

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ANNUAL REVISION OF)
UNIVERSAL SERVICE FUND SURCHARGES TO) **CASE NO. GNR-T-00-29**
BECOME EFFECTIVE OCTOBER 1, 2000.)
) **ORDER NO. 28492**
)
_____)

On July 14, 2000, as required by Commission rules, the Idaho Universal Service Fund Administrator filed the Universal Service Fund Annual Report for the period July 1, 1999 through June 30, 2000.

Based upon the Commission’s review of the information presented by the Administrator and the Staff calculations, the Commission finds that the current Idaho Universal Service Fund (USF) surcharge of \$0.12 per residential line and \$0.24 per business line should be changed to \$0.14 per residential line, \$0.26 per business line. The Commission orders the present Idaho USF surcharge of \$0.0035 per MTS/WATS minute should be increased to and \$0.0045 per toll minute per MTS/WATS minute to ensure the continued solvency of the USF. This increase goes into effect October 1, 2000.

BACKGROUND

The Idaho Telecommunications Act of 1988 established an Idaho 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 Idaho USF. Idaho 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).

In July of each year the Administrator of the fund issues an annual report to 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.

CHANGES TO TOLL ACCESS RATES, RESIDENTIAL RATES AND BUSINESS RATES

Idaho Code § 62-610(3) establishes the eligibility requirements for local exchange companies to draw funds from the USF. It requires participating companies' local business and residential rates to be at least 125% of the statewide average and their toll access rates to be at least 100% of the statewide average. The Commission's rules require a participating company to revise its rates if the difference in the company's rates and the statewide threshold rate is more than three percent (3%) and the difference in the amount of revenue collected under the company's rates and the threshold rate is greater than \$6,000. See IDAPA 31.46.01.106.02. According to the Universal Service Fund Annual Report for Year Ended June 30, 2000, based on the new statewide weighted averages, no changes to existing rates are required.

INCREASE IN USF SURCHARGES

The USF is funded by surcharges on residential and business lines and toll surcharges on MTS and WATS services. The current per-line per-month surcharges surcharge of \$0.12 per residential line and \$0.24 per business line were established in 1999. Order No. 28124.

The USF Administrator reported that surcharge revenues collected during the year totaled \$2,206,526, of which \$1,311,584 (59%) was contributed by local exchange services and \$894,941 (41%) was contributed by MTS/WATS services. Disbursements to the eight recipient telephone companies totaled \$2,212,761. The ending cash balance at June 30, 2000 was \$128,683. The fund earned \$9,828 in interest from government securities. Total authorized disbursements to local exchange companies during the year ended June 30, 2000, were \$2,432,213. Administrative fees and expenses for the year ended June 30, 2000, were \$13,308. As of June 30, 2000, the Idaho Universal Service Fund had a cash balance of \$128,683. Total residential and business lines at May 1, 2000, were reported to be 531,879 and 187,125, respectively. This represents a three percent (3%) increase in residential lines and two percent (2%) decrease in business lines from the prior year. Total MTS/WATS billed minutes of use for the year ended December 31, 1999, were 302,160,126, an eight percent (8%) decrease over the prior year.

The USF Administrator advised the Commission that an increase to the MTS/WATS surcharge is necessary because the Idaho USF needs to maintain a prudent reserve in order to maintain stability for disbursements and address fluctuations in the monthly surcharge revenue. Therefore, the Administrator requested enough funding to maintain a prudent reserve balance equal to approximately three (3) months of disbursements to guard the integrity of the fund, protect against fluctuating revenues and ensure sufficient funds to cover the year's disbursements. The Commission agrees.

The Commission finds that several factors support the need for a reserve balance. The fund's revenue is provided by an increasing number and variety of local and toll providers, not all of whom report and remit promptly or consistently. Toll and access minutes and surcharges continue to decrease, resulting in smaller revenues than projected. According to the Administrator, a reduction in disbursements is projected for the coming year, but disbursements will not actually begin to decrease until after the January disbursement of the final payment to Fremont for its accelerated depreciation. The implementation dates for Midvale and Cambridge's EAS and rate changes are not known, but Staff stated that it does not expect either companies' rate changes to affect the fund until at least January 2001. Moreover, Staff indicated that if upgrades to Rural's network necessitated by the approved EAS routes are completed in the coming year and requirements exceed \$300,000, the fund balance will be virtually eliminated at the current rates. In addition, the Commission finds that revisions to Inland's requirement are unknown at this time, although they are not expected to be significant. Therefore, the Administrator's recommendation regarding USF surcharge rates allows for a potential \$200,000 disbursement for Rural and estimated increased interest revenue of \$5,000, resulting in an ending balance of \$598,400. The Commission finds that this recommendation provides surcharge rate stability while meeting potential increases to funding requirements.

The Commission finds that 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. However, the Commission begins by projecting the future USF needs based upon the Administrator's Annual Report and then examining other events that may affect the fund.

The USF Administrator recommended that the MTS/WATS surcharge rate be increased to \$0.0045 per minute to provide a more reasonable reserve. The Administrator stated that at this rate MTS/WATS services would contribute 48% of the total surcharge revenue and local exchange services

would contribute 52% of the total surcharge revenue. The fund balance at year end June 30, 2001, would be approximately \$598,400. The Idaho USF would be able to meet its monthly obligations and handle any additional funding that may be authorized during the year.

The Commission finds that an increase to the surcharge rate is necessary to ensure that the fund will continue to operate for the benefit of universal telephone service in the state of Idaho. The Commission further finds that the MTS/WATS surcharge rate should be increased to \$0.0045 per minute to provide a more reasonable reserve and to meet anticipated new disbursements. Moreover, this more fairly allocates the burden for funding USF between toll and basic local service customers. Pursuant to IDAPA 31.46.01.105, local exchange companies and MTS/WATS companies are authorized to impose these surcharges as of October 1, 2000.

O R D E R

IT IS THEREFORE ORDERED that the existing Universal Service Fund local exchange service surcharges shall be increased to \$0.14 per month for each residential line and \$0.26 per month for each business line. Local exchange companies shall continue to remit these surcharges to the USF Administrator.

IT IS FURTHER ORDERED that the existing Universal Service Fund MTS/WATS surcharge shall be increased to \$0.0045 per access minute effective October 1, 2000. MTS/WATS companies shall remit the surcharge revenue to the Administrator.

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-00-29 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-00-29. 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 August 2000.

DENNIS S. HANSEN, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

PAUL KJELLANDER, COMMISSIONER

ATTEST:

Myrna J. Walters
Commission Secretary

O:grrt0029_cc