

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)
REVISION OF THE UNIVERSAL SERVICE) **CASE NO. GNR-T-11-04**
FUND SURCHARGES TO BECOME)
EFFECTIVE OCTOBER 1, 2010.) **ORDER NO. 32336**
_____)

BACKGROUND

At the direction of *Idaho Code* § 62-610, the Commission established a universal service fund (USF) for the purpose of maintaining the universal availability of local telephone 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. Eight incumbent local telephone companies serving small communities qualify for and receive monthly disbursements from the USF. Each year the USF Administrator files an Annual Report with the Commission detailing the program activities for the previous year and recommending surcharge rates to meet the next year's funding requirements. On or before September 1 of each year the Commission issues an Order to establish statewide end-user surcharges to be in effect for the 12 months beginning October 1 following issuance of the Order.

THE 2011 ANNUAL REPORT

On July 15, 2011, the Administrator of the Idaho USF filed an Annual Report to the Commission for the period of July 1, 2010 through June 30, 2011, including a proposed budget for 2011-2012 fiscal year. Staff reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report.

The current USF monthly surcharge rates are \$.12 per residential line, \$.19 per business line, and \$.0035 per intrastate MTS/WTS billed minute, established last year in Order No. 32058. Surcharge revenue for the past year totaled \$1,715,397. Fees on local exchange services contributed \$945,111 (55%), and \$770,286 (45%) was contributed by MTS/WATS services. This is an increase in local exchange surcharge revenue of approximately \$12,550 (from \$932,556 in 2010), and a decrease in MTS/WATS surcharge revenue of approximately \$31,000 (from \$801,542 in 2010).

As of May 1, 2011, telephone companies reported an inventory of 292,282 residential lines and 221,764 business lines, for a total of 514,046 lines. This is a net decrease in lines of approximately 34,300 (6%) with residential lines decreasing by nearly 11% and business lines increasing by almost 1%. Long-distance service providers reported intrastate MTS/WATS total billed minutes of 253,602,445 compared to the 2010 reported minutes of 284,863,207, an 11% decrease. Total USF revenues increased, despite a decline in residential lines and MTS/WATS billed minutes, because the surcharge rates increased last October.

The annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) totaled \$1,698,610 for the year ending June 30, 2011. The year-end USF cash balance, after bank charges, administrative expenses and interest received, was \$104,764. For the next fiscal year, beginning July 1, 2011, the annual disbursements to the qualifying ILECs are expected to remain at \$1,698,610, unless the Commission approves changes to the USF funding.

The Administrator proposed an administrative budget of \$24,100 for the next fiscal year, including the Administrator's salary and other expenses, such as office supplies and bank and brokerage fees, as well as an audit.

The Administrator is required to review the residential, business, and access rates of the recipient ILEC companies. IDAPA 31.46.01.106. To be eligible to receive USF funding pursuant to Rule 106, a telephone company's average one-party, single-line rate must equal or exceed the 125% statewide weighted average line rate and its 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. 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* IDAPA 31.46.01.106.04.

In the current annual report, the Administrator presented four options for administration of the USF for the next year. One option is to make no changes to the USF surcharges or to the service rates of the eight recipient companies. The option recommended by the Administrator is to leave the current surcharges in place, but to require adjustments to the

residential service rates and switched access rates for some companies. The adjusted service rates would result in modest decreases in the amount of USF funds received by those companies. Staff recommended the Commission make no adjustments to the USF surcharges or to the service rates of the eight companies that receive USF funds.

COMMISSION FINDINGS

After reviewing the Administrator's report and recommendations, as well as Staff's recommendation, the Commission finds that it is not necessary to increase the USF surcharges to ensure adequate resources are available to meet current funding requirements, and to allow for a reasonable reserve in the USF account. The Commission last October increased the monthly USF surcharge rates to \$.12 per residential line, \$.19 per business line, and the intrastate MTS/WATS surcharge to \$.0035 per billed minute.

The Commission finds that the slight adjustments to the switched access rates and service rates for some of the companies, as recommended by the Administrator, are not necessary. The impact of an increase or decrease in access rates is uncertain over a 12-month period, as demonstrated by the sharp increase in MTS/WATS surcharge revenues during the past year. The fluctuation in the number of lines and intrastate MTS/WATS minutes is unpredictable, and it is not possible to know whether wide fluctuations are caused by changes in consumer calling patterns or by 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.

Although the past few years have seen gradual decreases in the numbers of local residential and business lines, the Administrator anticipated no significant changes in the coming year that will substantially impact the USF fund. Without increases to the monthly USF surcharge rates, the Administrator estimates the USF account will have a year-end balance of \$84,365. Although this is a modest reserve compared to previous years, it should be adequate to ensure reliability of the account. In addition, the current surcharges have been in place less than one year. Because the rates changed after the start of the last fiscal year, this fiscal year (July 2, 2011 thru June 30, 2012) will be the first with the higher rates in effect during the entire year.

ORDER

IT IS HEREBY ORDERED that the monthly USF surcharge rates of \$.12 per residential line, \$.19 per business line, and \$.0035 per MTS/WATS minute, will remain in effect for 12 months beginning October 1, 2011.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th day of August 2011.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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