April 26, 2017

To: Public Service Commission of Utah

From: Chris Parker, Director, Utah Division of Public Utilities
William Duncan, Manager Telecommunications, Utah Division of Public Utilities

Re: Docket 17-R360-01 In the Matter of the Utah Administrative Code R746-360 Universal Public Telecommunications Service Support Fund

DPU Comments

On March 27, 2017, the Public Service Commission of Utah (PSC) issued a request for comments in this matter. The PSC specifically requested the Division of Public Utilities (DPU) provide information on four issues:

1) identifying all access line providers and connection providers that are subject to the surcharge,
2) estimating the number of connections that are subject to the surcharge,
3) recommending the amount of the surcharge if applied to annual intrastate revenue,
4) recommending the amount of the surcharge if applied to access lines/connections.

Additionally, the PSC requested any data the Division can provide regarding the amount of funding that might be necessary to meet the statutory objectives set for the in Utah Code 54-8b-15(3).

The DPU will respond to each individually.

<u>Identification of access line and connection providers</u>

The DPU has undertaken two initiatives to attempt to identify all access line/connection providers in Utah:

First, the DPU used data from the FCC Voice Telephone Services report. This report is compiled from Form 477 data submitted to the FCC by individual providers. The following statements come from the introduction to that report:

> The Commission has used FCC Form 477 to collect subscribership information from providers of voice telephone services – the incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), and mobile voice providers – since December 1999. The Commission has required interconnected Voice over Internet Protocol ("interconnected VoIP") service providers to report subscribership information since December 2008 because the use of VoIP technology is growing rapidly and it increasingly is used to provide voice telephone service.
>
> The FCC's rules (at 47 C.F.R. § 9.3) state:
> An interconnected Voice over Internet Protocol (VoIP) service is a service that:
> (1) Enables real-time, two-way voice communications;
> (2) Requires a broadband connection from the user's location;
> (3) Requires Internet protocol-compatible customer premises equipment (CPE); and
> (4) Permits users generally to receive calls that originate on the public switched telephone network and to terminate calls to the public switched telephone network.

The DPU believes that the data obtained from providers submitting Form 477 reasonably matches the definition of access lines and connections found in Utah Code Sections 54-8b-2 and 54-8b-15. The DPU has therefore used, to the extent possible, data obtained from the FCC Form 477 submissions.

The DPU was able to locate a worksheet on the FCC website called 'Filers by state', a list of all companies that filed the Form 477. It identified a total of 209 companies that filed a Form 477 for 2015 self-reporting their provision of service in Utah. After comparing this list to the DPU record of current USF and TRS payers, the DPU identified 143 additional companies that we were previously unaware of that may provide services subject to an access line/connection surcharge. The DPU mailed correspondence to the companies on April 7, 2017 seeking information on two points:

> 1) does the entity believe it provides a service subject to the surcharge, and
> 2) the number of access lines/connections provided in Utah.

As of the date of this memo, the DPU has received responses from 23 companies and has identified 13,224 additional access lines/connections that are not currently paying into TRS.

The PSC currently receives TRS contributions from 87 providers and UUSF contributions from 212 providers in 2016.

Second, the DPU has contacted and met with the Utah Tax Commission (UTC) to develop methods of information sharing. The UTC receives assessments from telecommunication providers for the E911 surcharge. The UTC is responsible to disburse those funds to the appropriate E911 centers.

In 2016, the UTC received contributions from 175 companies, which likely includes many VOIP connection providers. The UTC is not able to share names of providers with the PSC due to statutory confidentiality restrictions. The UTC has agreed to mail out notices to the providers informing them of SB130's passage and requesting that they contact the DPU to help determine their obligation to contribute to the USF.

Both of the above mentioned initiatives would help to identify "retail" providers, those companies that provide service directly to the end user. Assessing the fee at the "retail" level would require the PSC to keep track of and pursue an ever changing group of providers.

Another method the PSC may consider, is to collect surcharges from the "wholesale" providers. These would be the companies that are registered with and assigned numbering resources from the North American Numbering Plan Administrator (NANPA). Currently there are 56 companies in this category receiving numbers in the 801, 385 and 435 area codes. "Retail" providers receive numbers through the "wholesale" providers that allow interconnection with the Public Switched Telephone Network (PSTN). The advantage to collecting USF at the "wholesale" level is that each provider is required to file semi-annual utilization reports with the FCC (Form 502). These reports would constantly update and verify the number of access lines/connections. The existing reporting requirements from the FCC as well as the ability to track assigned blocks of numbers would aid in identification and collection of connections. If this method is considered, the DPU is uncertain how it would identify the actual services provided by the "retail" providers. It seems the "retail" providers would be responsible to certify how the numbers are being used and whether or not those services are subject to the surcharge. The DPU would recommend that the PSC review this method in technical conferences to determine the merits.

Estimation of the number of connections that are subject to the surcharge

From the same FCC Form 477 data, the DPU was able to obtain the following data on Voice Telephone Services in Utah:

Data in Thousands

Year End	2008	2009	2010	2011	2012	2013	2014	2015	2016 (June)
Mobile Telephony	2095	2166	2251	2328	2409	2489	2620	2751	2785
Wireline Access lines and iVoIP	1044	1043	985	981	995	1022	855	860	866
Total Access lines/connections	3139	3209	3236	3309	3404	3511	3475	3611	3651

The PSC received contributions from an average of 2,913,797 connections per month into the TRS fund (2016 data). For the same time period, UTC received contributions from an average of 3,501,895 connections per month, which includes some VOIP providers.

The 3,611,000 connections reported to the FCC represent a 24% increase over the current known connections contributing to TRS. The UTC-reported connections are reasonably close to the FCC numbers and lend support to total access line/connections of approximately 3.5 – 3.6 million.

It is important to note that the total number of access lines/connections has been increasing since 2008.

Division estimate of funding necessary

Before calculating the surcharge rate, it is necessary to identify the costs of the various programs the fund supports. The table below shows the current costs and the DPU estimate of future costs.

Program	Current	Future
High Cost Subsidy	$10,723,458	$22,000,000
Wireline Lifeline	$176,652	$150,000
Wireless Lifeline	$1,098,930	$4,800,000
Telephone Relay (TRS)	$968,876	$1,000,000
Total Cost	$12,967,916	$27,950,000

All of the costs identified in the current column are actual 2016 payments with the exception of Wireless Lifeline. The $1,098,930 identified here is the amount needed to fund current wireless lifeline subscribers already receiving the federal lifeline benefit at the current state lifeline reimbursement amount. The DPU believes that wireless ETC's will quickly pursue funding from the Utah USF. It is prudent to plan for those expenses in setting the initial surcharge.

Potential growth in the Wireless Lifeline program could happen as more citizens eligible for lifeline take advantage of that benefit. There are currently approximately 88,000 households in Utah that are qualified for lifeline through various social programs that are not enrolled in the lifeline program. Source: Department of Workforce Services

Potential growth in the high cost subsidy program was based on an unadjusted DPU review of rural ILECs' 2015 annual reports, with the FCC prescribed 9.75% WACC applied. While this number is somewhat speculative, it may be a reasonable representation of the upper limit of program cost.

The disbursements for the high cost subsidy program are over 80% of the total cost and are the most difficult to accurately predict. Maintaining a stable surcharge over any length of time may prove difficult. Setting an initial surcharge on the higher end of the estimate is appropriate to ensure adequate funds for the near term and may be adjusted as necessary.

Recommendation of the amount of the surcharge if applied to annual intrastate revenue

Total billed intrastate revenue, as reported to the DPU by all providers, peaked in 2008 and has been declining since that time. The table below shows the aggregate amounts reported to the DPU for the last 10 years and projected 2017 intrastate billed revenues:

Year	Intrastate Billed Revenue
2007	$ 1,218,983,596
2008	$ 1,287,395,209
2009	$1,218,294,148
2010	$1,176,741,930
2011	$1,167,499,849
2012	$1,139,822,443
2013	$1,110,936,707
2014	$1,056,558,204
2015	$933,802,682
2016	$834,657,717
2017 (f)	$714,252,294

The table below shows the surcharge based on intrastate revenues for 2016 and 2017 in order to fund current program costs of $12,967,916:

Year	Intrastate Billed Revenue (A)	% Surcharge (B)	Total Revenue collected (AXB)
2016	$834,657,717	1.55	$12,937,195
2017(f)	$714,252,294	1.81	$12,927,967

The surcharge calculated above is the rate needed to fund a total program cost of $12.9 million

Since the PSC increased the surcharge to 1.65% on Oct. 1, 2016, the UUSF has collected $752,359 in revenue that is in excess of disbursements, a surplus averaging $150,472 per month (Nov 2016 – Mar 2017). If this amount remains consistent, it appears that the current surcharge rate would provide adequate revenue to fund the additional costs of wireless lifeline and the TRS through EOY 2017. In the longer term, beyond 2017, this mechanism would require constant monitoring and adjustment.

If the PSC chooses this mechanism, it would be faced with meeting growing disbursements with a declining revenue base.

Recommendation of the amount of the surcharge if applied to access lines/connections

Using the data from the previous sections of this report, the access line/connection surcharge needed to fund the current program cost of $12,967,916 is illustrated below:

Number of Access lines/connections	Initial surcharge per connection per year	Initial surcharge per connection per month
2,913,797 (current TRS)	$4.56	$0.38
3,611,000 (From FCC 477)	$3.60	$0.30

Utilizing this method would also require constant monitoring and adjustment as the DPU identifies additional access lines/connection providers.

This surcharge amount is what is needed to cover the cost of the various programs, it does not include an administrative fee. The DPU notes that current administrative rules allow for companies to charge reasonable administrative fees for both Lifeline and TRS collection. Most companies do not charge these fees, although some charge as high as 30% of the amount collected.

DPU Conclusion and recommendation

The DPU recommends that the PSC establish an access line/connection based surcharge. This will create a surcharge based on an expanding base. The DPU believes this will provide a more stable funding source than an assessment on intrastate revenues. The DPU further recommends that the PSC base the initial surcharge on the known quantity of access lines that currently pay into the TRS fund. The DPU recommends an initial monthly surcharge of $.38 per connection.

If the PSC decides to assess the surcharge at the “wholesale” level, the DPU would need additional time to investigate the number of access lines/connections provided at that level.

The DPU requests that the PSC explore the possibility of moving to an electronic payment system for receipts into the USF. With an expanding number of companies paying into UUSF, the time required to record and document each payment will grow. An electronic system to record and document contributions would decrease the workload to both the DPU and the PSC.

As an alternative, the PSC could explore a partnership with the UTC to see if it is feasible for the UTC to collect the USF surcharge as it does with the E911 surcharge. Because the collection of funds might be from the same subset of providers, it may be more efficient to utilize the existing collection system of the UTC. The DPU has not assessed the UTC’s technical or statutory ability or willingness to do this.