State of Utah

Department of Commerce
Division of Public Utilities

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Recommendation

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

William Duncan, Manager

Date: January 11, 2019

Re: **DPU Recommendation – Action Request Response**

UUSF Surcharge, Docket No. 18-999-15

Recommendation (Approve)

The Public Service Commission (PSC) should increase the Utah Universal Service Fund (UUSF) surcharge to $0.60/month/access line or connection effective May 1, 2019.

Issue

Due to recent increases in UUSF high cost support approved by the PSC and the inclusion of wireless lifeline support payments, the UUSF will experience a shortfall in the coming months.

Background

On Dec 31, 2018, the PSC approved a stipulation between the Utah Rural Telecom Association, the Division of Public Utilities (DPU), and the Office of Consumer Services (OCS). This stipulation will increase UUSF support payments to rural telephone companies.

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In addition, several wireless lifeline providers have recently been approved to receive lifeline payments from the UUSF that will increase payments from the UUSF.

Discussion

In the PSC notice issued January 3, 2019, the PSC requested the DPU provide an estimate of the surcharge amount that would sustain the UUSF and mentioned the legislative goals that the rate should maintain three months payments and not be modified more than once every three years. The DPU recommendation attempts to satisfy all of these criteria.

During the next three years, according to analysis conducted by the DPU, the UUSF costs will average $21,648,861 annually or $1,804,072 per month. These costs are discussed below:

High Cost Support

The UUSF is obligated to provide support to qualifying telephone companies based on criteria expressed both in legislation and PSC rule. The DPU recently calculated support for each qualifying company based on 2017 operations. The DPU has used those calculations as the basis for the next three years. This is an estimate and changes will occur in each company, resulting in different actual amounts. Current support amounts will be reduced by Excess Deferred Income Tax (EDIT) that providers have agreed to repay to the UUSF. The DPU used the ARAM schedule provided by each company to determine the cumulative reduction for each year. Starting in 2020, the support amount will be further reduced by inclusion of income tax rate changes from the Tax Act of 2017. The total high cost support estimate is presented below:

Year	Calculated High Cost Support ($)	Cumulative EDIT Reductions ($)	2017 Tax Act Reductions ($)	Total High Cost Support ($)
2019	19,546,355	(535,198)		19,011,157
2020	19,546,355	(577,752)	(1,813,326)	17,155,277

2021	19,546,355	(484,879)	(1,813,326)	17,248,150

Relay Utah Fund (RUF) Expense (Hearing Impaired Fund)

Over the last 17 months, this fund has experienced costs of $54,623/month or $655,476 annually. In discussions with the PSC staff, it was determined that an annual budget of $1,000,000 is more prudent due certain accrued liabilities that exist in this fund.

Lifeline Expense

The Universal Service Administrative Agency (USAC) estimates that approximately 32,000 Utah citizens are enrolled in lifeline programs at this time. At $3.50/month subsidy, this calculates to an annual cost to the UUSF of $1,344,000. This amount includes both wireline and wireless recipients. The worksheet attached with this recommendation assumes payouts evenly distributed throughout the year.

One-Time Distributions

The UUSF is obligated by Utah Code Section 54-8b-15(3) (d) to fund one-time distributions to non-rate-of-return regulated carriers. The working group currently drafting a rule for these distributions is considering including an annual amount $1,500,000 per year as a reasonable amount for these types of distributions. The PSC may feel that another amount is more appropriate. The DPU believes it is prudent to budget some funds for this purpose. Payments for these projects will likely be lumpy in nature and concentrated towards the end of each year. The worksheet attached with this recommendation assumes payouts in the last quarter of each year.

Total Annual Cost

The total annual cost is presented in the table below:

Year	High Cost Support (from above) ($)	Relay Utah Fund ($)	Lifeline ($)	One-Time Distributions ($)	Total UUSF Annual Cost ($)
2019	19,011,157	1,000,000	1,344,000	1,500,000	22,855,157
2020	17,155,277	1,000,000	1,344,000	1,500,000	20,999,277
2021	17,248,150	1,000,000	1,344,000	1,500,000	21,092,150
Annual Average					21,648,861

Connections

Since the PSC moved to a connections based surcharge in January, 2018, the DPU has recorded an average 3,084,787 connections paying into the UUSF each month. (March – November, 2018)

Sustainable Surcharge Rate

With a monthly average cost of $1,084,072 and 3,084,787 connections, a rate of $0.59/connection is needed to match contributions to distributions.

Balance Calculation

With a monthly average cost of $1,084,072 and a standard of having three months balance in reserve, the PSC should maintain a balance of approximately $5.4 - $5.5 million.

Rule Change Lag

When the PSC changes the applicable rule to increase the surcharge, the contributions received into the UUSF will not increase for one to two months after the effective date of the rule change. For example, for a rule change effective July 1, the UUSF will see some increased revenue in August, and should be fully realized in September.

DPU Exhibit

The DPU has created and attached an exhibit that attempts to forecast the UUSF balance over the next 36 months based on the above assumptions and estimates.

Conclusion

This projection shows that the UUSF will reach the target balance of $5.5 million by the end of April 2019. A rule change effective May 1, 2019 to $0.60/connection will stabilize the fund balance in the near term and produce a slightly larger balance at the end of the three year forecast period. Since the UUSF balance is likely to drop below the desired balance before the rule change can be enacted, a slightly increased rate above the sustainable surcharge rate is need to restore the balance to the desired level.