

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL	)	
REVISION OF THE UNIVERSAL SERVICE	)	CASE NO. GNR-T-15-07
FUND SURCHARGES TO BECOME	)	
EFFECTIVE OCTOBER 1, 2015.	)	ORDER NO. 33378
	)	

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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. Telecom Rule 104, IDAPA 31.46.01.104. As set out in greater detail below, the Commission reduces the USF surcharges effective October 1, 2015.

### 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); Telecom Rule 106, IDAPA 31.46.01.106.

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 2014 Order, current monthly USF rates are \$0.16 per residential line, \$0.25 per business line, and \$0.006 per intrastate long-distance billed minute. *See* Order No. 33120.

## THE 2015 REPORT

### *A. The 2015 Data and 2016 Proposed Budget*

On July 15, 2015, the USF Administrator filed the Annual Report for the USF fiscal year from July 1, 2014 through June 30, 2015. The Administrator reported that USF surcharge revenue for the past year totaled \$2,046,064 – an increase of about \$100,000 from 2014. The surcharge revenue from local exchange services during the reporting year totaled \$1,081,691 (about the same as 2014), and the long-distance surcharge revenue increased to \$964,373. Fifty-three percent (53%) of the total USF revenue was from local exchange services surcharges, and 47% was from long-distance surcharges.

Annual disbursements to the eight qualifying telephone companies – unchanged from 2014 – totaled \$1,698,610. The fund's annual year-end cash balance after applying bank charges and administrative expenses was \$567,282. The Administrator estimated that if current surcharge levels are maintained, the fund will increase by approximately \$174,641 to about \$741,923 on June 30, 2016.

The Administrator's expenses for the 2015 year were \$19,657. The Administrator proposed an annual administrative budget for next year of \$16,200. This amount includes the Administrator's salary and other expenses.

Based upon data submitted to the Administrator, she reported that as of May 1, 2015, Idaho's telecommunications companies reported 181,984 residential lines in service and 225,505 business lines in service, for a total of 407,489 lines. Comparing this data to the prior year, the Administrator calculated that the number of residential wire lines decreased by about 10% and business wire lines decreased by about 5%.

Long-distance service providers reported intrastate MTS/WATS billed minutes of 167,029,919, a decrease of approximately 3% from the prior year. The statewide average switched access rate was \$0.036, a slight change from last year's rate of \$0.037. Based upon the reports submitted by the wire line telephone companies and the long-distance companies, she calculated the statewide weighted average for one-party single line residential and business service and the corresponding 125% statewide weighted average as set out below:

Type of Service	2015 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate – 2015
Residential Service	\$21.79	\$27.23
Business Service	\$36.93	\$46.16

### ***B. The Four Surcharge Options***

The Administrator noted that over the last several years, both local access lines and intrastate MTS/WATS minutes have steadily declined. This continued decline, she asserted, makes it difficult to calculate the funding requirements necessary to maintain adequate fund balances throughout the fiscal year. Consequently, the Administrator proposed four surcharge options for the Commission's review, all reflecting the decline in current line inventories and minutes of use by the average percentage decline over the last five years.

Option 1 – Maintain Current USF Rates: If current surcharge levels are maintained and no additional USF funding is authorized, the Administrator calculated that the USF revenues will increase by approximately \$174,641. Assuming the same disbursements as last year (\$1,698,610), the year-end fund balance would grow to \$741,923. Surcharge revenues would be approximately 52% from MTS/WATS services and 48% from local exchange services.

Option 2 – Adjust Funding Disbursement to the USF Recipients and Maintain the Current Surcharges: If current USF charges were maintained and disbursements to the eight USF recipients were adjusted to meet the 125% statewide averages, six of the recipients would receive reduced disbursements while the remaining two would receive an increase in disbursements. Under Option 2, the Administrator projected that annual USF disbursements would be approximately \$1,562,958, while the year-end fund would increase to approximately \$877,575. Under this option, MTS/WATS services would contribute 48% of the total surcharge revenue and the local exchange services would contribute approximately 52%.

Option 3 – Maintain Funding Levels and Decrease Surcharge Rates: Under this option, USF disbursement amounts would remain the same, but the USF surcharge rates would be decreased to \$0.12 per residential line, \$0.20 per business line, and \$0.005 per intrastate MTS/WATS billed minute. Overall USF funding would decrease by approximately \$188,700 and the year-end balance would be approximately \$378,549. Revenues raised from MTS/WATS services and local exchange services would be roughly equal.

Option 4 – Adjust Funding to Meet Statewide Averages and Decrease Surcharge Rates: Under this option, the Administrator decreased the amount of USF disbursements and also proposed to decrease the surcharge rates to \$0.08 per residential line, \$0.14 per business line, and maintain the rate of \$0.004 per intrastate MTS/WATS billed minutes. Under this option, funding would decrease by approximately \$443,515 and the year-end balance would be approximately

\$123,767. MTS/WATS services would contribute 49% and local exchange services would contribute 51%.

Given the anticipated decline in the number of local access lines and long-distance minutes, the Administrator and Commission Staff recommended that the Commission adopt Option 3 – maintain USF disbursements at the current level and decrease the surcharge rates. Again, the Administrator calculated that the year-end balance on June 30, 2016 under Option 3 would be approximately \$378,549. The Administrator opined that Option 3 would allow the USF fund to meet all of its obligations as well as provide an appropriate reserve balance.

### **DISCUSSION**

Over the last several years, local access lines and intrastate long-distance billed minutes have generally declined. The Administrator again reported that the number of residential lines is projected to decrease by about 11%, the number of billed long-distance minutes decrease by about 10%, while the number of business lines remain unchanged. At the same time, the statewide average residential and business rates have steadily increased. This makes it difficult to predict the necessary 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 Telecom Rule 106.

To receive USF funding, a telephone company providing local exchange services and access services to long-distance providers must qualify under Telecom 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 rates 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 2015 Annual Report and the recommendations of Staff and the fund Administrator, the Commission finds that the USF surcharges should be reduced. Given the various complicating factors discussed above, the Commission agrees with Staff and the Administrator that Option 3 represents a reasonable alternative. Consequently, the Commission approves the Administrator's recommendation that the USF disbursement levels be maintained and the surcharge rates be reduced, as proposed in Option 3. The Commission finds that this option, which is estimated to yield a reserve balance of about \$378,549, is the most prudent for maintaining an adequate USF funding level.


The Commission also accepts the Administrator's proposed 2016 administrative budget. We commend her work as Administrator.

### **ORDER**

IT IS HEREBY ORDERED that the monthly USF surcharge rates shall be reduced to \$0.12 per residential line, \$0.20 per business line, and \$0.005 per MTS/WATS minute, effective for 12 months beginning October 1, 2015. The Commission also accepts the Administrator's proposed 2016 budget.

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.

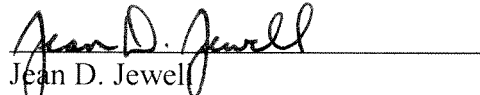
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 16<sup>th</sup>  
day of September 2015.

  
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PAUL KJELLANDER, PRESIDENT

  
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MARSHA H. SMITH, COMMISSIONER

  
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KRISTINE RAPER, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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