

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: GRACE SEAMAN

DATE: AUGUST 23, 2013

RE: 2013 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT
AND RECOMMENDATIONS; CASE NO. GNR-T-13-04.

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) type 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 twelve months beginning October 1.

THE 2013 ANNUAL REPORT

On July 15, 2013, the Administrator of the Idaho USF Alyson Anderson, filed her Annual Report to the Commission for the period of July 1, 2012 through June 30, 2013, and included a proposed USF 2013-2014 Administrative Budget.

The current USF monthly surcharge rates are \$.15 per residential line, \$.23 per business line, and \$.004 per intrastate MTS/WTS billed minute. *See* Order No. 32637. Surcharge

revenue for the year totaled \$1,683,231. Local exchange services contributed \$1,018,269 (60%), and \$664,962 (40%) was contributed by MTS/WATS services. These amounts reflect an increase in local exchange surcharge revenue of approximately \$103,919 (from \$914,350 in 2012), and a decrease in MTS/WATS surcharge revenue of approximately \$74,854 (from \$739,816 in 2012). The Administrative expenses for the year totaled \$16,229, including Administrator's salary, expenses, and bank and brokerage fees.

Currently, eight qualifying incumbent local exchange carriers (ILECs) receive annual payments from the fund, and those payments remain unchanged at \$1,698,610. The ending cash balance, after applying bank charges, administrative expenses and interest received was \$6,746. For the next fiscal year, beginning July 1, 2013, the annual disbursements are expected to remain at \$1,698,610.

2013-2014 Administrative Budget

Ms. Anderson proposes an annual administrative budget of \$17,100. This amount includes the Administrator's salary, expenses, and bank fees.

Local Residential and Business Service

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, 2013, companies reported a monthly inventory of 229,336 residential lines and 230,860 business lines, for a total of 460,196 lines. This is a net decrease in lines of approximately 12,373 (3%) with residential lines decreasing by nearly 9.5% and business lines increasing by almost 5%.

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

	2012 Statewide Weighted Average Rate	2013 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate - 2012	125% Statewide Weighted Average Rate - 2013
Residential Services	\$21.66	\$21.73	\$27.07	\$27.16
Business Services	\$33.37	\$33.79	\$41.71	\$42.23

Switched Access Service

Long distance service providers reported intrastate MTS/WATS billed minutes of 197,465,217 compared to the 2012 reported minutes of 257,750,454, a 23% decrease. The statewide average switched access rate was \$0.047, a decrease from last year's rate of \$0.054 resulting from the Federal Communications Commission's (FCC) *USF/ICC Transformation Order*, released on November 18, 2011. With this Order, the FCC capped the intercarrier compensation (ICC) rates and provided a transition schedule of annual rate reductions that ends in 2019.

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 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 local access lines and intrastate MTS/WATS have steadily declined. As a result, it is difficult to estimate the fund balance for the next fiscal year. Ms. Anderson further states that, "with the increased popularity of wireless/cellular services and VoIP services, it would stand to reason that the decline in both local access lines and intrastate toll minutes will continue." To more accurately determine the results of the funding options, Ms. Anderson adjusted the current inventories by the average percentage decline from the last five years (11% decline in residential lines, no adjustment to

business lines, and a 10% decline in MTS/WATS billed minutes) to present the four funding options as described below.

Option 1: Status Quo – Ms. Anderson reports that if current surcharge levels are maintained and no additional USF funding is authorized, the funding will decrease by approximately \$266. The 2013-2014 authorized disbursements will be \$1,698,610 and the fund balance will be an estimated \$6,480 on June 30, 2014. Surcharge revenue contribution would be approximately 42% from MTS/WATS services and 58% from local exchange services.

Option 2: Adjust Funding to Meet Statewide Averages per Rule 106 and Maintain Surcharge Rates – Idaho USF Rule 106.02 outlines the requirement to continue receiving USF funding after the first year of eligibility. The following applies Rule 106 to each company currently receiving USF funding:

- ATC Communications (ATC) — increase local residential rates. ATC’s annual USF funding would be reduced by \$41,138.
- Cambridge Telephone Company (Cambridge) — increase local residential rates. Cambridge’s annual USF funding would be reduced by \$19,448.
- Direct Communications Rockland (Direct) — increase local residential rates. Direct’s annual USF funding would be reduced by \$14,910.
- Fremont Telecom (Fremont) — increase local residential rates. Fremont’s annual USF funding would be reduced by \$32,654.
- Inland Telephone Company (Inland) — no adjustments are necessary.
- Midvale Telephone Company (Midvale) — increase local residential rates. Midvale’s annual USF funding would be reduced by \$11,351.
- Rural Telephone Company (Rural) — increase local residential rates. Rural’s annual USF funding would be reduced by \$9,935.
- Silver Star Telecom — no adjustments are necessary.

Under this proposal, Ms. Anderson projects the annual USF disbursements would decrease by \$126,693 from \$1,698,610 to \$1,571,917 and the fund balance on June 30, 2014 would be approximately \$126,400. With this option, MTS/WATS services would contribute 42% of the total surcharge revenue and the local exchange services contribution would be 58%.

Option 3: Maintain Funding Levels and Increase Surcharge Rates – In this scenario, Ms. Anderson considers maintaining the USF disbursement levels and increasing the surcharge rates to \$.16 per residential line, \$.25 per business line, and \$.006 per intrastate MTS/WATS billed minute. The funding would increase by approximately \$435,100 and the end-of-year balance on June 30, 2014 would be approximately \$473,400. MTS/WATS service would contribute 50% of the surcharge revenue and local exchange services would contribute 50%.

Option 4: Adjust Funding to Meet Statewide Averages Per Rule 106 and Increase Surcharge Rates – In this discussion, Ms. Anderson looks at increasing the surcharge rates to \$.15 per residential line, \$.23 per business line, and \$.006 per intrastate MTS/WATS billed minute as well as adjusting the USF disbursements per Rule 106. MTS/WATS service would contribute 51% and local exchange services would contribute 49%. The funding would increase by approximately \$481,865 and the end-of-year balance would be approximately \$520,200 on June 30, 2014.

ADMINISTRATOR’S RECOMMENDATION

The Administrator reports that at times during the 2012-2013 year, “the fund has not had sufficient cash balance to meet obligations in a timely manner.” In several instances, the monthly disbursements were delayed until the fund balance was adequate to cover those disbursements. Therefore, the Administrator recommends that the Commission adopt Option 3; maintain the company disbursements at the current level, and increase surcharge rates to \$.16 per residential line, and \$.25 per business line, and \$.006 per intrastate MTS/WATS billed minute. She further states that it is desirable to have a cash balance adequate to cover approximately three months of disbursements. With Option 3, the fund balance on June 30, 2013 would be approximately \$473,400. This should allow the fund to meet all obligations in a timely manner and maintain an adequate reserve balance.

STAFF ANALYSIS AND RECOMMENDATION

Staff has reviewed the calculations, supporting documentation, and recommendations contained in the Administrator’s Annual Report. Option 1, does not resolve the cash flow problems experienced last year and Option 2 and 4 applies Rule 106. If Rule 106 is strictly applied, six of the eight companies would be required to increase the residential local exchange rate from the current rate of \$25.76 to \$27.07. All eight USF-funded companies have residential

rates of \$25.76¹, which is lower than the latest statewide average threshold rate of \$27.07 and the difference is greater than 3% for six USF-funded companies. The increase in the average rates is largely a result of the deregulated companies (that have the greatest market share and, therefore, the greatest impact on the statewide average) increasing their standalone residential rates, in an attempt to encourage customers to move to the more competitively priced bundled services (that include local exchange services). These bundled services are marketed to entice customers into purchasing more services under multi-year agreements. The USF annual report does not reflect this activity as the companies are only required to report the standalone residential rate shown in the tariffs and price lists. Staff, therefore, agrees with Ms. Anderson's recommendation that the Commission adopt Option 3, maintain USF company funding levels and increase surcharge rates to \$.16 per residential line, \$.25 per business line and \$.006 per intrastate MTS/WATS billed minute. This option will result in a fund balance of approximately \$473,400 and will provide a comfortable three-month reserve.

COMMISSION DECISION

Does the Commission wish to approve the USF 2013-2014 budget?

Does the Commission wish to adopt the Administrator and Staff's recommended funding Option 3?

Does the Commission wish to adopt a different funding option?



Grace Seaman

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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.