



STATE OF UTAH
PUBLIC SERVICE
COMMISSION

Public Service Commission of Utah Utah Universal Service Fund Issues

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Public Service Commission of Utah
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and Technology Interim Committee
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Utah Universal Service Fund (UUSF)

Utah's Universal Public Telecommunications Service Support Fund ("Utah Universal Service Fund" or "UUSF") was created by the legislature to make basic telephone service available and affordable to all Utah customers. It provides companies offering service in high-cost areas of the state a general subsidy from all Utah telephone customers.

The PSC:

- Establishes the surcharge that funds the UUSF; and
- Sets the UUSF subsidy amounts (through traditional rate-of-return regulation) for independent incumbent telephone companies that provide land line telephone service in high-cost areas of Utah.

Utah Code Ann. § 54-8b-15

This statute establishes the UUSF and the PSC's responsibilities.

The UUSF:

- Shall be “nondiscriminatory and competitively and technologically neutral.”
- Is intended to “preserve and promote universal service within [Utah] by ensuring that customers have access to affordable basic telephone service.”
- Shall be used “to defray the costs, as determined by the [PSC], of any qualifying telecommunications corporation in providing public telecommunications service.”
- Is funded by “an end-user surcharge applied to intrastate retail rates.”

Recent Activity: 2012-2013 Study by the Division of Public Utilities

- In 2012 and 2013, the Division of Public Utilities conducted a study of UUSF issues, collected comments and input from a broad stakeholder group, and released a report in July 2013.
- The report addressed upcoming changes to federal telecommunications subsidies (which are moving from telephone service to broadband development) as well as impacts of modern technology and competition from new market entrants.

Recent Activity: 2012-2013 Study by the Division of Public Utilities

The study, accompanied by all stakeholder comments, is available on the PSC website: <http://1.usa.gov/25PmGr7>

The final report evaluated both legislative and administrative options:

- Increase the Utah fund over time as necessary to offset corresponding decreases in federal USF support available for basic telephone service.
- Increase the USF contribution base by including, for example, broadband providers.
- Expand the telecommunication revenues to which the Utah fund surcharge applies, beyond intrastate telecommunications revenues.
- Limit the amount of Utah fund support available, e.g., using a sliding scale up to a capped amount of support per line.
- Restrict the types of service costs for which Utah fund support is available.
- Establish eligibility for Utah fund support on the basis of total company revenues, including revenues of cable/wireless/internet affiliates.
- Impute a set amount of revenue to each telephone corporation, representing the revenue potential of each of its lines, in determining Utah fund support eligibility.
- Eliminate the Utah fund.
- Redirect the Utah fund to broadband support.
- Implement carrier of last resort obligations.
- Modify one-time distributions from the Utah fund.
- Establish proxy cost modeling.

Recent Activity: March 2015 Audit by the Utah State Auditor

Performance Audit No 15-01 conducted a limited review of the UUSF.

- The audit evaluated some of the same revenue pressures examined in the Division of Public Utilities report.
- The audit concluded: “Assuming the relative stability of other revenue streams, the UUSF could increase from covering six percent of [telephone company] operational revenues, to contributing up to 25 percent, if [federal] support is reduced and when terminating interstate access fees complete their scheduled decline in 2020. In this scenario, the impact on the UUSF could be an increase from an average annual disbursement of \$6 million to up to \$26 million. Should the FCC implement additional planned reforms, as expected, the impact on the UUSF could be even greater.”
- The audit recommended the PSC adopt rules encouraging efficient use of UUSF subsidy funds (which was completed in the summer of 2015), and continue to monitor changes to the UUSF and report those changes to this legislative committee.

UUSF Surcharge

The UUSF surcharge is set by the PSC in administrative rule: R746-360-4.

The surcharge is currently 1% of billed intrastate retail rates but is no longer generating sufficient revenue for current subsidy levels.

UUSF Expenses

- Thirteen telephone companies currently are receiving monthly UUSF subsidies.
- Subsidy amounts are set by the PSC through traditional rate-of-return regulation
- Amounts range from approximately \$46,000 per year to approximately \$2.1 million per year.
- Calculated as an annual amount compared against all residential and business telephone lines, the subsidies range from \$21 per year per customer line, to \$770 per year per customer line.

UUSF Expenses: Lifeline

The UUSF also funds Lifeline - the Utah Telephone Assistance Program.

- Lifeline provides a discount on telephone service to individuals who meet specified income requirements.
- Utah's Lifeline program is administered by the Department of Workforce Services.
- Lifeline expenses remain relatively level and represent about 3% of UUSF expenses.

UUSF Revenue and Expenses

Year	UUSF Revenue (Average Monthly)	UUSF Expenses (Average Monthly)
2013	\$929,344	\$731,879
2014	\$860,655	\$807,201
2015	\$825,103	\$846,348
2016 (January - April)	\$748,239	\$992,886

Current PSC Process to Address Funding Gap

On April 13, 2016, the PSC issued to a broad group of telecommunications stakeholders a request for comments seeking greater understanding of the reasons for the declining revenue and inviting comments on the options to maintain UUSF funding.

The PSC specifically requested comments on the option of increasing the current surcharge (1% of billed intrastate retail rates) or moving to a flat per-line surcharge.

Current PSC Process to Address Funding Gap

The following organizations provided comments:

- The Division of Public Utilities
- The Office of Consumer Services
- Utah Rural Telecom Association
- CenturyLink
- AT&T
- CTIA - The Wireless Association®

Current PSC Process to Address Funding Gap

The comments demonstrate differing perspectives on:

- Whether the PSC should change the UUSF surcharge from a percentage to a flat per-line surcharge;
 - Whether current statutes permit the PSC to make that change;
 - Whether the PSC should apply the UUSF surcharge to VoIP* providers, who currently are not paying the surcharge;
 - Whether current statutes permit the PSC to make that change.
- *VoIP is generally understood as a technology that delivers voice communications over internet protocol networks.

Current PSC Process to Address Funding Gap

As a result of the comments received, the PSC has scheduled a technical conference for continued discussion of the issues raised in the comments to the PSC, for Tuesday, June 21, 2016.

Legislative Options: 1 of 5

No legislative action.

- Some stakeholders feel the current statutory framework allows the PSC to deal with all of these issues administratively.
- The PSC would have to decide over the coming months whether to:
 - Maintain current UUSF subsidy levels;
 - Increase the current UUSF percentage surcharge;
 - Modify the current UUSF surcharge to a flat per-line surcharge;
 - Expand the UUSF surcharge to VoIP providers.

Legislative Options: 2 of 5

Set the UUSF surcharge (both methodology and amount) in statute.

- The PSC could continue to administer UUSF subsidies based on available funds.
- Any entity or organization seeking additional UUSF funding would make that request of the legislature.
- Funding shortfalls could require the PSC to move from full cost recovery to prorated cost recovery.

Legislative Options: 3 of 5

Set the UUSF surcharge methodology, but not amount, in statute.

The PSC could continue to administer both UUSF revenues and subsidies as it has been in the past.

Legislative Options: 4 of 5

Clarify the applicability of UUSF surcharge to VoIP.

- To date, the PSC has not applied the UUSF surcharge to VoIP.
- The current PSC process demonstrates a difference of opinion among stakeholders about whether current statutes prohibit, permit, or require the application of the UUSF surcharge to VoIP.
- Absent legislative action, the PSC will have to decide whether to continue the current practice or make a change.

Legislative Options: 5 of 5

Adopt more fundamental changes to UUSF funding and subsidies, and other telecommunications fees.

- Federal telecommunication subsidies have moved from voice service to broadband development. Some have advocated for a similar change to the UUSF.
- Some have advocated for years to combine and streamline various telecommunications fees.
- In the past some have advocated for the discontinuance of the UUSF.
- The 2013 report by the Division of Public Utilities provides input on a number of additional legislative options: <http://1.usa.gov/25PmGr7>



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