DECISION MEMORANDUM

TO:COMMISSIONER NELSON

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WORKING FILE

FROM:BIRDELLE BROWN

DATE:AUGUST 22, 1995

RE:IDAHO UNIVERSAL SERVICE FUND - 1995 ANNUAL REPORT - CASE NO. U-1500-174.

The Idaho Universal Service Fund (IUSF) administrator, Alyson Anderson,  filed her annual report on July 15, 1994.  Staff has reviewed the information and believes it to be an accurate accounting of the information and funds filed by the telephone companies.   Alyson has continued her diligent efforts to ensure the compliance of the telephone industry in Idaho and to secure timely and accurate reports.

There are now 23 Title 61 companies and 19 toll carriers contributing to the fund; 102 Title 62 carriers have been granted exemptions from IUSF reporting requirements because their toll is being carried by one of the reporting carriers.  Four companies have not filed annual reports with the IUSF and are not current with the reporting requirements.  The Administrator and the Commission’s Legal Staff are seeking compliance from these companies.  Additionally Citizens continues to work with GTE to ascertain the correct minutes and surcharge to report and pay for its serving area.

REVENUES AND EXPENSES

Surcharge revenues totaled $714,990 in the 1994-95 year, compared to $744,452 last year.  Assessments on local access lines were $247,222, compared to 249,150 last year, even though the number of residential lines increased 4.5% and the number of business lines increased 10.4%.  Staff and the Administrator are working to understand this decrease.  The assessment on MTS/WATS services was $467,770, down from the $495,303 reported last year as the volume of MTS/WATS billed minutes of use decreased 5.2%.  Interest revenue totaled $101,409

Disbursements to participating local exchange companies increased from $1,384,225 in the 1993-94 year to $1,562,472 this year, reflecting the first full year since the access charge qualifying threshold was reduced from 125% of statewide average to 100%.  Other disbursements include administrative fees of $14,266 and miscellaneous bank charges of $166.44.

Total equity in the IUSF as of June 30, 1995 is $977,618, which includes a cash balance of $48,678 and $922,437 in investments and accrued income and expenses.  This represents a drawdown of $780,039 from last year’s ending balance of $1,757,657.

STATEWIDE AVERAGES

Statewide average local residential rates are $11.89 and average local business rates are $28.76, with 125% of the rates being $14.86 and $35.95 respectively.  Local rates are up from last year, primarily due to increases resulting from GTE’s Local Calling Plan.  Statewide average access rates have decreased to $.06439 per minute.

TRUE UP

Following the Idaho Legislature’s reduction of some threshold requirements for companies applying for receipt of universal service funds, IDAPA 31.46.01. Rule 106 was revised in April 1995 to require:

02.  Continuation of Eligibility.  In order to continue receiving USF funding after the first year of eligibility, each telephone company must reviseits rates to meet the thresholds for funding eligibility (threshold rate) based on the newly calculated statewide average rates as calculated annually by the Administrator pursuant to Rule 302.  The average rate for one-party single-line residence and business service and for MTS/WATS access service shall be calculated individually and compared to the threshold rate based on the newly calculated statewide average and shall be revised to equal the threshold rate if:

a.  the difference in the company’s current average rate and the statewide average threshold rate is greater than three percent (3%), and;

b.  the difference in the annual revenue associated with the company’s current rate and the revenue associated with the statewide average threshold rate is over six thousand dollars ($6,000).

(emphasis mine.)

The Commission recognized that the 1993 regulation changes would have a spiraling effect and provided for an annual review and true up of these rates for participating telephone companies.  Staff’s analysis of the 1995 IUSF report pertaining to the needs for rate changes of participating telephone companies is contained in the attachment to this report.  Staff recommends that participants of the IUSF reduce their carrier access rates to statewide average and receive offsetting increases from the IUSF of $199,263.  Staff further recommends that Cambridge increase its billed local residential rates to equal 125% of the statewide average residential rates, for a net IUSF revenue effect of ($27,184) and that all participating companies begin to increase local business rates to eventually equal their tariffed rates.  The net effect of a small increase to local business rates will be a slight reduction to the IUSF revenue requirement.  The business and residential tariffed rates for all companies fall within the 3% or $6,000 of statewide averages.

FUNDING REQUIREMENTS

The IUSF Administrator has proposed four options for maintaining the IUSF.

Option 1, to maintain the status quo, would draw down the fund by $778,487, leaving a fund balance of $141,513.  This option does not allow for the required rate changes discussed above and does not leave sufficient funds in the account to cover the increased revenue required by the IUSF.

Options 2 and 3 increase rates from both local and carrier access contributions and provide sufficient balances to cover the required additional funding needs created by the rate changes discussed above.  Option 2 doubles all surcharges and results in a positive cash flow of $85,857, bringing the fund balance up to $1,005,857.  Option 3 doubles the surcharge on local access lines but does not change the surcharge amount for carrier access.  This results in a drawdown of $638,136, leaving a fund balance of $281,864.  This is the approximate equivalent of two months of disbursements.  (Note:  Neither of these options rely on revenue reductions resulting from increasing local rates.  The effect of local rate increases will be nominal.)

Option 4 assumes that all eligible companies would seek to recover their revenue shortfalls through the IUSF.  This would result in a fund decrease in excess of $10,000,000 and would require significant increases in contribution.  However, there has been no indication that those companies not participating in the IUSF today will desire to engage in the regulatory process to receive funding, and if they do, it is extremely unlikely that most or all of them could accomplish it within the next fund year.

Staff recommends as a fifth option a compromise of Options 2 and 3 which  increases all surcharges by 50%.  This would result in $1,130,879 in revenues and draw down the fund balance by $600,791, leaving a balance of $321,209.  Another increase would be needed next year.

COMMISSION DECISION

Should participating IUSF companies be required to reduce their carrier access rates to statewide average by October 1, increasing the need for IUSF funding by $199,263?

Should Cambridge Telephone Company be required to increase its billed local residential rates to equal the new threshold rates by October 1, for a net IUSF revenue effect of ($27,184)?

Should all participating companies begin by October 1 to increase their local business rates to eventually equal their tariffed rates?  By how much?

Which funding option does the Commission choose for the 1995-96 year?

Birdelle Brown

attachments

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Attachment 1 to the IUSF Report

An Analysis of Rates of Companies Participating in the IUSF

The attached table summarizes each company’s rates and projected IUSF funding requirements to meet the residual revenue requirements.

In view of the reduction in statewide average carrier access rates, it seems apparent that all participating companies must reduce their carrier access rates to equal the statewide average if they are to continue to qualify for IUSF disbursements.  The total annual effect of these reductions would be reduced revenues to the companies of $199,263 and a need for the same amount of additional IUSF funds to compensate for this decreased revenue.  Staff recommends that these rate changes be implemented by October 1 as required by IDAPA 31.46.01 Rule 104.

The table presents two scenarios to address local business and residential rates.  Scenario 1 presents the average billed rates for local services.  Scenario 2 presents tariffed rates.  The  difference between billed and tariffed rates is discussed below.

When the participating companies applied for IUSF assistance to meet their revenue requirements while keeping their customers’ rates at reasonable levels, they encountered something of a dilemma—particularly when setting their business rates.  In order to qualify for IUSF funding, they were required to raise their rates to 125% of statewide average, which for businesses was between $33 and $35, depending on when they made their applications.  These rates represented large increases in their rates where often the size of the business community did not warrant these higher rates.  The Commission decided to set tariffed rates at an average of 125% of statewide average and allow a portion of these rates to be subsidized with federal USF funds, enabling the companies to bill rates that were more reasonable.  The result is differing tariffed and billed rates for all IUSF companies and for Cambridge and Rockland residential rates.  Rates for these companies have not changed since the companies became participants in this fund.

Statewide business rate averages have increased to $35.95 and participating company tariffed rates (Scenario 2) are now between $.89 and $2.70 lower than the statewide average and thus still technically in compliance with continued eligibility rules.   However, their billed rates for businesses are $15.95 to $10.38 below statewide average.  Rockland, one of the two companies that use different billed and tariffed residential rates is just $.09 below statewide average.  Cambridge’s billed residential rates are an average of $2.70 below the statewide average.  In Scenario 2, no companies would be required to revise their local rates to comply with the USF continued eligibility rules.  However, if the eligibility rules were to be applied to billed rates (Scenario 1), which are the rates reported to the IUSF Administrator, Cambridge would be required to increase its residential rates an average of $2.70 per month and all participating companies except Inland would be required to raise their business rates between 40% and 80%.