

## DECISION MEMORANDUM

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

**FROM:** GRACE SEAMAN

**DATE:** AUGUST 22, 2007

**RE:** 2007 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT AND RECOMMENDATIONS.

ENR-7-07-03

On July 19, 2007, Alyson Anderson, the Administrator of the Idaho Universal Service Fund (IUSF), filed her Annual Report to the Commission for the period of July 1, 2006 through June 30, 2007. Included in the report was the proposed IUSF 2007-2008 Administrative Budget. Staff has reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report.

The current IUSF monthly surcharge rates are \$.12 per residential line, \$.20 per business line, and \$.004 per intrastate MTS/WTS billed minute. Ms. Anderson reports surcharge revenue for the year in the amount of \$2,164,119. Local exchange services contributed \$1,183,242 (55%) and \$980,877 (45%) was contributed by MTS/WATS services. This is an increase in local exchange surcharge revenue of approximately \$81,400 (from \$2,082,684 in 2006) and a decrease in MTS/WATS surcharge revenue of approximately \$9,000 (from \$989,930 in 2006).

Annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) remained unchanged for a total of \$1,943,523 as of June 30, 2007. The ending cash balance, after applying bank charges, administrative expenses, and interest received, was \$417,972 on June 30, 2007. For the next year, beginning July 1, 2007, annual disbursements are expected to remain the same, assuming no changes are made to the IUSF draw.

### 2007-2008 Administrative Budget

For the 2007-2008 period, Ms. Anderson proposes an annual administrative budget of \$25,700. This amount includes the Administrator's salary, other administrative expenses such as office supplies and audit and legal fees. This year's budget represents an increase of \$700 due to increased postage and banking charges. All other expenses are expected to remain relatively unchanged.

### Local Service

As of May 1, 2007, companies reported an inventory of 458,089 residential lines and 195,729 business lines, for a total of 653,818 lines. This represents a net decrease in lines of approximately 36,800 (5%) with residential lines decreasing by nearly 5% and business lines decreasing by almost 6% from the prior year. These figures are based on corrected line counts for 2006 and 2007.

The newly calculated statewide weighted average rates and threshold average rates are:

	<b>2006 Current Weighted Average Rate</b>	<b>2007 Statewide Weighted Average Rate</b>	<b>125% Statewide Weighted Average Rate - 2006</b>	<b>125% Statewide Weighted Average Rate - 2007</b>
<b>Residential</b>	\$17.69	\$17.85	\$22.11	\$22.31
<b>Business Services</b>	\$31.96	\$31.88	\$39.95	\$39.85

### Switched Access Service

Long distance service providers reported intrastate MTS/WATS total billed minutes of 304,175,225 compared to the 2006 revised minutes of 315,388,045, a 3.6% decrease. The statewide average switched access rate decreased to \$0.047 per minute from last year's average of \$0.05.

### Funding Adjustments Review

Ms. Anderson also reviewed the residential, business, and access rates of the recipient ILEC companies in accordance with Rule 31.46.01.106. Of the eight companies receiving IUSF funding, the Administrator recommends and Staff agrees that no adjustments to residential or

business rates are necessary at this time. Ms. Anderson does, however, recommend an access rate adjustment for two companies.

#### **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 comments that if current surcharge levels are maintained and the disbursements remain the same, the fund balance will be an estimated \$812,847 on June 30, 2008. 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 option, Ms. Anderson proposes to maintain the surcharges rates. Ms. Anderson states that according to Rule 31.46.01.106, ATC Communications does not need to adjust local rates, but could reduce switched access rates and increase the IUSF draw by \$8,563. Additionally, Cambridge Telephone Company does not need to adjust local rates, but could reduce switched access rates and increase the IUSF draw by \$8,244. Under this proposal, Ms. Anderson projects the IUSF disbursements would increase to \$1,960,331 from \$1,943,523 and the fund balance on June 30, 2008 would be approximately \$796,040. With this option, 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 scenario, Ms. Anderson considers decreasing the surcharges to \$.10 per residential line, \$.19 per business line, and \$.003 per intrastate MTS/WATS minute. This option would result in a fund balance of approximately \$375,243 on June 30, 2008. MTS/WATS service would contribute 48% of the surcharge revenue and local exchange services would contribute 52%.

Option 4: Adjust Funding Levels Per Rule 106 and Decrease Surcharge Rates – In this discussion, Ms. Anderson proposes a decrease in the residential, business and MTS/WATS surcharge rates to \$.11 per line, \$.19 per line, and \$.003 per intrastate minute. In addition, she recommends a decrease in the access rates and a corresponding increase in the IUSF funding for ATC Communications and Cambridge Telephone Company, thereby decreasing the fund by an estimated \$4,565. Under this proposal, the fund balance would be approximately \$413,407 on

June 30, 2008. MTS/WATS service would contribute 47% of the surcharge revenue and local exchange services would contribute 53%.

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

Ms. Anderson recommends that the Commission adopt Option 4, which would decrease the surcharge rates to \$.11 per residential line, \$.19 per business line and \$.003 per intrastate MTS/WATS billed minute. This option shows ATC Communications and Cambridge Telephone Company reducing access rates, which would increase the IUSF funding by \$4,565. The projected balance of \$413,407 will allow the fund to meet all obligations as well as provide an adequate reserve balance.

#### **STAFF ANALYSIS AND RECOMMENDATION**

The IUSF surcharge rates have remained stable for the last two years. The revenue disbursements were unchanged for the same period. Ms Anderson assumes the line count will be relatively stable during the next year, and if the surcharge rates remain unchanged, the fund balance will grow to an excessive amount by the end of June 2008. This suggests that the surcharge rates should be adjusted downward. Staff supports the Administrator's recommendation to reduce surcharge rates as outlined in both Option 3 and Option 4.

With respect to the Administrator's recommendation regarding ATC Communications and Cambridge Telephone Company, Staff does not believe the slight adjustment to the access rates, nor the corresponding increase to the distribution amounts are warranted at this time. Intrastate MTS/WATS usage has fluctuated up and down over the past five years and it is difficult to discern whether these fluctuations are a result of changes in consumer calling patterns or anomalies in company reporting. Likewise, it is difficult to determine the amount of adjustment a company must make to the access rate in order for that company to stay at or below the IUSF threshold of the 125% statewide weighted average rate.

No significant changes are anticipated in the coming year that may substantially impact the IUSF fund. Assuming all factors remain the same, Staff recommends adopting Option 3, which decreases the surcharge rates while maintaining the current IUSF company disbursements. This option would provide a reasonable 2 ½-month reserve balance of approximately \$375,243 on June 30, 2008.

**COMMISSION DECISION**

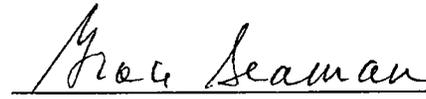
Does the Commission wish to approve the IUSF 2007-2008 budget?

Does the Commission wish to adopt the Administrator's recommended Option 4, a decrease in the surcharge rates to \$0.11 for residential lines, to \$0.19 for business lines, and \$0.003 per intrastate MTS/WATS minute?

Does the Commission wish to approve a switched access rate decrease for ATC Communications and Cambridge Telephone Company to the statewide threshold level and increase the corresponding IUSF contribution to these ILECs?

Does the Commission wish to approve Staff's recommendation to adopt Option 3 and reduce surcharge rates to \$0.10 for residential lines, to \$0.19 for business lines, and \$0.003 per intrastate MTS/WATS minute, and maintain the current access rate and IUSF draw for ATC Communications and Cambridge Telephone Company?

Does the Commission wish to adopt a different funding option?

  
Grace Seaman

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