Third Order on Reconsideration*, released on May 14, 2012 that adopt a national bill-and-keep methodology for inter-carrier compensation and reduce certain switched access rates. The effect of these Orders over time will be to limit the Commission's ability to change USF recipient company access rates when Rule 106 would require. The Administrator stated, "[i]n light of the FCC Orders and the changes in the industry, it is becoming more difficult to evaluate the IUSF funding as it applies to Rule 106."

If Rule 106 were strictly enforced now, six of the eight USF companies would be required to increase their residential local exchange rates from \$25.76 to \$27.07, while their USF funding would decline. Rather than this result, Staff recommended the Commission use 2005 rates to determine statewide average rates and USF eligibility. *Idaho Code* § 62-605(5)(e) provides that residence and business rates in effect on July 1, 2005 may be used "[f]or the purpose of calculating the weighted statewide average rates for residence and business basic local exchange service rates to enable the commission to determine eligibility for distributions to eligible telecommunications carriers." On the record in this case, the Commission finds it appropriate to use the 2005 rates as Section 62-605 allows. Both the Administrator and Staff recommended the USF surcharges be increased to ensure stability in the rate for the next year, rather than adjust recipient company rates and disbursements. The Commission approves the Administrator's recommendation that the USF funding levels be maintained, and that the USF surcharge rates be increased to \$.15 per residential line, \$.23 per business line and \$.004 per intrastate MTS/WATS billed minute. This will result in a reserve balance of approximately \$414,589 and will provide a comfortable three-month cushion.

#### **ORDER**

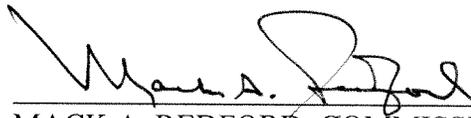
IT IS HEREBY ORDERED that the monthly USF surcharge rates are increased to \$.15 per residential line, \$.23 per business line, and \$.004 per MTS/WATS minute, effective for 12 months beginning October 1, 2012.

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.*

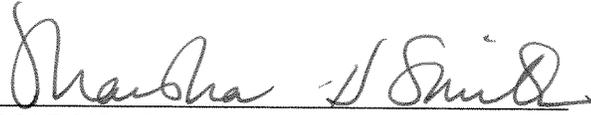
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 11<sup>th</sup> day of September 2012.



PAUL KJELLANDER, PRESIDENT

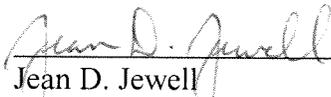


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell  
Commission Secretary

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