

**DECISION MEMORANDUM**

**TO: COMMISSIONER KEMPTON  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
LEGAL  
WORKING FILE**

*ENR-T-09-05*

**FROM: GRACE SEAMAN**

**DATE: AUGUST 28, 2009**

**RE: 2009 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT AND  
RECOMMENDATIONS.**

**BACKGROUND**

The Idaho Universal Service Fund (IUSF) 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. The IUSF is funded through a statewide end user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) type services. The IUSF Administrator, Ms. Anderson, submits an Annual Report to the Commission that details the program activities of the previous year and provides recommended surcharge rates to meet the next year's funding requirements. On or before September 1 of each year the Commission shall issue an Order in response to the Administrator's report, which will establish statewide end-user surcharges to be in effect for the twelve months beginning October 1 following issuance of the Order.

**THE 2009 ANNUAL REPORT**

On July 16, 2009, Alyson Anderson, the Administrator of the Idaho Universal Service Fund (IUSF), filed her Annual Report to the Commission for the period of July 1, 2008 through

June 30, 2009. Included in the Report was the proposed IUSF 2009-2010 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 \$.10 per residential line, \$.17 per business line, and \$.003 per intrastate MTS/WTS billed minute, established in Order No. 30635. Ms. Anderson reports surcharge revenue for the year in the amount of \$1,658,656. Local exchange services contributed \$968,594 (58%) and \$690,061 (42%) was contributed by MTS/WATS services. This is a decrease in local exchange surcharge revenue of approximately \$177,863 (from \$1,146,457 in 2008) and a decrease in MTS/WATS surcharge revenue of approximately \$202,257 (from \$892,318 in 2008).

Annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) remained unchanged for a total of \$1,943,523 as of June 30, 2009. The ending cash balance, after applying bank charges, administrative expenses, and interest received, was \$207,678 on June 30, 2009. For the next year, beginning July 1, 2009, annual disbursements are expected to remain the same, unless the Commission approves changes to the IUSF funding.

#### **2009-2010 Administrative Budget**

Ms. Anderson proposes an annual administrative budget of \$16,750. This amount includes the Administrator's salary and other administrative expenses such as office supplies and bank and brokerage fees. This year's budget is \$6,650 less than the previous year's actual budget of approximately \$23,400 due to the expenses associated with the independent audit conducted in 2008. No charges associated with audits will be incurred in the next year.

#### **Local Residential and Business Service**

As of May 1, 2009, companies reported an inventory of 371,114 residential lines and 225,161 business lines, for a total of 596,275 lines. This is a net decrease in lines of approximately 55,105 (8.5%) with residential lines decreasing by nearly 11% and business lines decreasing by almost 3% from the prior year.

The IUSF Rule 106 states that in order to continue receiving USF funding after the first year of eligibility, each telephone company must revise its rates to meet the thresholds for funding eligibility based on statewide average rates calculated annually by the Administrator pursuant to Rule 302.

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

|                             | <b>2008 Current Weighted Average Rate</b> | <b>2009 Statewide Weighted Average Rate</b> | <b>125% Statewide Weighted Average Rate - 2008</b> | <b>125% Statewide Weighted Average Rate - 2009</b> |
|-----------------------------|---|---|--|--|
| <b>Residential Services</b> | \$19.47                                   | \$20.61                                     | \$24.34  | \$25.76  |
| <b>Business Services</b>    | \$32.95                                   | \$32.43                                     | \$41.19  | \$40.54  |

The increase in the weighted average rate for residential line rates appears to be the result of increases imposed by the larger companies during the last reporting period as well as a residual effect from Qwest and Verizon rate increases in 2007.

#### **Switched Access Service**

Long distance service providers reported intrastate MTS/WATS total billed minutes of 304,154,937 compared to the 2008 reported minutes of 313,436,250, a 6% decrease. The statewide average switched access rate increased slightly from last year's \$0.0476 to a 2009 average of \$0.05. This access rate is the same or less than the rate during six of the last ten years.

#### **Rule 106 Continuation of Eligibility**

A company's average one-party, single-line rate must be revised to equal or exceed the 125% threshold line rate 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 or the Commission on its own motion may by order change a telephone company's IUSF funding in connection with the recalculation of the statewide average rates. *See* Rule 106.04.

Ms. Anderson reviewed the residential, business, and access rates of the companies receiving IUSF funding in accordance with Rule 106 and discusses the results in Option 2.

## 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 reports that if current surcharge levels are maintained and no additional IUSF funding is authorized, the fund balance will be an estimated \$64,534 on June 30, 2010. Surcharge revenue contribution would be approximately 50% from MTS/WATS services and 50% from local exchange services.

Option 2: Adjust Funding to Meet Statewide Averages per Rule 106 and Maintain Surcharge Rates – With this option, the current surcharge rates are maintained and Rule 106 adjustments are applied to companies that currently receive funds from the IUSF:

- ATC Communications (ATC) must increase both local residential rates and switched access rates. The company's annual IUSF funding would be reduced by \$70,812.
- Cambridge Telephone Company must increase local residential rates and does not need to adjust switched access rates. The company's annual IUSF funding would be reduced by \$29,218.
- Direct Communications Rockland must increase local residential rates and does not need to adjust switched access rates. The company's annual IUSF funding would be reduced by \$19,446.
- Fremont Telecom must increase local residential rates and does not need to adjust access rates. The company's IUSF funding would be reduced by \$66,636.
- Inland Telephone Company must increase local residential rates and switched access rates. The company's annual IUSF funding would be reduced by \$26,453.
- Midvale Telephone Company must increase local residential rates and does not need to adjust access rates. The company's IUSF funding would be reduced by \$28,875.
- Rural Telephone Company must increase local residential rates and does not need to adjust switched access rates. The company's IUSF funding would be reduced by \$13,907.
- Silver Star Telecom must increase local residential rates, and does not need to adjust switched access rates. The company's annual IUSF draw would be reduced by \$7,424.

Under this proposal, Ms. Anderson projects the annual IUSF disbursements would decrease by \$246,021 from \$1,943,523 to \$1,697,502 and the fund balance on June 30, 2010 would be approximately \$327,306. With this option, MTS/WATS services would contribute 50% of the total surcharge revenue and local exchange services contribution would be 50%.

Option 3: Increase Surcharge Rates and Maintain Funding Levels – In this scenario, Ms. Anderson considers increasing the surcharges to \$.12 per residential line, \$.20 per business line, and \$.004 per intrastate MTS/WATS billed minute. Assuming no residential service rate increases are authorized pursuant to Rule 106 and the current funding levels remain unchanged, this option would result in a fund balance of approximately \$538,814 on June 30, 2010. MTS/WATS service would contribute 53% of the surcharge revenue and local exchange services would contribute 47%.

Option 4: Adjust Funding Levels per Rule 106 and Increase Surcharge Rates – In this discussion, Ms. Anderson looks at increasing the surcharge rates to \$.12 per residential line, \$.18 per business line, maintaining the current intrastate MTS/WATS rate at \$.003 per billed minute, and increasing the residential service rates per Rule 106. The fund will increase by approximately \$236,715 with MTS/WATS contributing approximately 53% of the surcharge revenue and local exchange services would contribute 47%. The fund would have a balance of approximately \$443,392 on June 30, 2010.

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

Ms. Anderson recommends that the Commission adopt Option 2; maintaining the current local surcharge rates at \$.10 per residential line, \$.17 per business line and \$.003 per intrastate MTS/WATS billed minute. She states that consistency in the surcharge rates is desirable. Option 2 also complies with Rule 106 eligibility requirements by increasing the residential service rates. If the current surcharge rates are maintained, the residential rates are increased, and the IUSF funding is decreased, then the fund balance should provide approximately two months of the newly calculated disbursement levels and would approximate a 50-50 contribution of surcharge revenues from local residential and business service and MTS/WATS services. Option 2 would provide a fund balance on June 30, 2010 of approximately \$327,306.

## **STAFF ANALYSIS AND RECOMMENDATION**

The surcharge rates for residential and business lines and for the MTS/WATS billed minutes have decreased or remained stable for the last four years. Ms Anderson assumes disbursements and the surcharge revenue sources (line count and billed minutes) will be relatively stable during the next year. If the surcharge rates remain unchanged, the fund balance will decrease significantly to \$64,534, a figure that is approximately 40-45% of the amount needed for a one-month disbursement to the eight IUSF recipients. Ms. Anderson recommends that the surcharge rates should remain unchanged, but the residential rates and switched access rates should be adjusted to comply with Rule 106.

Staff supports the Administrator's recommendation. However, Staff does not believe the slight adjustment to the switched access rates for ATC and Inland is warranted at this time as the impact of an increase or decrease is unpredictable over a 12-month period. Last year's adjustments to meet the statewide averages suggested that Inland's local rates and access rates did not need to be adjusted, while ATC should decrease access rates and increase the IUSF draw by \$6,636. This is opposite of what is recommended for the ATC access rate in this year's report. The numbers of lines and intrastate MTS/WATS minutes have fluctuated up and down over the past 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 for that company to stay at or below the IUSF threshold of the 100% statewide weighted average rate for MTS/WATS.

Rule 106 also states that no Order altering a telephone company's funding from the USF will be issued without notice that USF funding is at issue and companies are given appropriate opportunity to be heard in person or in writing. Staff, therefore, recommends that the Commission issue a Notice providing a 21-day comment period to allow the telephone companies opportunity to provide input.

No other significant changes are anticipated in the coming year that may substantially impact the IUSF fund. Assuming all factors remain relatively stable, Staff recommends adopting Option 2, which maintains the current surcharge rates, complies with Rule 106 requiring an increase in the residential rates to the threshold level, and a corresponding adjustment of the current IUSF funding to the eight telephone companies. This option would result in a reasonable reserve balance of approximately \$538,814 on June 30, 2010.

**COMMISSION DECISION**

Does the Commission wish to approve the IUSF 2009-2010 budget?

Does the Commission wish to adopt the Administrator's recommended Option 2?

Does the Commission wish to approve a switched access rate increase for ATC Communications and Inland Telephone Co. to the statewide threshold level?

Does the Commission wish to approve Staff's recommendation to maintain the current surcharge rates, maintain the current switched access rates, adjust the residential service rates in compliance with Rule 106 and the corresponding IUSF funding for the eight IUSF recipients, and issue a Notice for comments?

Does the Commission wish to adopt a different funding option?

  
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Grace Seaman

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