(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE ANNUAL REVISION OF UNIVERSAL SERVICE FUND SUR­CHARGES TO BECOME EFFECTIVE OCTOBER 1, 1996. | ))))) | CASE NO. GNR-T-96-10ORDER NO.  26598 |

The Idaho Telecommunications Act of 1988 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 telecommunication service (MTS) at reasonably comparable prices throughout the state of Idaho.”  Idaho Code § 62-610(1).  The Idaho Act provides that USF surcharges be levied upon local exchange service and intrastate MTS (long distance) and wide area telecommunication services (WATS) to establish the fund, which is then distributed to qualifying high-cost local exchange telephone companies.  Fund distributions to eligible companies reduce those companies’ revenue requirements that must be obtained from rates and charges to the companies’ customers, i.e., the distributions offset a certain amount of revenues that necessarily would come from customers in the absence of the fund.  See Idaho Code § 62-610(2)-(4).

In July of each year the Administrator of the USF files a report with the Commission reviewing the fund’s balance and recommending changes funding levels if necessary.  Following its review, the Commission issues an Order prescribing USF surcharges for the next 12 months beginning October 1.  On July 15, 1996, the Commission received the annual USF report for the period from July 1, 1995 through June 30, 1996.  Based upon our review of the information in the report as well as Staff’s analysis of the report, we find that the existing USF surcharges should be continued for the next year.

BACKGROUND

When the USF was initiated in 1988, it was important to build the fund up rapidly to ensure its liquidity and to provide it with resources to satisfy the likely upper limit of eligible local exchange companies’ requests for distributions from the fund.  In taking this cautious approach, the Commission anticipated future funding requests.  Some of these requests did not materialize.  After reviewing the USF Administrator’s 1990 and 1991 annual reports, the Commission found that the fund was continuing to grow each year and concluded that a gradual reduction in the size of the fund was appropriate.  Consequently, the MTS and WATS surcharges were reduced.  Subsequent annual reviews in 1992 through 1995 demonstrated that the current surcharge levels, while maintaining the fund’s integrity, were gradually reducing the fund’s net balance.  Last year the Commission determined that the fund had been sufficiently reduced and subsequently increased the surcharge rates to maintain a self-sustaining level of the fund.

THE 1996 REPORT

The USF Administrator has submitted her report for the 12 months ending June 30, 1996.  It shows:

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| BEGINNING BALANCE - July 1, 1995 RECEIPTSLocal SurchargeToll SurchargeUS Treasure Note RedeemedInterestTOTAL RECEIPTSDISBURSEMENTSBank/Brokerage ChargesCompany DisbursementsAdministrative ExpensesTOTAL DISBURSEMENTSENDING BALANCE—June 30, 1996 | 464,637648,5281,113,165 | 920,000     53,5751501,677,192     13,751 | $   58,6792,086,739$1,694,092$   454,326 |

The Administrator estimated that given projected income and disbursements for the 1997 reporting year, the ending balance for the USF would be $62,489.  The Administrator observed that the Commission’s goal of reducing the size of the USF to sustaining levels had been achieved.  The Administrator and the Staff expressed concern that continuing the depletion of the USF for another year may not provide a sufficient “cushion” if distributions from the funds are increased in the upcoming year or additional companies become eligible for USF assistance.  Consequently, they recommended that the surcharges be increased so that the fund would be self sustaining.

The current per line per month surcharges of $.06 for residence customers and $.14 for business customers were set in Order No. 26148.  The current toll surcharge for MTS and WATS is $.0015 per minute.  Staff and the Administrator recommend increasing the surcharge rates to $.08 per line per month for residential, $.16 per line per month for business, and $.002 per line per month for MTS and WATS.

DISCUSSION

The USF is funded by surcharges on residential and business lines and toll surcharges on MTS and WATS services.  We believe the target balance for the funds in upcoming years should be set at a level that can meet anticipated needs plus reasonable administrative expenses.  Determining future USF funding needs is not an exact science.  The Commission begins by projecting the future USF needs based upon the Administrator’s annual report and then examines other events that may affect the fund.  For instance, Troy Telephone has informally advised the Commission Staff that it may soon be eligible for USF funding in an amount estimated to be approximately $10,000 per month.  Additionally, the Commission has recently approved a reduction in the distribution from the USF to Rural Telephone Company to correct overpayments resulting from an erroneous report filed by Rural last year.  This adjustment included a reduction in Rural’s June 1996 disbursement of $16,588.08 (which is $2,057 per month for the eight months since October 1995 and a $102.08 shortage owed to the USF) and a continued monthly reduction of $2,057.  These Rural adjustments occurred after the Administrator’s report was prepared.

Finally, the Staff observed that the sales of U S WEST exchanges included a requirement that U S WEST make a contribution to the USF upon completion of the sales.  U S WEST must contribute $28,715 for the sale of the Nu-Acres exchange to Farmers Mutual Telephone Company (Order No. 26242) and $324,987 for the balance of the other sales (Order No. 26353).  On August 29, 1996, the FCC approved the sale of nine of U S WEST exchanges to several purchasers.  Consequently, the Staff anticipates that approximately $325,000 may soon be deposited in the USF account following completion of these sales transactions.(footnote: 1)

Our review of the Administrator’s 1996 Annual Report and the Staff’s observations lead us to conclude that the current surcharge levels should be continued.

Although the Administrator and the Staff recommended an increase in the surcharges and thereby the size of the fund, we decline to adopt their recommendations.  We find that the projected receipts and the additional contributions from U S WEST will be sufficient to sustain the fund.  In the event that the fund drops to a level which the Administrator believes jeopardizes the fund’s integrity, she should immediately inform the Commission so that we may review the matter.

Pursuant to IDAPA 31.46.01.105, local exchange companies and MTS/WATS companies are authorized to continue the existing surcharges as of October 1, 1996.  These revised surcharges are expected to generate revenue of approximately $1,340,264 for the 1996-97 year (excluding the U S WEST sales contributions totalling $353,702).  The funding target is comprised of contributions from local exchange surcharges of $575,385 and from MTS/WATS surcharges of $764,879.  We find these amounts to be fair, just and reasonable.

O R D E R

IT IS THEREFORE ORDERED that the existing Universal Service Fund local exchange service surcharges shall be continued at $.06 per month for each residential line and at $.14 per month for each business line.  Local exchange companies shall remit these surcharges effective October 1, 1996.

IT IS FURTHER ORDERED that the existing Universal Service Fund MTS/WATS surcharge shall be continued at  $.0015 per access minute.  MTS/WATS companies shall remit the surcharge revenue effective October 1, 1996.

IT IS FURTHER ORDERED that the USF Administrator immediately advise the Commission when, in her judgment, shortages in the fund may occur.

IT IS FURTHER ORDERED that at such time as U S WEST and the exchange purchasers complete the sales transactions, U S WEST shall forward to the USF Administrator those portions of the total USF contribution attributable to the completed transactions.

IT IS FURTHER ORDERED that the USF Administrator reduce Rural Telephone Company’s monthly disbursement by $2,057 per month.

THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. GNR-T-96-10 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 or in interlocutory Orders previously issued in this Case No. GNR-T-96-10.  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                  day of September 1996.

                                                             RALPH NELSON, PRESIDENT

See Commissioner Smith’s separate dissent.                  MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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DISSENTING OPINION

CASE NO.  GNR-T-96-10

I respectfully dissent from the majority decision to continue the USF surcharges at their current levels.  As the Order notes, the yearly balances in the USF have been reduced over time to include only the revenue necessary for its continued operation.  Given the information provided by the Administrator and the Staff, I believe it is reasonable and prudent at this time to increase the surcharge rates so that the fund is assured of being self-sustaining.  Regardless of the anticipated one-time contributions to the fund, I believe that it is unwise to operate the fund in a manner that results in a projected ending balance in 1997 of approximately $60,000, less than 4% of the estimated annual USF disbursements.  I believe a modest increase in the surcharges at this time would be reasonable and prudent.

Marsha H.  Smith, Commissioner

vld/O:GNR-T-96-10

**FOOTNOTES**

1:

The $325,000 amount does not include the USF contribution attributable to the Silver Star sale (approximately $28,702) because this sale has not been approved by the FCC.

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

September 9, 1996