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Department of Commerce Division of Public Utilities

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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Power, Manager

Brenda Salter, Utility Technical Consultant Supervisor

Joseph Hellewell, Utility Technical Consultant

Date: April 20, 2020

Re: **Docket No. 19-999-08**, 2019 USF and Speech/Hearing Impaired Funds Status Report

Recommendation (Approve)

After a review of the Utah Universal Service Fund (UUSF), the Division of Public Utilities (DPU) has determined that the UUSF fund is exceeding the amount necessary to meet three months of expenditures. To ensure that the fund stays within policy norms the collection amount should be adjusted to allow the fund to stay within the Public Service Commission's (PSC) guidelines. The DPU recommends adjusting the Utah Universal Service Fund (UUSF) to \$0.54 per connection line.

Issue

On January 23, 2020, the PSC issued an Action Request to the DPU to analyze the UUSF current and anticipated revenue and expenditures, and provide a recommendation by April 22, 2020, on whether a reduction to the UUSF surcharge is appropriate.

Background

2018 was the first year that the UUSF was funded on a per connection basis. Docket No. 17-R360-01 changed the method for collecting UUSF from a percentage of revenue to a surcharge based on total line/connection count. The connection surcharge of \$0.36 per connection began on January 1, 2018. Docket No. 18-999-15 later adjusted the surcharge to \$0.60 per connection on May 1, 2019. From January to May 2019 the average monthly UUSF contributions were \$1,197,807.00, this average increased to \$1,971,509.00 during June to December¹2019 when the surcharge was increased. The overall UUSF fund decreased month to month by \$508,368.00 from January to May, but when the surcharge was increased the overall fund increased every month by \$265,604.02 from June to December. This monthly increase has inflated the USF fund; it may be wise to limit its growth to maintain a reasonable balance and allow ongoing disbursements.

Discussion

The estimated 2020 monthly average UUSF expense is \$1,476,742.23. The PSC's practice of retaining three months of expenses on hand equates to an ideal UUSF balance of \$4,430,226.70. In addition, the UUSF fund will be responsible for one-time distributions (Utah Code §54-8b-15(3)(d)). The Division anticipates at this time the fund will require approximately \$3.0 million for qualifying distributions.² This equates to a necessary balance of \$7,430,226.70. The UUSF balance as of Feb 29, 2020, is \$8,361,259.19.

For forecasting purposes, the average line count and expenses for 2019 were used with the exception of the Speech & Hearing Impaired expense, which is expected to increase by \$126,000 in 2020. The average line count for 2019 is 2,748,554.87, and with the addition of the increase in the Speech & Hearing Impaired fund, the average expenses in 2020 are estimated at \$1,476,742.23. If the current connection surcharge continues this would result in a yearly projected UUSF gain of \$2,068,688.28. However, if the surcharge were adjusted to \$0.54 per

¹ There is a one month lag between the implementation of the new rate and collecting the funds.

² The value proposed is not intended to represent a consensus among stakeholders or a Division recommendation. It is intended as a reasonable placeholder for a value that has not yet been determined by the Commission. Stakeholders are working collaboratively in an effort to reach a consensus to recommend to the Commission.

connection line, the gain would be \$89,728.80 per year or \$7,477.40 per month. The table below shows the comparison of different surcharge rates.

<u>2019 Avg # Lines</u>	<u>Rate</u>	<u>UUSF Collected Monthly</u>	<u>Yearly Projected Gain/Loss Revenue - Expense</u>
2,748,554.87	\$ 0.60	\$ 1,649,132.92	\$ 2,068,688.28
2,748,554.87	\$ 0.55	\$ 1,511,705.18	\$ 419,555.40
2,748,554.87	\$ 0.54	\$ 1,484,219.63	\$ 89,728.80
2,748,554.87	\$ 0.53	\$ 1,456,734.08	\$ (240,097.80)
2,748,554.87	\$ 0.52	\$ 1,429,248.53	\$ (569,924.40)
2,748,554.87	\$ 0.50	\$ 1,374,277.44	\$ (1,229,577.60)

One reason for the decrease in UUSF payments is the implementation of the Alternative Connect America Cost Model (ACAM). This federal program allows rate-of-return carriers that voluntarily elect to transition to a new cost model for calculating High Cost support in exchange for meeting defined broadband build-out obligations to obtain monthly payments over the next 10 years. Currently there are 3 companies in Utah receiving ACAM funds. It is unknown if any companies will elect to use these funds in the future.

With ACAM remaining steady over the next 10 years, and the adjusted expense to the Speech and Hearing Impaired fund, the required draw from the UUSF could remain somewhat consistent in the near future. Adjusting the UUSF surcharge rate to \$0.54 would allow for a slight increase over time, keeping the fund at desired reasonable level. The current excess in the fund would absorb some volatility and would slowly balance out the slight increase as costs inevitably rise over the coming years. Coupled with additional connections paying in as the Division locates and ensures compliance by additional providers, some growth in disbursements can be covered with a \$0.54 fee.

Conclusion

By adjusting the UUSF surcharge to \$0.54 per connection line, the growth of balances in the USF fund will be minimized. This will keep the fund at a manageable level as expenses slowly rise over time and companies are subsidized through other federal programs.