

DECISION MEMORANDUM

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

FROM: GRACE SEAMAN

DATE: AUGUST 20, 2010

RE: 2010 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT AND
RECOMMENDATIONS; CASE NO. GNR-T-10-04.

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. 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, 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 issues 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 2010 ANNUAL REPORT

On July 15, 2010, Alyson Anderson, the Administrator of the Idaho USF, filed her Annual Report to the Commission for the period of July 1, 2009 through

June 30, 2010. The proposed USF 2010-2011 Administrative Budget is also included in the report. Staff has reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report.

The current USF monthly surcharge rates are \$.10 per residential line, \$.17 per business line, and \$.003 per intrastate MTS/WTS billed minute, established in Order No. 30894. Ms. Anderson reports surcharge revenue for the year in the amount of \$1,734,098. Local exchange services contributed \$932,556 (54%), and \$801,542 (46%) was contributed by MTS/WATS services. This is a decrease in local exchange surcharge revenue of approximately \$36,000 (from \$968,594 in 2009), and a decrease in MTS/WATS surcharge revenue of approximately \$111,000 (from \$690,061 in 2009).

Pursuant to Commission Order No. 30894, the annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) decreased by approximately \$122,456 from \$1,943,523 in 2009 to \$1,821,067 for the year ending on June 30, 2010. The ending cash balance, after applying bank charges, administrative expenses and interest received was \$104,258. For the next year, beginning July 1, 2010, the revised annual disbursements are expected to be \$1,698,610, unless the Commission approves changes to the USF funding.

2010-2011 Administrative Budget

Ms. Anderson proposes an annual administrative budget of \$24,100. This amount includes the Administrator's salary and other expenses such as office supplies and bank and brokerage fees as well as an audit. This year's budget increase of \$6,745 anticipates that the triennial audit will be completed and payment will be made by the end of the next fiscal year.

Local Residential and Business Service

As of May 1, 2010, companies reported an inventory of 328,592 residential lines and 219,752 business lines, for a total of 548,344 lines. This is a net decrease in lines of approximately 47,931 (8%) with residential lines decreasing by nearly 11% and business lines decreasing by almost 2%.

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

	2009 Statewide Weighted Average Rate	2010 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate - 2009	125% Statewide Weighted Average Rate - 2010
Residential Services	\$20.61	\$20.84	\$25.76	\$26.06
Business Services	\$32.43	\$33.07	\$40.54	\$41.34

Switched Access Service

Long distance service providers reported intrastate MTS/WATS total billed minutes of 284,863,207 compared to the 2009 reported minutes of 304,154,937, a 6% decrease. The statewide average switched access rate remained the same as last year at \$0.05.

Funding Adjustments Review

Ms. Anderson is required to review the residential, business, and access rates of the recipient ILEC companies in accordance with Rule 106. To be eligible to receive USF funding pursuant to Rule 106, IDAPA 31.46.01.106, a telephone 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. 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 USF funding in connection with the recalculation of the statewide average rates. *See* Rule 106.04.

In response to the Administrator's 2009 USF Annual Report, the Commission issued Order No. 30894 on September 2, 2009. In this Order, the eight ILEC companies receiving USF disbursements were given notice that the companies' residential rates did not meet the USF eligibility requirements. By September 1, 2010, all eight companies will have complied with this Order, thus maintaining USF funding eligibility.

In this year's analysis, of the eight companies receiving USF 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 three companies and discusses her findings 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 USF funding is authorized, the fund will decrease by approximately \$25,516. The 2010-2011 USF authorized disbursements will be \$1,698,610 and the fund balance will be an estimated \$78,742 on June 30, 2011. 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 receive USF funds:

- ATC Communications' (ATC) local residential and business rates do not need to be adjusted, but should increase switched access rates. The company's annual USF funding would be reduced by \$11,309.
- Cambridge Telephone Company's rates do not need to be adjusted.
- Direct Communications Rockland's rates do not need to be adjusted.
- Fremont Telecom's rates do not need to be adjusted.
- Inland Telephone Company's (Inland) local residential and business rates do not need to be adjusted, but should increase switched access rates. The company's annual USF funding would be reduced by \$10,164.
- Midvale Telephone Company's (Midvale) local residential and business rates do not need to be adjusted, but should increase switched access rates. The company's USF funding would be reduced by \$10,068.
- Rural Telephone Company's rates do not need to be adjusted.
- Silver Star Telecom's rates do not need to be adjusted.

Under this proposal, Ms. Anderson projects the annual USF disbursements would decrease by \$31,541 from \$1,698,610 to \$1,667,069 and the fund balance on June 30, 2011 would be approximately \$110,283. With this option, MTS/WATS services would contribute 50% of the total surcharge revenue and local exchange services contribution would be 50%.

Option 3: Adjust Funding to Meet Statewide Averages per Rule 106 and Increase Surcharge Rates – In this scenario, Ms. Anderson considers adjusting the USF disbursements per Rule 106 as outlined in Option 2, and increasing the surcharge rates to \$.12 per residential line, \$.19 per business line, and \$.0035 per intrastate MTS/WATS billed minute. The fund balance would be approximately \$384,318 on June 30, 2011. MTS/WATS service would contribute 49% of the surcharge revenue and local exchange services would contribute 51%.

Option 4: Maintain Funding Levels and Increase Surcharge Rates – In this discussion, Ms. Anderson looks at increasing the surcharge rates to \$.12 per residential line, \$.20 per business line, and \$.004 per intrastate MTS/WATS billed minute. MTS/WATS service would contribute 53% and local exchange services would contribute 47%. The fund would have a balance of approximately \$521,578 on June 30, 2011.

ADMINISTRATOR'S RECOMMENDATION

Ms. Anderson recommends that the Commission adopt Option 3; increasing the surcharge rates to \$.12 per residential line, \$.19 per business line and \$.0035 per intrastate MTS/WATS billed minutes. She states that surcharge rates need to be increased for the fund to meet current obligations. Further, barring significant changes to the USF disbursements, Option 3 should allow for consistency in the surcharge rates over the next few years. Option 3 is also compliant with the continuation of eligibility Rule 106. Ms. Anderson feels it is necessary to have a fund balance that is adequate to cover approximately three months of disbursements. With this option, the fund balance on June 30, 2011 would be approximately \$384,318 and will allow the fund to meet all obligations as well as provide a reserve balance.

STAFF ANALYSIS AND RECOMMENDATION

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 to \$78,742, a figure that is approximately half the amount needed for a one-month disbursement to the eight USF recipients. Ms. Anderson,

therefore, recommends that the surcharge rates should increase and switched access rates should be adjusted to comply with Rule 106 as outlined in Option 3.

Staff supports the Administrator's recommendation to increase surcharge rates as recommended in Option 3. Staff, however, does not agree that the slight adjustment to the switched access rates for ATC, Inland, and Midvale are warranted at this time. Staff believes the impact of an increase or decrease in access rates is uncertain over a 12-month period. The fluctuation in the number of lines and intrastate MTS/WATS minutes are unpredictable 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 threshold of 100% statewide weighted average rate.

No other significant changes are anticipated in the coming year that may substantially impact the USF fund. Staff, therefore, recommends adopting the surcharge rate increases outlined in Option 3, but does not recommend adjusting the access rates. This option would result in a reasonable reserve balance of approximately \$352,777¹ on June 30, 2010.

COMMISSION DECISION

Does the Commission wish to approve the USF 2010-2011 budget?

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

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

Does the Commission wish to approve Staff's recommendation to increase the surcharge rates as outlined in Option 3, but maintain the current switched access rates?

Does the Commission wish to adopt a different funding option?



Grace Seaman

¹ \$384,318 - \$31,541 (ATC, Inland and Midvale adjustments)