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

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| IN THE MATTER OF THE PROPOSAL TO INCREASE IDAHO UNIVERSAL SERVICE  FUND SURCHARGE RATES. | )  )  )  )  ) | CASE NO. GNR-T-98-3  ORDER NO. 27380 |

On February 2, 1998, the Idaho Universal Service Fund Administrator notified the Commission that Universal Service Fund (USF) surcharge revenues have not met the projections made in the 1997 USF Annual Report and presented two alternatives designed to increase surcharge revenues.

On February 18, 1998, AT&T filed comments objecting to the proposed surcharge increases.  At the February 19, 1998 decision meeting, the Administrator’s recommendations were discussed and after discussion, the Commission decided to continue its consideration to its February 26, 1998,decision meeting.

On February 23, 1998, the Administrator filed additional comments examining the causes for the USF revenue shortfall, recalculating a more accurate MTS/WATS projection, and analyzing several different scenarios for meeting USF needs.  Using the Administrator’s revised assumptions for MTS/WATS traffic and the revised USF projected revenue requirements, Staff calculated various USF funding scenarios employing a series of rate assumptions.  Staff made no recommendation.

Based upon the Commission’s review of the information presented by the Administrator, other interested parties and the Staff calculations, the Commission finds that an increase to the USF surcharge to $0.12 per residential line, $0.24 per business line, and $0.0018 per MTS/WATS minute is in the public interest and is necessary to ensure the solvency of the USF.  This increase goes into  effect April 1, 1998.

BACKGROUND

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 requires USF surcharges be levied on local exchange service, intrastate MTS (long distance) and wide area telecommunication services (WATS).  These surcharges are remitted to the USF.  USF funds are then distributed to qualifying high-cost local exchange telephone companies.  Fund distributions to eligible companies reduce those companies’ revenue requirements that ordinarily would be satisfied solely from rates and charges to the companies’ customers; i.e., USF distributions offset a portion of the revenues that necessarily would be paid by customers in the absence of the USF.  See Idaho Code § 62-610(2)-(4).

When the USF was started in 1988, it was important to build the fund up rapidly to satisfy the likely upper limit of eligible local exchange companies’ requests for distributions from the USF.  In taking this cautious approach, the Commission anticipated future funding requests.  Some of these requests did not materialize.  In July each year, the USF Administrator files an Annual Report with the Commission reviewing the fund’s balance and recommending increased, decreased or unchanged funding levels.  Following its review of the report, the Commission issues an order prescribing USF surcharges for the next 12 months, beginning October 1.  See Rules 104-106 of the Commission’s USF Rules, IDAPA 31.46.01.104-106.

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.  In 1995, 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.

On September 9, 1997, after reviewing the USF Administrator’s 1997 Annual Report, the Commission found that the then existing surcharges were adequate to maintain the USF for the 1997-1998 year and did not change those surcharges.  Order No. 27126.  It left them as $0.06 per month for residential access, $0.14 per month for business access, and $0.0015 per minute for message telecommunication services (MTS) and toll transmission.  Id.

USF ADMINISTRATOR’S FEBRUARY 1998 REQUEST

According to the Administrator, existing surcharge rates do not support the current level of disbursements and the current balance may be depleted within three months.  If two large carriers report and remit the surcharge each owes as they indictated they would, the USF should be able to cover disbursements for an extra month through May 1998.

The Administrator attributed these revenue shortfalls to several factors.  In part, the shortfalls relate to flaws in the MTS/WATS traffic projections used in the 1997 Annual Report.  In part, they involve the timing for reporting and remittance of the surcharge revenue which  creates cash flow problems.  In part, they relate to the pendency of EAS decisions and hearings.  And, finally, they involve collection problems.

The Administrator based 1997-98 MTS/WATS traffic projections used in the 1997 Annual Report on reported 1996 MTS/WATS minutes.  The 1996 MTS/WATS traffic, however, is not proving to be a good approximation for actual and anticipated 1997-98 MTS/WATS traffic.  Overall intrastate 1997 MTS/WATS minutes are down 23%.  The decrease in intrastate MTS/WATS traffic is related to the convergence of several factors.

For example, overall 1997 U S WEST MTS/WATS minutes (a major component of MTS/WATS projected traffic) declined 34% from the MTS/WATS minutes reported for 1996.  In part, the Administrator associated this decline with the creation of the U S WEST EAS calling areas in Spring 1997.  Two other companies report their MTS/WATS minutes but do not remit the surcharges.  Since their MTS/WATS minutes were included in the 1996 MTS/WATS minutes used to project the 1997-98 traffic, this also inflated the projections.  In addition, one large company reported billing difficulties and has not reported or remitted since July 1997.  It is expected to remit and report in the next month helping to reduce the immediate shortfall.

There are also timing problems.  Several companies report and remit only annually.

In addition, pending anticipated EAS hearings and decisions, companies drawing from the USF were not required to increase local rates to the statewide averages.  According to the Administrator, applying the 3% and $6,000 threshold to the seven companies would have required them to increase local residential and business rates.  This would have directly reduced these companies’  draws from the USF by $183,593.

In the February 2, 1998 letter, the Administrator originally submitted two funding scenarios.  The Commission could either:

1.Increase the USF surcharge to $0.10 per residential line, $0.20 per business line, and $0.0035 per MTS/WATS minute to build a reserve of $432,515 (which approximates three months of disbursements); or

2.Increase the USF surcharge to $0.09 per residential line, $0.17 per business line, and $0.003 per MTS/WATS minute to just match revenues to disbursements.

The Administrator also advised the Commission any increase needed to become effective no later than March 1, 1998, to adjust for the lag between the companies’ USF reports and the companies’ remittance of the surcharges.

According to the Administrator’s recent memo, by annualizing the MTS/WATS minutes for the last six months of 1997, the Administrator found that the more accurate MTS/WATS projection is 379,876,284 minutes.  Using that revised projection, the Administrator estimated USF revenue needs to be approximately $1,850,000 annually.  The Administrator also stated that if the USF receives the 1997 surcharges from two carriers that owe significant sums, the Commission could make the increase effective no later than April 1, 1998.

AT&T COMMENTS

AT&T filed comments objecting to any increase to the USF surcharge.  It argued that the funding shortfalls were directly related to EAS and the failure to raise local rates by those companies affected by EAS.  It further argued that the proposed surcharge increases disproportionately affected MTS/WAT services and, finally, that revenue sharing funds were available to meet the shortfalls.  It offered no other solutions.

FINDINGS

The Commission finds that present surcharge rates do not support the current level of disbursements.  The Commission further finds the USF has a cash balance of $165,802 and at the current level of disbursements, this balance will be depleted in slightly less than three months.  Therefore, the Commission finds that an interim increase to the present surcharge rates is necessary and in the public’s interest.  After reviewing the various scenarios for funding the remainder of the plan year, the Commission finds that increasing the USF surcharge to $0.12 per residential line, $0.24 per business line, and $0.0018 per MTS/WATS minute is in the public’s interest and is necessary to ensure the continuing solvency of the USF.  These increases will generate sufficient USF revenue to meet the anticipated USF disbursements and to build a small reserve to meet unanticipated needs.

The Commission further finds that it is in the public interest that these increased surcharges become effective April 1, 1998.

O R D E R

IT IS THEREFORE ORDERED that the existing Universal Service Fund local exchange service surcharges shall be $0.12 per month for each residential line and $0.24 per month for each business line.  Local exchange companies shall remit these surcharges to the USF Administrator.

IT IS FURTHER ORDERED that the existing Universal Service Fund MTS/WATS surcharge shall be $0.0018 per access minute.  MTS/WATS companies shall remit the surcharge revenue to the Administrator.

IT IS FURTHER ORDERED that these revisions shall go into effect on April 1, 1998.

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-98-3 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-98-3.  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 February 1998.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

February 27, 1998