

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)	
REVISION OF THE UNIVERSAL SERVICE)	CASE NO. GNR-T-14-06
FUND SURCHARGES TO BECOME)	
EFFECTIVE OCTOBER 1, 2014.)	ORDER NO. 33120
)	

The Idaho Telecommunications Act of 1988 created a Universal Service Fund (USF) to maintain “the universal availability of local exchange service at reasonable rates and to promote the availability of message telecommunication service (MTS) at reasonably comparable prices throughout the state of Idaho.” *Idaho Code* § 62-610(1). The USF is funded by end-user surcharges on local exchange service, message telecommunication service (MTS), and wide area telecommunications service (WATS). IDAPA 31.46.01.103-104. Each year, the Commission establishes the monthly surcharges levied upon local exchange service and intrastate MTS/WATS (long-distance) service. *Idaho Code* § 62-610(2). The surcharges are in effect for the 12-month period starting October 1. IDAPA 31.46.01.104. In this Order, the Commission continues the existing monthly USF surcharges for another year.

BACKGROUND

The Commission annually distributes USF funds to qualifying high-cost local exchange telephone companies to supplement their annual revenue requirements. The Idaho Telecommunications Act restricts USF support to those local telephone companies that have monthly rates for single-party, residential and business services that exceed 125% of the weighted statewide average rates for such services. *Idaho Code* § 62-610(3).

The USF Administrator submits an Annual Report to the Commission. In the report, the Administrator reviews the fund balance and recommends changes, if any, to the surcharge rates in order to maintain adequate funding levels. After reviewing the report, the Commission issues an Order prescribing USF surcharge rates for the next 12 months beginning October 1. IDAPA 31.46.01.104-106. As set in the Commission’s 2013 Order, current monthly rates are \$.16 per residential line, \$.25 per business line, and \$.006 per intrastate long-distance billed minute. *See* Order No. 32883. These rates were increased from those set in 2012. *Id.*

THE 2014 REPORT

In July 2014, the USF Administrator filed the Annual Report for the USF fiscal year from July 1, 2013 through June 30, 2014. The Administrator reported that USF surcharge revenue for the past year totaled \$1,946,672 – an increase from 2013. The surcharge revenue from local exchange services increased by about \$64,000, and the long-distance surcharge revenue increased by about \$199,400. Fifty-six percent (56%) of the total USF revenue was from local exchange services surcharges, and 44% was from long-distance surcharges.

Annual disbursements to the eight qualifying telephone companies – unchanged from 2013 – totaled \$1,698,610. The fund's annual cash balance after applying bank charges and administrative expenses was \$239,485. The Administrator estimated that if current surcharge levels are maintained, the fund will increase by approximately \$257,560 to about \$497,099 on June 30, 2015.

The Administrator presented four options to the Commission for possible adjustments to the USF surcharges: (1) maintain the current surcharge rates and distribution levels; (2) maintain surcharge rates and adjust disbursement levels applying USF Rule 106.02 (IDAPA 31.46.01.106.02); (3) decrease local surcharge rates, maintain long-distance rates, and maintain disbursement levels; and (4) decrease local surcharge rates, maintain long-distance rates, and adjust disbursement levels to the eligible companies. The Administrator noted that “with the increased popularity of wireless/cellular services and VoIP services, . . . decline in both local access lines and intrastate [billed] minutes” is likely to continue, affecting calculation of statewide average rates per Rule 106. Despite these trends, implementation of Option 1 – maintaining the status quo as to surcharge rates and distribution levels – would still leave a reserve balance greater than the previous year.¹ The Administrator recommended that the Commission approve Option 1 which would result in an estimated USF balance of \$497,099 by June 30, 2015.

DISCUSSION

Over the last several years, local access lines and intrastate long-distance billed minutes have steadily declined. More specifically, the Administrator reported that the number of residential lines decreased by about 5%, the number of billed long-distance minutes decreased by

¹ This is due, at least in part, to the October 1 effective date; although rates were increased in 2013, the old lower rate still applied for three months of the fiscal year – from July 1 to October 1, 2013.

about 13%, while the number of business lines increased by 2%. At the same time, the statewide average residential and business rates have steadily increased. This makes it difficult to predict the USF fund balance for the next fiscal year, and also difficult to determine appropriate rates in order for qualifying telephone companies to maintain USF eligibility per Rule 106.

To receive USF funding, a telephone company providing local exchange services and access services to long-distance providers must qualify under Rule 106. IDAPA 31.46.01.106. To qualify under Rule 106, a telephone company's average rates for one-party, residential and business services, and per minute for long-distance access services must meet or exceed the weighted statewide averages – or threshold rate – as calculated by the USF Administrator. *See* IDAPA 31.46.01.106.01, 31.46.01.302. The Commission may revise a qualifying telephone company's rate in order for the company to maintain USF eligibility, based on the company's average rate or annual revenue as compared to the threshold rate or threshold rate's associated annual revenue. *See* IDAPA 31.46.01.106.02.

As we have noted in prior years, the true statewide average rate is difficult to determine because the large deregulated companies – with the greatest market share and greatest impact on the threshold rate – have increased their stand-alone residential rates to encourage purchase of bundled services that include local residential service. *See* Order Nos. 32883 at 3; 32637 at 3. This shift to bundled services is not reflected in the USF Annual Report or the threshold rate calculations because companies are only required to report stand-alone residential rates. Also, in 2011, the Federal Communications Commission (FCC) issued an order capping inter-carrier compensation rates, causing a decline in statewide average switched access rates, further impacting USF eligibility. *In the Matter of Connect America Fund*, 26 F.C.C.R. 17663 (2011); *see* Order Nos. 32637 at 4; 32883 at 3-4.

Based upon our review of the 2014 Annual Report and the recommendations of Staff and the fund Administrator, the Commission finds that the USF surcharges should continue at the current rates, as established in Order No. 32883. Given the various complicating factors discussed herein, the Commission agrees with Staff and the Administrator that it is increasingly difficult to precisely determine USF funding levels applying Rule 106, as proposed in Options 2 and 4. The Commission approves the Administrator's recommendation that the USF disbursements levels and surcharge rates be maintained, as proposed in Option 1. The

Commission finds that this option, which is estimated to yield a reserve balance of about \$497,000, is most prudent for maintaining an adequate USF funding level.

ORDER

IT IS HEREBY ORDERED that the monthly USF surcharge rates shall remain at \$.16 per residential line, \$.25 per business line, and \$.006 per MTS/WATS minute, effective for 12 months beginning October 1, 2014.

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 and 62-619.*

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 9th day of September 2014.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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