



State of Utah

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 Powell, Manager

Brenda Salter, Utility Technical Consultant Supervisor

Michael Healy, Utility Analyst

Date: April 15, 2021

Re: **Docket No. 21-999-10**, 2021 UUSF and Speech/Hearing Impaired Funds Status Reports.

Recommendation (Approve)

The Division of Public Utilities (DPU) has reviewed the Utah Universal Service Fund (UUSF) fund in detail and determined that the UUSF fund is exceeding the balance recommended in the Public Service Commission's (PSC) guidelines. The DPU has provided analysis supporting a reduction to the rate that will help to eliminate the monthly increases to the fund and bring the fund under \$10 million within two to three years. Included in the analysis is a projection of future connections, postpaid contributions, and prepaid wireless service contributions. The DPU recommends adjusting the UUSF surcharge rate from \$0.54 per connection line to within the range of \$0.33 to \$0.36 per connection line.

Issue

On March 4, 2021 the PSC issued an Action Request to the DPU to propose a surcharge rate that would reduce the UUSF balance to under \$10 million within one to three years, project future

contributions including those from prepaid wireless service fees, eliminate the monthly growth of the fund, and avoid future surcharge increases to the extent possible.

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. By February 29, 2020 the fund had increased to \$8,361,259 and another rate change was requested with docket 19-999-08 which reduced the rate to \$0.54 on July 8, 2020. In the four months between the rate analysis and rate change the fund grew to \$11,831,282. Due to an increase in connections above what was used in the analysis the fund reached \$16,345,778 by the end of March, 2021 and is projected to increase to \$17,135,486 by July 1, 2021.

Discussion

A change to the surcharge rate requires adjustments to websites, forms, billing, and affects, customers, telecom providers, tax representatives, and government entities. It is beneficial to hold the rate constant for as long as possible. A brief history of the surcharge rate shows that the \$0.36 rate was in effect for 16 months, the \$0.60 rate for 14 months, and the \$0.54 rate for 12 months. It would be beneficial for all parties to hold the rate steady for longer than the average of 14 months.

A one year reduction of the UUSF balance was analyzed and found to require a surcharge rate of \$0.24 per connection. This rate would reduce the fund by \$620,000 per month and would require a rate change to approximately \$0.43 after twelve months. The DPU recommends avoiding the volatility caused by bringing the fund down over one year.

The following chart shows how different surcharge rates could reduce the balance of the fund over a two and three year period.

Two Year Balance Reduction					
Surcharge Rate	Estimated Connections	Total Contributions	Estimated Expenses	Monthly Decrease	Balance on July 1, 2023
\$0.34	3,430,448	\$1,230,202	(\$1,512,500)	(\$282,283)	\$10,422,704
\$0.33	3,430,448	\$1,195,898	(\$1,512,500)	(\$316,587)	\$9,599,396
\$0.32	3,430,448	\$1,161,594	(\$1,512,500)	(\$350,891)	\$8,776,089
\$0.31	3,430,448	\$1,127,289	(\$1,512,500)	(\$385,196)	\$7,952,781
\$0.30	3,430,448	\$1,092,985	(\$1,512,500)	(\$419,500)	\$7,129,473

Three Year Balance Reduction					
Surcharge Rate	Estimated Connections	Total Contributions	Estimated Expenses	Monthly Decrease	Balance on July 1, 2024
\$0.37	3,456,419	\$1,344,975	(\$1,533,184)	(\$188,208)	\$10,421,982
\$0.36	3,456,419	\$1,310,411	(\$1,533,184)	(\$222,733)	\$9,177,671
\$0.35	3,456,419	\$1,275,847	(\$1,533,184)	(\$257,337)	\$7,933,360
\$0.34	3,456,419	\$1,241,283	(\$1,533,184)	(\$291,901)	\$6,689,049

In this analysis connections have been escalated by the forecasted rate of population growth in the state and expenses have an inflation factor applied. Total contributions are calculated by multiplying the rate by connections with the difference being contributions from prepaid wireless service fees.

On January 1, 2021, Utah Code §69-2-405 began requiring prepaid wireless transactions be subject to a service fee of 1.2% administered and collected through the Utah State Tax Commission (USTC). Prepaid wireless transactions are no longer subject to the PSC approved surcharge rate¹. The service fees collected by the USTC are then deposited into the UUSF. The DPU estimates that 375,000 prepaid wireless connections that paid the monthly PSC approved surcharge rate prior to January 1 will no longer do so.² Many providers offer both prepaid and

¹ Section R746—8-301 – Calculation and Application of UUSF Surcharge

² It should be noted that this estimate of prepaid lines is based on the best information available at the date of this report.

postpaid services and some even offer a hybrid of the two. Companies were contacted for the purpose of determining their ratio of prepaid to postpaid lines and many responded in a timely manner; however, others did not meet the deadline.

It is difficult to forecast what amount will be collected in prepaid service fees each month because prepaid service fees are based on a percentage of transaction dollar amounts rather than a constant monthly rate per line. In February and March 2021, deposits of prepaid service fees by the USTC equaled \$38,597 and \$52,482 respectively. The DPU anticipates that the monthly deposits may continue to increase to a range of \$55,000 to \$65,000 per month. In each of the following years, a population growth and an inflation factor have been included in the forecast of prepaid service fees.

Conclusion

A change in the surcharge rate is needed to reduce the UUSF to an acceptable level. Based on the charts above the DPU recommends a surcharge rate in the range of \$0.33 to \$0.36. These rates meet the requirements of reducing the balance of the UUSF to under \$10 million while also lengthening the time until the next rate change. In all cases, once the fund balance falls below \$10 million, a revised rate may be needed to bring balance to the fund.