

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: GRACE SEAMAN

DATE: AUGUST 19, 2016

RE: 2016 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT
AND RECOMMENDATIONS; CASE NO. GNR-T-16-12.

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 2016 ANNUAL REPORT

On July 15, 2016, the Administrator of the Idaho USF, Alyson Anderson, filed the Annual Report for the USF fiscal year from July 1, 2015 through June 30, 2016. Included with the report is the Administrator's proposed budget for the next fiscal year—July 1, 2016 through June 30, 2017.

The current USF monthly surcharge rates are \$.12 per residential line, \$.20 per business line, and \$.005 per intrastate MTS/WTS billed minute. *See* Order No. 33378. Surcharge revenue for the year totaled \$1,644,938. Local exchange services contributed \$843,838 (51%), and \$801,100 (49%) was contributed by MTS/WATS services. Surcharge revenue from local exchange services decreased by approximately \$237,853 and MTS/WATS surcharge revenue increased by approximately \$163,276. The Administrative expenses for the year were \$12,841. This amount includes the Administrator’s salary, expenses, and bank charges.

Currently, eight qualifying incumbent local exchange carriers (ILECs) receive annual payments from the fund, and those payments remain unchanged at \$1,698,610. If no changes occur, the annual disbursements to the ILECs are expected to remain the same for the next fiscal year (July 1, 2016 through June 30, 2017). The end-of-year cash balance for fiscal year 2016, after applying bank charges and administrative expenses, was \$500,768.

2016-2017 Administrative Budget

Ms. Anderson proposes an annual administrative budget of \$16,050. This amount includes the Administrator’s salary and other expenses.

Local Residential and Business Service

The USF surcharge is attached to residential and business lines, and long-distance billed minutes, of wireline companies. Thus, the Administrator annually obtains reports from these companies. As of May 1, 2016, companies reported an average monthly inventory of 169,987 residential lines and 193,095 business lines, for a total of 363,082 lines. This is a decrease in lines of approximately 31,338 (11%) with residential lines decreasing by 7% and business lines decreasing by 14%.

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

	2015 Statewide Weighted Average Rate	2016 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate - 2015	125% Statewide Weighted Average Rate - 2016
Residential Services	\$21.79	\$21.77	\$27.24	\$27.21
Business Services	\$36.93	\$36.94	\$46.16	\$47.42

Switched Access Service

Long distance service providers reported intrastate MTS/WATS billed minutes of 197,135,147 compared to the 2015 reported minutes of 167,029,919, an 18% increase. The statewide average switched access rate was \$0.035, a slight change from last year's rate of \$0.036.

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 year, both the number of local access lines and intrastate MTS/WATs billed minutes have, on the average, steadily declined. However, there have been some unexpected increases in the number of business access lines and this year, the number of MTS/WATs billed minutes. As a result, it is difficult to accurately calculate the funding requirements necessary to maintain adequate fund balances throughout the fiscal year. With this in mind, the Administrator presents the following funding options.

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 \$20,775. The 2016-2017 authorized disbursements will remain the same at \$1,698,610, and the fund balance is estimated to be \$479,993 on June 30, 2017. Surcharge

revenue contribution would be approximately 42% from MTS/WATS services and 58% from local exchange services.

Option 2: Adjust Funding 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) — decrease toll switched access rates; increase local residential and business rates. ATC’s annual USF funding would be reduced by \$71,408.
- Cambridge Telephone Company (Cambridge) — increase toll switched access; increase local residential and business rates. Cambridge’s annual USF funding would be reduced by \$41,580.
- Columbine Telephone, fka Silver Star Telecom (Columbine) — increase residential and business rates. Columbine’s annual USF funding would be reduced to \$123,968.
- Direct Communications Rockland (Direct) — decrease toll switched rates; increase local residential and business rates. Direct’s annual USF funding would be reduced by \$20,129.
- Fremont Telecom (Fremont) — decrease toll switched access rates; increase local residential and business rates. Fremont’s annual USF funding would be reduced by \$54,896.
- Inland Telephone Company (Inland) — decrease toll switched access rates; increase local residential and business rates. Inland’s annual USF funding would be reduced by \$8,083.
- Midvale Telephone Company (Midvale) — decrease toll switched access rates; increase local residential and business rates. Midvale’s annual USF funding would be reduced by \$17,768.
- Rural Telephone Company (Rural) — increase local residential and business rates. Rural’s annual USF funding would be reduced by \$16,529.

Under this proposal, Ms. Anderson projects the annual USF disbursements would be \$1,344,249. If current surcharge levels are maintained, the fund will increase by approximately \$333,586. MTS/WATS services would contribute 58% of the total surcharge revenue and the local exchange services contribution would be 42%. The fund would have an end-of-year balance of approximately \$834,354 on June 30, 2017.

Option 3: Adjust Inventories, Maintain Funding, and Adjust Surcharge Rates – In this scenario, Ms. Anderson adjusts the inventory levels by averaging the last five-years. Thus, the residential lines are reduced by 10%, the business lines are reduced by 2.5%, and the MTS/WATS billed minutes are reduced by 4%. The projected fund balance indicates the USF surcharge rates should be adjusted to create a more equitable contribution between MTS/WATS and local exchange services. If the surcharge rates are increased to \$.14 per residential line, \$.25 per business line, and decreased to \$.004 per intrastate MTS/WATS billed minute and the USF disbursements are maintained at the current levels, the fund will decrease by approximately \$135,838. The end-of-year balance as of June 30, 2017 would be approximately \$364,930. MTS/WATS service would contribute 48% of the surcharge revenue and local exchange services would contribute 52%.

Option 4: Adjust Inventories, Adjust Funding per Rule 106, and Decrease Surcharge Rates – As with Option 3, Ms. Anderson adjusts the inventories based on the previous five-year averages. Thus, the residential lines are adjusted downward by 10%, the business lines reduced 2.5%, and the MTS/WATS billed minutes have been reduced 4%. The projected fund balance indicates that the USF surcharge rates could be decreased. If the local surcharge rates are decreased to \$.10 per residential line, \$.17 per business line, and \$.003 per intrastate MTS/WATS billed minutes and the USF disbursements are adjusted per Rule 106, the fund will decrease by approximately \$443,607. The MTS/WATS service would contribute 50% and local exchange services would contribute 50%. The funding would decrease by approximately \$443,607 and the end-of-year balance would be approximately \$57,161 as of June 30, 2017.

ADMINISTRATOR'S RECOMMENDATION

The Administrator recommends that the Commission adopt Option 1; maintain the company disbursements at the current level, and maintain the surcharge rates at \$.12 per residential line, \$.20 per business line, and \$.005 per intrastate MTS/WATS billed minute. The fund balance on June 30, 2017 would be approximately \$479,993, an amount that would allow the fund to meet all obligations as well as provide a reserve balance.

STAFF ANALYSIS AND RECOMMENDATION

Staff has reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report. Staff also notes the impact to Rule 106 by the

Federal Communication Commission's (FCC) *USF/ICC Transformation Order*, FCC 11-161, released on November 18, 2011, and the subsequent FCC 14-54, *Seventh Order on Reconsideration*, released on June 10, 2014. The first FCC Order established a schedule to reduce intrastate terminating access rates, including transport and reciprocal compensation, to bill-and-keep by July 1, 2019. The second FCC Order established a four-year transition of voice services to a rate floor of \$20.46 for carriers that receive federal high cost support. These Orders make it impractical for the Commission to apply Rule 106 to determine eligibility for the eight companies that receive state USF disbursements. All eight USF-funded companies have residential rates of \$25.76.¹ If Rule 106 is strictly applied, all eight companies would be required to increase the residential local exchange rate from the current \$25.76 to \$27.21 and the business local exchange rate to \$47.42. Finally, Staff acknowledges that the funding elements are impermanent and difficult to predict. Staff, therefore, agrees with Ms. Anderson's recommendation to the Commission to adopt Option 1 to maintain the current surcharge rates of \$.12 per residential line, \$.20 per business line, and \$.005 per intrastate MTS/WATS billed minute. This option will provide an adequate funding level for the 2016-2017 USF fiscal year.

COMMISSION DECISION

Does the Commission wish to approve the Administrator's USF 2016-2017 budget?

Does the Commission wish to adopt the Administrator and Staff's recommended funding Option 1?

Does the Commission wish to adopt a different funding option?



Grace Seaman

Udmemos/2016 annual report

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.