



State of Utah

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To: The Public Utilities and Technology Interim Committee

Date: July 10, 2013

The Public Service Commission of Utah (PSC) presents this Report on potential changes to the regulation of the Utah Universal Public Telecommunications Service Support Fund (Utah fund) at the request of the past Co-Chair of the Public Utilities and Technology Committee, Representative Michael Noel. This Report was prepared by the Division of Public Utilities (Division) in connection with an informational docket created by the PSC to study the implications for the Utah fund given recent changes in the Federal Universal Service Fund Program. These changes were ordered by the Federal Communications Commission (FCC) in its Order on USF Reform, released November 18, 2011 (USF Reform Order). While many of the issues the Report addresses have been drawn to the forefront by the FCC's recent Order, changing technologies and increased competitive options have also influenced what the likely long-term consequences will be if Utah's current USF program is left unchanged.

At a fundamental level, the major issues facing the Utah fund result from changes in technology, markets, and federal policy that are all beyond the control of either the State or the telecommunications companies. For several decades, the concept of universal telephone service has simply meant making reasonably-priced basic local exchange service available to all State residents. By the end of the 1990s almost every household in Utah had access to reasonably-priced phone service. The percentage of Utah households with basic telephone service was almost always listed within the top five states in the nation in the FCC's annual reports.

Currently, the FCC is in the process of shifting federal USF support away from basic telephone service and towards broadband services. The FCC is also moving away from subsidizing certificated utilities and is exploring methods to allow any type of broadband provider to receive the designated high cost support for a given area. These changes mean the amount of federal USF support Utah's rural telephone companies receive will likely continue to decline over time.

Today, the majority of telephone numbers are assigned to wireless phones (i.e., cell phones), not landlines (i.e., hard-lined phones to a fixed location). Indeed, many Utah households have discontinued their landline altogether, opting instead for wireless service. Additionally, new technologies allow voice services to be provided over digital internet protocol platforms. Thus, the percentage of people who decline to receive any type of landline phone

service is growing every year. As a result, both *the services subsidized by the Utah fund and the base from which the subsidy is collected* are shrinking.

In addition, telephone networks have become platforms for multiple services. Broadband, video, and voice are often all carried on the same network. This multi-use characteristic presents important choices such as which, if any, types of service should be subsidized and how should implementation of any such subsidy be carried out. Also, since broadband and video are also provided by non-utility companies (i.e., those not falling within the PSC's jurisdiction), the universal service subsidy to a utility telephone company may result in unfair competition on the one hand, or excessive costs being shifted to all customers (statewide) on the other hand.

The policy questions of what types of service should be subsidized and how to achieve the desired outcomes in an equitable manner are significant and timely. The PSC is pleased to assist the Legislature in its consideration of these important public policies by providing this Report. This Report reflects both the Division's careful analysis and the comments of members of the public presented to the PSC through the process summarized in the remainder of this letter.

On November 2, 2012, in response to the request from Representative Noel, the PSC opened Docket No. 12-999-10. The PSC directed the Division to study and report on possible changes needed in public utility regulations or laws as a result of the FCC's recent USF Reform Order. Additionally, the PSC scheduled a technical conference to identify pertinent issues and to determine a process to examine potential changes in the regulation of the State fund. The Division would use the information provided by participants, together with its own analysis, in preparing the Report. The PSC requested the following options be examined:

- 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.
- Other alternative responses as suggested by participants in the docket.

The PSC also requested interested participants to submit comments on the issues for the Division's and PSC's consideration in preparing this Report. Participants filed comments on the issues from November 30, 2012, to February 1, 2013.

On April 25, 2013, the Division distributed its draft Report. The draft Report presented the Division's analysis and its summary of participants' comments. The Division's draft Report addressed each of the above-listed topics, as well as three others the Division viewed as being important. These additional topics include:

- Carrier of last resort obligations.
- One-time distributions from the Utah fund.
- Proxy cost modeling.

Following circulation of the Division's draft Report, participants filed responsive written comments until June 4, 2013. On July 8, 2013, the Division filed a final Report which incorporated the additional participant comments and refinements in its analysis. This is the Report which accompanies this letter.

We trust this Report will be helpful to the Legislature as it considers the important questions the Report addresses. To that end, the PSC stands ready to provide continuing assistance as the issues are examined and decisions are made through a public legislative process.

Respectfully submitted,

Ron Allen, Chairman

David R. Clark, Commissioner

Thad LeVar, Commissioner