

Office of the Secretary

Service Date

September 1, 1995

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL REVISION OF UNIVERSAL SERVICE FUND SURCHARGES TO BECOME EFFECTIVE OCTOBER 1, 1995.

) **CASE NO.**
) **GNR-T-95-3**
) **ORDER NO.**
) **26148**
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On July 14, 1995, the Public Utilities Commission received the annual report of the Idaho Universal Service Fund (USF) for the period from July 1, 1994 through June 30, 1995. Based upon our review of the information in the report as well as Staff's analysis of the report, we find that USF surcharges should be increased and that the toll access rates of the USF recipient local access companies must be decreased to equal the statewide average. We also find that Cambridge Telephone Company must increase its residential rates to meet the statutory threshold requirement to qualify for continued USF funding.

BACKGROUND

The Telecommunications Act of 1988 directed this Commission's establishment of 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). State statute provides that USF surcharges will be levied upon local exchange service and intrastate MTS (long distance) and wide area telecommunication services (WATS) to establish the fund, which is to be distributed to qualifying high-cost local exchange telephone companies. Fund distributions to the qualifying companies reduce the 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 fund is obligated to issue an annual report to the Commission reviewing the fund's balance and recommending increased, decreased or unchanged funding levels. In response, on or before September 1, we issue an Order prescribing USF surcharges for the 12 months beginning October 1. See Rules 104-106 of the Commission's Universal Service Fund Rules, IDAPA 31.46.01.

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 of \$.03 for residence customers and \$.07 for business customers were established in 1988 when the USF was created. The toll surcharge for MTS and WATS was set at \$.004 per minute, but was reduced to \$.002 per minute in 1990 and to the current level of \$.001 in 1991. The MTS and WATS surcharges were reduced to gradually draw down the reserve in the account that developed in the first two years of the fund's existence. The current rates result in distributions from the fund that are greater than amounts collected. For example, the balance in the account as of June 30, 1995 is \$780,039 less than the ending balance in June 1994.

Our review of the Administrator's 1995 Annual Report leads us to conclude that the surcharge levels should be increased to slow down or eliminate the rate of excess withdrawals from the account. The balance of the USF has decreased from \$2,328,215 in June 1993 to \$1,757,657 in June 1994, and to a year end balance of \$977,618 in June 1995. Surcharge revenues totaled \$714,990 in the 1995 year, while disbursements to participating local exchange

companies totaled \$1,562,472. If the current surcharges are maintained, the fund's balance will sharply decrease again in the 1995-1996 year, resulting in a completely depleted account during the next year.

We find that it is appropriate to increase the local access surcharge to \$.06 per line for residential lines and \$.14 per-line per-month for business lines, and to increase the toll surcharge on MTS and WATS services to \$.0015. We find that these surcharge rates are fair, just and reasonable and will ensure that the fund will continue to operate for the benefit of universal telephone service in the state of Idaho. Pursuant to IDAPA 31.46.01.105, local exchange companies and MTS/WATS companies are authorized to impose these surcharges as of October 1, 1995. These revised surcharges are expected to meet a revenue target of approximately \$1,226,500 for the 1995-96 year. The funding target is comprised of contributions from local exchange surcharges of \$542,514 and from MTS/WATS surcharges of approximately \$724,000. We find these amounts to be fair, just and reasonable.

REDUCTION OF TOLL ACCESS RATES

Idaho Code § 62-610 establishes the eligibility requirements for local exchange companies to draw funds from the USF, and initially required participating companies' local business and residential rates to be at least 125% of the statewide average and their toll access rates also to be at least 125% of the statewide average. In 1993, the Legislature amended Section 62-610 to reduce the threshold for participating companies' toll access rates to at least 100% of the statewide average. The Commission subsequently established a true-up mechanism that requires 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 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.

The USF Administrator reported a weighted statewide average rate for toll access of \$0.06439, a decrease from the 1994 average of \$0.07187. Accordingly, the seven participating local exchange companies must reduce their toll access rates to meet the statutory parameters for participation in the USF fund. A reduction of these rates will reduce total revenues to the participating companies by \$199,263, and increase their residual revenue requirements, and consequently their funding requirements from the USF, by the same amount.

The following table shows the additional revenue that will be required by each participating company to compensate for a rate decrease in access funding:

Average State Rate	Percent Change	Additional Revenue Required
Albion \$0.07854	\$0.06439-18.02%	\$44,506
Cambridge 0.08091	0.06439-20.42%	42,163
Inland 0.07814	0.06439-17.60%	15,150
Midvale 0.07810	0.06439-17.55%	14,466
Rockland 0.08122	0.06439-20.82%	19,290
Rural 0.09951	0.06439-35.39%	39,356
Silver Star 0.09938	0.06439-35.21%	<u>24,332</u>
Total Additional Funding		\$199,263

The chart reveals that each company's access rate exceeds the statewide threshold average rate by more than three percent and that the difference in revenue resulting from the rate differential is greater than \$6,000. Accordingly, we

find that each participating company, to be eligible to receive USF disbursements, must reduce its toll access rate to 100% of the statewide average as required by *Idaho Code* § 62-610.

CAMBRIDGE TELEPHONE COMPANY

The USF Administrator's Report indicates Cambridge Telephone Company's average residential line rate is below the threshold requirements to receive USF funds. For Cambridge's three exchanges, the average current billed residential rate of \$12.16 per month is different than the threshold statewide average rate by an amount greater than 3%. Additionally, the difference in the annual revenue associated with Cambridge's average current rate and the revenue associated with the statewide average threshold rate is greater than \$6,000. Pursuant to Rule 106 and *Idaho Code* § 62-610, Cambridge must revise its residential rates to meet the threshold funding eligibility standards. The current statewide average for residential lines is \$14.86 per month. Thus, Cambridge must increase its residential rates by an average of \$2.70 to meet the USF eligibility requirements. Accordingly, the Commission will issue in a separate docket number a Notice of Modified Procedure for Cambridge to increase its residential line rates in order to continue to qualify for USF funds. Raising Cambridge's residential rates will decrease its USF funding requirement by \$27,184.

1995-1996 DISBURSEMENTS

After netting Cambridge's access rate funding requirement increase with its residence rate funding decrease, its 1995-96 funding requirement will be \$413,380. Funding requirements for the year beginning October 1, 1995, after access and residence rate adjustments for the participating companies as discussed in this Order, will be:

1994-95 1995-96

Annual 1995 Annual

Disbursements Increases Disbursements

Albion Telephone \$436,875.00 \$44,506 \$481,381.00

Cambridge Telephone 398,401.08 14,979 413,380.08

Inland Telephone 40,011.12 15,150 55,161.12

Midvale Telephone 180,554.64 14,466 195,020.64

Rockland Telephone 184,067.52 19,290 203,357.52

Rural Telephone 183,793.80 39,356 223,149.80

Silver Star Telecom 138,769.32 24,332 163,101.32

\$1,562,472.48 \$172,079 \$1,734,551.48

ORDER

IT IS THEREFORE ORDERED that the Universal Service Fund local exchange service surcharges shall be increased to \$.06 per month for each residential line and to \$.14 per month for each business line. Local exchange companies shall remit these surcharges effective October 1, 1995 and should file tariff revisions to increase the surcharge, if they choose, by September 15, 1995.

IT IS FURTHER ORDERED that the Universal Service Fund MTS/WATS surcharge shall be increased to \$.0015 per access minute. MTS/WATS companies shall remit the new surcharge effective October 1, 1995.

IT IS FURTHER ORDERED that Cambridge Telephone Company must increase its residential rates by an average of approximately \$2.70 per month in order to continue to be eligible for USF funds. Upon its own motion pursuant to

IDAPA 31.46.01.106, the Commission will issue a Notice of Modified Procedure for Cambridge Telephone Company to increase its residential line rates, effective October 1, 1995.

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-95-3 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-95-3. 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 August 1995.

RALPH NELSON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

JR/O-GNR-T-95-3.WS