

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)
REVISION OF THE UNIVERSAL SERVICE) **CASE NO. GNR-T-18-06**
FUND SURCHARGES TO BECOME)
EFFECTIVE OCTOBER 1, 2018.) **ORDER NO. 34131**
_____)

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). *See* 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. *See Idaho Code* § 62-610(2). The surcharges are in effect for a 12-month period starting October 1. *See* IDAPA 31.46.01.104. As set out in greater detail below, the Commission finds it is reasonable to maintain surcharge rates—at \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate MTS/WATS billed minute—and maintain funding levels for 12 months, effective October 1, 2018.

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. *See Idaho Code* § 62-610 and IDAPA 31.46.01.102. In the report, the Administrator reviews the fund balance and recommends changes to the surcharge rates to maintain adequate funding levels. The Commission’s 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. *See* IDAPA 31.46.01.104-106. As set forth in the Commission’s 2017 Order, current monthly IUSF rates are \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate long-distance billed minute. *See* Order No. 33851.

THE 2018 REPORT

A. The 2018 Data and 2018 Proposed Budget

On July 17, 2018, the IUSF Administrator filed the Annual Report for the IUSF fiscal year from July 1, 2017, through June 30, 2018, including a proposed budget for fiscal year 2019. The Administrator reported that IUSF surcharge revenue for the past year totaled approximately \$1,889,493. The surcharge revenue from local exchange services during the reporting year totaled approximately \$1,055,064, an increase of approximately \$407,397 from fiscal year 2017, and the long-distance surcharge revenue increased to approximately \$834,429, an increase of approximately \$190,564 from 2017. Approximately 56% of the total IUSF revenue was from local exchange services surcharges, and 44% was from long-distance surcharges.

Annual disbursements to the eight qualifying telephone companies – unchanged from 2017 – totaled approximately \$1,699,000. The fund's annual year-end cash balance, after applying bank charges and administrative expenses, was approximately \$249,758.

The Administrator's expenses for the 2018 fiscal year were \$21,909. The Administrator proposed an annual administrative budget for fiscal year 2019 of \$16,160. This amount includes the Administrator's salary and all other relevant expenses.

Based upon data submitted to the Administrator, as of May 1, 2018, Idaho's telecommunications companies reported that, on a monthly basis, approximately 122,347 residential lines were in service and 114,359 business lines were in service, for a total of approximately 236,706 lines. Comparing this data to the prior year, the Administrator calculated that the number of residential wire lines decreased by approximately 14% and business wire lines decreased by approximately 6%.

Long-distance service providers reported intrastate MTS/WATS billed minutes of 110,719,570, a decrease of approximately 12%, from 2017. The statewide average switched access rate was \$0.043, a decrease from the 2017 rate of \$0.031. Based on data from wire line telephone companies and long-distance companies, the Administrator calculated the 2018 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:

Type of Service	2018 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate – 2018
Residential Service	\$22.09	\$27.62
Business Service	\$36.94	\$46.17

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. Therefore, the Administrator and Commission 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 five 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 increase by approximately \$252,562 if current surcharge levels are maintained and no additional IUSF funding is authorized. Assuming the same disbursement as fiscal year 2017 (\$1,698,610), the year-end fund balance on June 30, 2019, is estimated to be approximately \$502,320. MTS/WATS services would contribute approximately 50% of the surcharge revenue and local exchange services would contribute 50% of the surcharge revenue.

Option 2 – Adjust Funding to Meet Statewide Averages & Maintain Surcharge Rates:

If current IUSF charges were maintained and disbursements to the eight IUSF recipients were adjusted to meet the 125% statewide averages, seven recipients would receive reduced disbursements and one recipient would receive an increased disbursement. The Administrator projected that Option 2 IUSF disbursements would be approximately \$1,453,792, while the year-end fund balance on June 30, 2019, would decrease to approximately negative \$259,218 and obligations would not be met. Under this option, MTS/WATS services would contribute approximately 55% of the total surcharge revenue and the local exchange services would contribute approximately 45%.

Option 3 – Adjust Inventories, Maintain Funding Levels & Maintain Surcharge Rates:

In order to more accurately calculate future fund balances, Option 3 inventories were adjusted according to the most recent five-year trend. As a result, residential lines were reduced 12%, business lines by 12% and intrastate MTS/WATS billed minutes by 9%. If the surcharge rates

were maintained at \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate MTS/WATS billed minute and IUSF disbursements were maintained at current levels, the fund would increase by approximately \$46,206. MTS/WATS services would contribute about 52% of the surcharge revenue, local exchange services would contribute about 48% of the surcharge revenue, and the fund balance would be about \$295,963 on June 30, 2019.

Option 4 – Adjust Inventories, Adjust Funding & Maintain Surcharge Rates: As with Option 3 above, the Administrator adjusted inventories based on the previous five-year averages. As a result, residential lines were reduced 12%, business lines by 12% and MTS/WATS billed minutes by 9%. If the surcharge rates were maintained at \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate MTS/WATS billed minute and IUSF disbursements were maintained at current levels, the fund would increase by approximately \$381,695. 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 on June 30, 2019.

Option 5 – Adjust Inventories, Adjust Funding to Meet Statewide Averages & Decrease Surcharge Rates: Again, if inventories are adjusted according to the most recent five-year trend, and local surcharge rates are decreased to \$0.22 per residential line and to \$0.37 per business line, the MTS/WATS rate is decreased to \$0.007 per intrastate billed minute, and IUSF disbursements are adjusted per Rule 106, then the fund would increase by approximately \$57,069. 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 on June 30, 2019.

In summary, given continued declines in residential and business lines and in billed minutes, and the pending review of the IUSF in Case No. GNR-T-17-05, the Administrator recommended that the Commission adopt Option 3, which would maintain company disbursements at the current level, and the surcharge rates at \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate MTS/WATS billed minute. Under that option, the fund balance on June 30, 2019 would be about \$295,963, which would allow the fund to meet all obligations and provide a reserve balance. Further, the Administrator recommended that the new surcharge rates should be made effective October 1, 2018.

STAFF RECOMMENDATIONS

Staff analyzed the Administrator's findings and supporting documentation and recommendations. Staff also analyzed Federal Communications Commission (FCC) rate freezes and how specific FCC orders interact with USF Rules (IDAPA 31.46.01). Based on its analyses, Staff concurred with the Administrator that Option 3 is the most reasonable option and should take effect on October 1, 2018. Staff also concurred with the Administrator that IUSF funding elements continue to be temporary and difficult to predict and, therefore, current surcharge rates should be maintained. Staff concluded that Option 3 would provide an adequate funding level for the 2018-2019 IUSF fiscal year.

More generally, Staff concurred with the Administrator that it is becoming harder to fund the IUSF when the industry is declining as land lines become obsolete in the face of technologies like cellular and VoIP technologies. Staff believes that increasing the surcharge rates would drive up the costs to be recovered from Idaho's dwindling traditional land line and long-distance using populations.

Staff noted it is currently studying the IUSF under a generic docket (per Commission Order No. 33851) "in order to allow a public forum for stakeholders to participate in a discussion of the IUSF as it relates to the current legal and regulatory framework, its place in the evolving telecommunications landscape, and universal telecommunications services generally." *See* Staff Decision Memorandum at 7; and Order No. 33851. Staff said it plans to file a progress report in August of 2018 that will propose another stakeholder workshop for September 2018. As part of that workshop, Staff will suggest that interested stakeholders propose amendments to the IUSF's controlling statute in September 2018 that could potentially be presented to the Idaho Legislature in 2019.

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

DISCUSSION

We again acknowledge that local access lines and intrastate long-distance billed minutes have generally declined over the last several years. During the 2017-2018 fiscal year, local business lines have declined by 14%, local residential lines have declined by 6%, and MTS/WATS billed minutes have decreased by 12%. Simultaneously, statewide average residential and business rates have increased. These factors continue to make it difficult 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 services 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 threshold rate's associated annual revenue. *See IDAPA 31.46.01.106.02.*

As we have noted in prior years, 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 impacting 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 2018 Annual Report and the recommendations of Commission Staff and the fund Administrator, the Commission finds that the IUSF surcharges should be maintained at \$0.25 per residential line, \$0.44 per business line, and \$0.009 per intrastate MTS/WTS services, with IUSF disbursements maintained at current levels. Given the complicating factors discussed above, the Commission finds that Option 3 represents a reasonable surcharge that will fulfill the purposes of Idaho's Telecommunications Act of 1988 and maintain a prudent IUSF fund balance.

We acknowledge and appreciate the work occurring because of Case No. GNR-T-17-05, and look forward to Staff's pending report on the IUSF's continued viability. We are anxious

to review Staff and Stakeholder recommendations for a possible legislative solution to be presented to the Idaho Legislature in 2019.

Finally, the Commission accepts the Administrator's proposed fiscal year 2019 administrative budget. We commend her work. We further note it is important for the Commission to maintain strict oversight of 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 \$0.009 per MTS/WATS minute, effective for 12 months beginning October 1, 2018. The Administrator's proposed fiscal year 2018-2019 budget is accepted.

IT IS FURTHER ORDERED that Staff and the Administrator continue to lead and participate in Case No. GNR-T-17-05 with the ultimate goal of bringing a negotiated solution for potential universal service reform to the Idaho Legislature during its 2019 session.

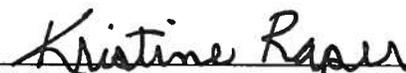
IT IS FURTHER ORDERED that the Administrator provide to Commission Staff quarterly cash flow reports, as outlined above and in Order No. 33851.

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 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 and 62-619.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this ²³
day of August 2018.



PAUL KJELLANDER, PRESIDENT

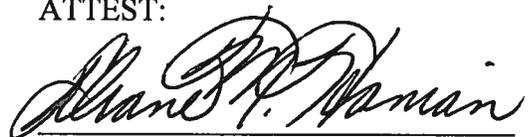


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

I:\Legal\TELEPHONE\GNR-T-18-06\GNRT1806_final_sc.docx