

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
LEGAL  
WORKING FILE

GNR-T-06-03

**FROM:** GRACE SEAMAN

**DATE:** AUGUST 11, 2006

**RE:** 2006 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT AND RECOMMENDATIONS.

On July 19, 2006, Alyson Anderson, the Administrator of the Idaho Universal Service Fund (IUSF), filed her Annual Report to the Commission for the period of July 1, 2005 through June 30, 2006. Included in the report was the proposed IUSF 2006-2007 Administrative Budget. Staff has reviewed the calculations, supporting documentation and recommendations contained in the report.

Current USF monthly surcharge rates are \$.12 per residential line, \$.20 per business line, and \$.004 per MTS/WTS billed minute. Ms. Anderson reports surcharge revenue for the year in the amount of \$2,082,684. Local exchange services contributed \$1,092,754 (52%) and \$989,930 (48%) was contributed by MTS/WATS services. This is an increase in local exchange surcharge revenue of approximately \$262,702 (from \$830,052 in 2005) and an increase in MTS/WATS surcharge revenue of approximately \$203,847 (from \$786,083 in 2005).

Annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) decreased slightly to \$1,943,523 as of June 30, 2006. This decrease reflects the true-up payments made in June 2004 to ATC Communications, Fremont Telecom, and Midvale Telephone companies. For the next year, beginning July 1, 2006, annual disbursements are expected to remain the same, assuming no changes are made to the USF draw. The ending fund cash balance as of June 30, 2006, after applying bank charges, administrative expenses, and interest received, was \$193,664.

### Local Service

As of May 1, 2006, companies reported 474,571 residential lines and 208,671 business lines, for a total of 683,242 lines. This represents a net increase in lines of 4,683 (.7%) with residential lines declining by 2% and business lines increasing by 8% from the prior year.

The newly calculated statewide average rates and threshold rates are:

	<b>2005 Current Weighted Average Rate</b>	<b>2006 Statewide Weighted Average Rate</b>	<b>125% Statewide Weighted Average Rate - 2005</b>	<b>125% Statewide Weighted Average Rate - 2006</b>
<b>Residential</b>	\$17.65	\$17.69	\$22.06	\$22.11
<b>Business Services</b>	\$31.78	\$31.96	\$39.72	\$39.95

### Switched Access Service

Long distance service providers reported MTS/WATS billed minutes of 315,380,191 compared to 312,577,570 minutes in 2005, a .9% increase. The statewide average switched access rate increased to \$0.05 per minute from last year's average of \$0.048.

### Funding Adjustments Review

Staff also reviewed the residential, business, and access rates of the recipient companies in accordance with Rule 31.46.01.106. Of the eight companies receiving Universal Service funds, the Administrator recommends and Staff agrees that no adjustments to residential, business, or access rates need to be made at this time.

### ADMINISTRATOR'S OPTIONS

The Administrator presented four funding options to meet the projected annual disbursements and expenses for the coming year. These options are as follows:

Option 1: Status Quo - Ms. Anderson stated that if current surcharge levels are maintained and the disbursements remain the same, the fund balance will be approximately \$675,354 by June 30, 2007. Surcharge revenue contribution would be approximately 52% from MTS/WATS services and 48 % from local exchange services.

Option 2: Adjust Funding to Meet Statewide Averages and Maintain Surcharge Rates -

In this discussion, Ms. Anderson proposes to maintain the surcharges rates. Ms. Anderson points out that Midvale Telephone Company does not need to adjust local rates, but could increase switched access rates and decrease the IUSF draw by \$6,635 according to Rule 31.46.01.106. Under this proposal, Ms. Anderson projects the IUSF disbursements would decrease slightly to \$1,936,888 and the fund balance on June 30, 2007 would be approximately \$681,989. At these rates, MTS/WATS services would contribute 52% of the total surcharge revenue and local exchange services contribution would be 48%.

Option 3: Decrease Surcharge Rates and Maintain Funding Levels -

In this option, Ms. Anderson proposes to decrease the residential surcharge rate to \$.11 per line, but maintain the current business surcharge rate of \$.20 per line. This option would provide a reserve balance of approximately \$618,406 by June 30, 2007. MTS/WATS service would contribute approximately 53% of the surcharge revenue and local exchange services would contribute 47%.

Option 4: Adjust Funding Levels Per Rule 106 and Decrease Surcharge Rates -

In this option, Ms. Anderson proposes a decrease in the residential surcharge rate to \$.11 per line, and business and MTS/WATS surcharge rates remain the same at \$.20 per line and \$.004 per minute. Under this proposal, the estimated reserve balance would be \$611,770 by June 30, 2007. MTS/WATS service would contribute approximately 53% of the surcharge revenue and local exchange services would contribute 47%.

#### **ADMINISTRATOR'S RECOMMENDATION**

Ms. Anderson recommends Option 1, which would maintain the current surcharge rates of \$.12 per residential line, \$.20 per business line, and \$.004 per MTS/WATS billed minute. These rates would provide a comfortable four-month reserve balance of approximately \$675,354 by end of June 30, 2007.

#### **STAFF ANALYSIS**

As a result of the 8% increase in business lines, the number of local exchange lines remained stable with an overall increase of slightly less than a one percent. Additionally, the anomaly of last year's 13% increase in billed MTS/WATS minutes did not reoccur during the past year. Instead, MTS/WATS remained relatively stable, as anticipated, with a nominal

increase of .09%. Overall results for line inventory and MTS/WATS billed minutes were consistent with last year's projections. Staff believes wireless service adoption by consumers in Idaho is nearing maturity and will have a decreasing impact on the reduction of exchange lines. No significant changes for either service are anticipated for the next fiscal year, but it is uncertain how the adoption of new technologies, such as Voice Over Internet Protocol (VoIP), may impact the line inventory and the billed MTS/WATS minutes. Additionally, telecommunications company mergers that occurred in 2005 and 2006 may have disrupted the reporting of accurate information by some companies for this year and more accurate information may change the anticipated revenue outcome for next year.

With respect to Midvale Telephone Company, Staff does not believe it is necessary to make the slight adjustments to their access rates at this time.

Finally, Staff believes that the level of uncertainty in the market suggests that the surcharge rates should remain unchanged, providing an adequate funding cushion to address any downward adjustments and changes in the threshold levels that may occur as companies submit their reports in the next year. Staff, therefore, supports the Administrator's recommendation to adopt Option No. 1.

#### **COMMISSION DECISION**

Does the Commission wish to approve the IUSF 2006-2007 budget?

Does the Commission wish to adopt the Administrator's recommended Option No. 1 and maintain the surcharge rates at \$0.12 for residential lines, \$0.20 for business lines and \$0.004 per intrastate MTS/WATS minute?

Does the Commission wish to approve a switched access rate increase for Midvale Telephone Company to the statewide threshold level and the corresponding decrease in the USF draw?

Does the Commission wish to adopt a different funding option?

  
Grace Seaman

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IDAHO UNIVERSAL SERVICE FUND  
2006-2007 ADMINISTRATIVE BUDGET

LABOR (250 HOURS @ \$60.00 PER HOUR)	\$15,000
POSTAGE/COPIES	700
BANK/INVESTMENT CHARGES	350
AUDIT/LEGAL FEES	8,750
LETTERHEAD	<u>200</u>
TOTAL 2006-2007 BUDGET	<u>\$25,000</u>