State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THOMAS BRADY
Deputy Director

CHRIS PARKER
Director, Division of Public Utilities

GARY HEBERT
Governor

Spencer J. Cox
Lieutenant Governor

November 8, 2013

TO: **UTAH PUBLIC SERVICE COMMISSION**

FROM: **DIVISION OF PUBLIC UTILITIES**
Chris Parker, Director
Bill Duncan, Manager, Telecommunications and Water
Paul M. Anderson, Utility Technical Consultant

Re: **Utah Docket No. 13-999-05,** Speech and Hearing Impaired Fund Surcharge Rate **R746-343-15**, Analyze fund balance projections from a rate change to $0.04 or $0.03 per month.

ISSUE:

The Utah Speech and Hearing Impaired Fund is operating at a surcharge rate of $0.05 per line per month. Currently, the projected revenues collected at this rate slightly more than double the projected expenses and increases to three times the expenses in ten years. It appears that the surcharge rate needs to be lowered.

RECOMMENDATION: Delay changing the surcharge rate until ramifications of recent FCC changes on expenses can be calculated.

The Division of Public Utilities (Division) recommends delaying the rate change, but presents the following analysis based on current and recent past conditions.

The Division analyzed fund projections based on surcharge rates of $0.01, $0.02, $0.03, $0.04 and the current rate of $0.05. The Division used the following assumptions.

1. In FY2013, the growth rate in lines to which the surcharge is applied, was 7.18% The Division believes that this growth rate (which occurred under the $0.06 rate) is the most valid to use in projecting future revenues. Changes in line numbers and associated revenues since the $0.05 rate was adopted, is too new to evaluate because the payments, by rule, can be delayed as much as three months. The growth rate in lines in FY 2012 was 6.8%. The Division notes that we only have these two years of history on which to base our

growth assumption, since legislative action changed the definition of what services are required to pay the surcharge. In completing this analysis the Division used a growth rate in lines and revenues of 7% to evaluate where the future rate should be set.

2. The growth rate in expenses is projected at 2% annually. In FY2013 expenses were almost flat. A small increase however is expected over time.

3. The Division also assumed that the current rate of $.05 would remain in effect until near the end of FY 2014, and used an estimated balance for that point in time as a common starting point for a change to a new rate.

The fund projections for various rates are illustrated in the following table and graphically in the chart below.

Using this analysis, a surcharge rate of $0.02 appears to maintain a level balance over the next six years. Therefore, the Division would normally recommend that the Commission lower the rate to $0.02 per line per month effective as soon as practical.

However, the Division has learned that the FCC may take action in the near future that would require states to fund substantial increases in the cost of running this program. These additional costs could be as much as $1,000,000/year. Until there is more certainity about the states obligation to pay these expenses, the Division recommends that the Commssion delay changing the surcharge for 60 – 90 days until details of the FCC requirements become more clear.

Attachment: A