

IDAHO UNIVERSAL SERVICE FUND

July 16, 2018

Daniel Klein
Idaho Public Utilities Commission
472 W Washington Street
Boise, ID 83702-5983

GNR-T-18-06

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IDAHO PUBLIC
UTILITIES COMMISSION

Dear Daniel

Enclosed is the Administrator's Report of the Idaho Universal Service Fund (IUSF) for the year ended June 30, 2018. Enclosed are one copy, including all schedules and work papers, and three copies, exclusive of the statewide calculations and inventories. You may distribute the report as you find appropriate.

Additionally, I have enclosed, for approval, the proposed 2018-2019 administrative budget for the Idaho Universal Service Fund.

If you have any questions, or desire additional information, please do not hesitate to call me.

Sincerely,



Alyson Anderson
Administrator

Enclosure

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IDAHO PUBLIC
UTILITY COMMISSION

IDAHO UNIVERSAL SERVICE FUND
2018-2019 ADMINISTRATIVE BUDGET

LABOR (250 HOURS @ \$60.00 PER HOUR)	\$15,000
POSTAGE/COPIES	200
BANK/INVESTMENT CHARGES	760
AUDIT/LEGAL FEES	0
LETTERHEAD	<u>200</u>
TOTAL 2018-2019 BUDGET	<u><u>\$16,160</u></u>

**ADMINISTRATOR'S REPORT
IDAHO UNIVERSAL SERVICE FUND
YEAR ENDED -- JUNE 30, 2018**

SURCHARGE REVENUES

Surcharge revenues collected during the year ended June 30, 2018 totaled \$1,889,493, of which \$1,055,064, or 56% was assessed on local exchange services and \$834,429, or 44%, was assessed on MTS/WATS services. Current monthly surcharge rates are \$.25 per residential line, \$.44 per business line, and \$.009 per MTS/WATS billed minute.

DISBURSEMENTS

COMPANIES RECEIVING DISBURSEMENTS

Authorized disbursements to Local Exchange Companies during the year ended June 30, 2018 totaled \$1,698,610 (page 11). The following table shows the Local Exchange companies authorized by the Idaho Public Utilities Commission to receive disbursements from the Idaho Universal Service Fund.

Company Name	Original IPUC Order Authorizing Disbursement	Current Authorized Annual Disbursement
ATC Communications	22718 & 22128	\$ 464,502
Cambridge Telephone	22131	\$ 138,162
Fremont Telecom	28085 & 28166	\$ 57,258
Inland Telephone Co	23838	\$ 27,604
Midvale Telephone	22377	\$ 350,785
Direct Communication Rockland	22132	\$ 202,401
Rural Telephone Co	22414 & 26598	\$ 302,221
Silver Star Telecom	22237 & 22370	\$ 155,677
Total		\$1,698,610

ADMINISTRATIVE FEES AND EXPENSES

Administrative fees and expenses for the year ended June 30, 2018 were \$21,909. Administrative expenses include bank and broker charges of \$741, and audit fee of \$7,700. Administrative expenses payable at June 30, 2018 are \$1,191.

INVESTMENTS AND FUNDS

CASH

At June 30, 2018, the Idaho Universal Service Fund had a cash balance of \$249,758. The following is a table showing the beginning, ending, and quarterly fund cash balances for the year ended June 30, 2018.

Beginning Balance 6/30/17	Balance 9/30/17	Balance 12/31/17	Balance 3/31/18	Ending Balance 6/30/18
\$80,784	\$101,115	\$22,490	\$143,625	\$249,758

INTEREST

No interest was earned on funds held in bank accounts for the year ended June 30, 2018.

INVESTMENTS

The Idaho Universal Service Fund had no investments during the year ended June 30, 2018.

INVENTORIES

Total residential and business lines at May 1, 2018 were 122,347 and 114,359 respectively (pages 69 and 71). This represents an 20% decrease in residential lines and a 6% decrease in business lines from the prior year. Total MTS/WATS billed minutes of use for the year ended December 31, 2017 were 110,719,570 (page 75), a 12% decrease from the prior year.

STATEWIDE WEIGHTED AVERAGE RATES

A schedule summarizing the total funding eligibility for the local exchange companies is shown on page 12.

ONE-PARTY, SINGLE LINE SERVICE

The statewide weighted average rates for one-party single-line residential and business services are shown on pages 34 and 67. The following table shows the statewide weighted averages for one-party, single line service.

	STATEWIDE WEIGHTED AVERAGE RATE	IUSF THRESHOLD 125% STATEWIDE WEIGHTED AVERAGE RATE
RESIDENTIAL SERVICES	\$22.09	\$27.62
BUSINESS SERVICES	\$36.94	\$46.17

TOLL SWITCHED ACCESS

The statewide weighted average revenue per MTS/WATS access minute is shown on page 14. The statewide weighted average toll switched access revenue is \$.043 per minute.

FUNDING OPTIONS

OPTION 1: STATUS QUO

If current surcharge levels (\$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute) are maintained and no additional IUSF funding is authorized, the fund will increase by approximately \$252,562 (page 76). The 2018-2019 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 \$502,320 at June 30, 2019.

OPTION 2: ADJUST FUNDING TO MEET STATEWIDE AVERAGES & MAINTAIN SURCHARGE RATES

Idaho Universal Service Fund rule 106.02 indicates that to continue receiving IUSF 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 IUSF.

- ◆ ATC Communications should increase local residential and business rates. ATC Communications annual IUSF draw would be reduced by \$68,103.
- ◆ Cambridge Telephone Company should reduce toll switched access rates and increase local residential and business rates. Cambridge Telephone Company annual IUSF draw would be reduced by \$18260.
- ◆ Columbine Telephone /Silver Star Telecom should increase toll switched access, local residential, and business rates. Silver Star Telecom annual IUSF draw would be reduced by \$107,550.
- ◆ Direct Communications Rockland should increase local residential and business rates. Direct Communications Rockland annual IUSF draw would be reduced by \$24,401.
- ◆ Fremont Telecom should increase toll switched access rates, and increase local residential and business rates. Fremont Telecom annual IUSF draw would be decreased by \$89,973.

- ◆ Inland Telephone Company should decrease toll switched access rates. Inland Telephone Company annual IUSF draw would be increased by \$12,312.
- ◆ Midvale Telephone Company should increase local residential and business rates. Midvale Telephone Company annual IUSF draw would be reduced by \$26,403.
- ◆ Rural Telephone Company should increase local residential rates. Rural Telephone Company annual IUSF draw would be reduced by \$13,111.

The 2018-2019 IUSF authorized disbursements, including the adjustments to company funding per rule 106, will be \$1,363,121. If current surcharge levels are maintained at \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute, the fund will increase by approximately \$588,052 (page 76). MTS/WATS services would contribute 50% of the total surcharge revenue and local exchange services would contribute 50% of the total surcharge revenue. The fund would have a balance of approximately \$837,809 at June 30, 2019.

OPTION 3: ADJUST INVENTORIES, MAINTAIN FUNDING LEVELS & MAINTAIN SURCHARGE RATES

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 12%, the business lines reduced 12% and the MTS/WATS billed minutes have been reduced 9%. If the surcharge rates are maintained at \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute and IUSF disbursements are maintained at current levels, the fund will increase by approximately \$46,206 (page 77). MTS/WATS services would contribute approximately 52% of the surcharge revenue and local exchange services would contribute 48% of the surcharge revenue. The fund would have a balance of approximately \$295,963 at June 30, 2019.

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

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 12%, the business lines reduced 12% and the MTS/WATS billed minutes have been reduced 9%. If the surcharge rates are maintained at \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute and IUSF disbursements are maintained at current levels, the fund will increase by

approximately \$381,695 (page 77). MTS/WATS services would contribute approximately 48% of the surcharge revenue and local exchange services would contribute 52% of the surcharge revenue. The fund would have a balance of approximately \$631,452 at June 30, 2019.

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

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 12%, the business lines reduced 12% and the MTS/WATS billed minutes have been reduced 9%. If the local surcharge rates are decreased to \$.22 per residential line, \$.37 per business line and the MTS/WATS rate is decreased to \$.007 per intrastate billed minute, as well as IUSF disbursements adjusted per rule 106, the fund will increase by approximately \$57,069 (page 78). MTS/WATS services would contribute approximately 49% of the surcharge revenue and local exchange services would contribute 51% of the surcharge revenue. The fund would have a balance of approximately \$306,826 at June 30, 2019.

ADMINISTRATOR'S RECOMMENDATION

During the past year, there was a 20% decline in local residential lines, a 6% decline local business lines, 9% decline in MTS/WATS billed minutes. As in the past, I believe that the local access lines and toll minutes will continue to decline due to the continued popularity of wireless, cellular and VOIP, as well as the shift from stand-alone residential service to bundled packages. This affects the statewide average rate calculations, as well as the application of rule 106 to the companies funded by the IUSF. In light of the FCC orders and industry changes, it is becoming more difficult to evaluate the IUSF funding as it applies to Rule 106. It is equally challenging to estimate future inventory levels and the fund balance. The Commission recognized this in opening Case No. GNR-T-17-05, The 2017 Review of the Idaho Universal Service Fund. Normally I feel compelled to apply Idaho Universal Service Fund rule 106.02 and recommend companies revise rates to meet or exceed the statewide threshold rates, thereby adjusting the annual draw on the fund. However, in light of Case No. GNR-T-17-05, I recommend that the Commission adopt Option 3.

The fund balance is currently adequate to meet the fund obligations. MTS/WATS services would contribute approximately 52% of the surcharge revenue and local exchange services would contribute 48% of the surcharge revenue. The fund balance at June 30, 2019 should approximate \$295,963.