

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL	)	
REVISION OF THE UNIVERSAL SERVICE	)	CASE NO. GNR-T-13-04
FUND SURCHARGES TO BECOME	)	
EFFECTIVE OCTOBER 1, 2013.	)	ORDER NO. 32883
	)	

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### 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 Section 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.” *Idaho Code* § 62-610(1). The USF is funded through a statewide end-user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) services. The USF Administrator submits an Annual Report to the Commission detailing the program activities of the previous year and recommending surcharge rates to meet the next year’s funding requirements. The Commission issues an Order in response to the Administrator’s report establishing statewide end-user surcharges to be in effect for the next 12 months beginning October 1.

### THE 2013 ANNUAL REPORT

On July 15, 2013, the Administrator of the Idaho USF filed her Annual Report to the Commission for the period of July 1, 2012 through June 30, 2013, including a proposed USF 2013-2014 Administration Budget. The Commission raised the USF monthly surcharges last year to their current rates of \$.15 per residential line, \$.23 per business line, and \$.004 per intrastate MTS/WTS billed minute. See Order No. 32637. Surcharge revenue for the year totaled \$1,683,231. Local exchange services contributed \$1,018,269 (60%), and \$664,962 (40%) was contributed by MTS/WATS services. These amounts reflect an increase in local exchange surcharge revenue of approximately \$103,919 (from \$914,350 in 2012), and a decrease in MTS/WATS surcharge revenue of approximately \$74,854 (from \$739,816 in 2012). Administrative expenses for the year totaled \$16,229, including Administrator’s salary, expenses, bank and brokerage fees.

Currently eight qualifying incumbent local exchange carriers (ILECs) receive annual payments from the USF, and those payments remained unchanged at \$1,698,610. The ending cash balance, after applying bank charges, administrative expenses and interest received, was \$6,746. For the next fiscal year, beginning July 1, 2013, annual disbursements are expected to remain at \$1,698,610.

Because the USF surcharge attaches to the residential and business lines, and long-distance service minutes, of wireline companies, the Administrator annually obtains reports from those companies. As of May 1, 2013, companies reported a monthly inventory of 229,336 residential lines and 230,860 business lines, for a total of 460,196 lines. This is a net decrease in lines of approximately 12,373 (3%) with residential lines decreasing by nearly 9.5% and business lines increasing by almost 5%. The newly calculated statewide weighted average rates for a one-party, single-line residential and business service and the corresponding threshold average rates are:

	<b>2012 Statewide Weighted Average Rate</b>	<b>2013 Statewide Weighted Average Rate</b>	<b>125% Statewide Weighted Average Rate - 2012</b>	<b>125% Statewide Weighted Average Rate - 2013</b>
<b>Residential Services</b>	\$21.66	\$21.73	\$27.97	\$27.16
<b>Business Services</b>	\$33.37	\$33.79	\$41.71	\$42.23

Long-distance service providers reported intrastate MTS/WATS billed minutes of 197,465,217 compared to the 2012 reported minutes of 257,750,454, a 23% decrease. The statewide average switched access rate was \$0.047.

The Administrator also reviews the residential, business, and switched access rates of the recipient ILEC companies to determine eligibility to receive USF funding. A telephone company's average one-party, single-line rate must equal or exceed 125% of the 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. IDAPA 31.41.01.106. 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 may by Order change a telephone company's USF funding in connection with the recalculation of the statewide average rates.

The Administrator recommended maintaining the USF funding levels and increasing the surcharge rates to \$.16 per residential line, \$.29 per business line, and \$.006 per intrastate MTS/WATS billed minute. At these rates, the Administrator projects USF fund increases of approximately \$435,100, resulting in an end-of-year balance on June 30, 2014 of approximately \$473,400. MTS/WATS service would contribute 50% of the surcharge revenue and local exchange services would contribute 50%. Staff supports the Administrator's recommendation that the Commission maintain the company disbursements at the current level, and increase the surcharge rates as recommended. This will approximate a 50-50 contribution of surcharge revenues from local exchange services and MTS/WATS services. The estimated fund balance at June 30, 2014 would provide a healthy three-month reserve.

#### **COMMISSION DECISION**

Both local access lines and intrastate MTS/WATs billed minutes have steadily declined during the last several years. As a result, it is difficult to accurately estimate the fund balance for the next fiscal year. The Administrator reported that it is likely the popularity of wireless and VoIP services will continue to reduce the number of local exchange lines and long-distance minutes, thereby decreasing USF revenues. At the same time the number of wireline residential and business lines have declined, the statewide average residential rates have steadily increased for more than ten years. The Commission noted last year that determining the true statewide average rate has become more difficult because the large, deregulated wireline companies – those with the greatest market share and therefore the greatest impact on statewide average rates – have increased their stand-alone residential rates to encourage customers to purchase bundled services that include local residential service. Order No. 32637, p. 3. This shift from stand-alone residential local exchange service to bundled packages affects the statewide average rate calculations and the application of Rule 106 to the companies that receive USF funds.

Further complicating application of Rule 106 to USF surcharges are recent FCC Orders that directly impact switched access rates in Idaho, limiting the Commission's ability to change USF recipient company access rates when Rule 106 would require it. If Rule 106 were strictly enforced, last year six of the eight USF companies would have had to increase their

residential local exchange rates from \$25.76 to \$27.07, while their USF funding would decline. Rather than this result, Staff recommended the Commission use 2005 rates to determine statewide average rates and USF eligibility. *Idaho Code* § 62-605(5)(e) provides that residence and business rates in effect on July 1, 2005 may be used “[f]or the purpose of calculating the weighted statewide average rates for residence and business basic local exchange service rates to enable the commission to determine eligibility for distributions to eligible telecommunications carriers.” The Commission found it appropriate to use the 2005 rates as Section 62-605 allows. Order No. 32637, p. 4. The Commission approved the Administrator’s recommendation that the USF funding levels be maintained, and that the USF surcharge rates be increased to \$.15 per residential line, \$.23 per business line and \$.004 per intrastate MTS/WATS billed minute. With those rates in place, the Administrator projected a reserve balance of approximately \$414,589 at June 20, 2013, and instead the USF balance at year-end was \$6,746.

The current Administrator’s report presents the Commission with the same situation. Traditional landline use again declined along with MTS minutes, reducing USF revenues, while statewide average rates for basic local service increased. The USF mechanism, if enforced each year without the option in Section 62-605 to use 2005 local service rates to establish the statewide averages, would result in ever increasing local rates for the USF recipient company customers as their USF support steadily declines. Even the relief in Section 62-605 does not alter the annual erosion in USF revenues, necessitating increases in USF surcharges to maintain existing funding levels. As they did last year, the Administrator and Staff recommend increasing the USF surcharges while maintaining the current USF disbursements. The Commission has few options under the existing USF protocol, and only the Legislature can address this situation.

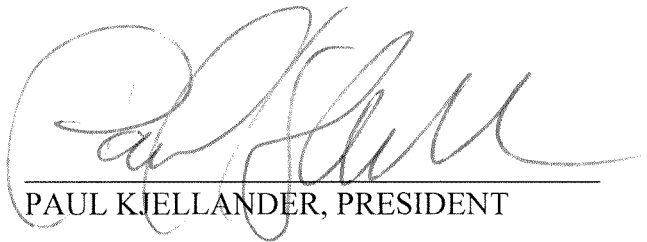
On the record in this case, the Commission finds it just and reasonable to approve the Administrator’s report and recommendation to increase the USF monthly surcharge rates to \$.16 per residential line, \$.25 per business line, and \$.006 per MTS/WATS minute, effective for 12 months beginning October 1, 2013. With these rates, the Administrator projects an adequate reserve in the USF fund at year-end June 30, 2014.

## ORDER

IT IS HEREBY ORDERED that the monthly USF surcharge rates are increased to \$.16 per residential line, \$.25 per business line, and \$.006 per MTS/WATS minute, effective for 12 months beginning October 1, 2013.

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 29<sup>th</sup> day of August 2013.



PAUL KJELLANDER, PRESIDENT

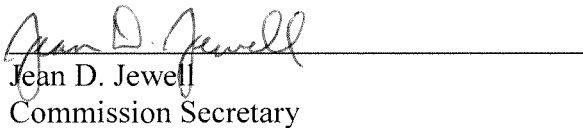


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell  
Commission Secretary

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