

Agenda Date: December 11, 2014  
Item Number: A4

**Docket: UT-143047**

Company Name: Westgate Communications, LLC dba WeavTel

Staff: Roger Hahn, Regulatory Analyst  
Tim Zawislak, Regulatory Analyst  
William Weinman, Assistant Director - Telecommunications

### **Recommendation**

The commission enter an order granting the distribution of funds from the state universal communications service program (State USF Program) no later than January 15, 2015, to Westgate Communications, LLC dba WeavTel (WeavTel). The distribution of funds in the amount of \$44,820 reimburses the company for the cumulative reduction in support from the Federal Communications Commission's (FCC) Connect America Fund (CAF) Phase 1 up through and including the year for which program support is distributed.

### **I. Background**

On June 27, 2013, the Legislature passed bill 2E2SHB 1971 during the Second Special 2013 Legislative Session. The legislation addressed a number of telecommunications issues including a repeal of the sales tax exemption for residential landline phone service and establishment of the State USF Program to be administered by the Washington Utilities and Transportation Commission (commission). The State USF Program is primarily intended to provide direct financial support to Washington's small incumbent Class B telephone companies<sup>1</sup> serving high-cost rural areas of Washington. Financial support from the program is a five year transitional fund designed to offset certain revenue reductions imposed on the small companies as a result of the FCC's order FCC 11-161, commonly known as the FCC Transformation Order.<sup>2</sup> The commission may distribute an annual amount of \$5 million (less commission administrative costs) to qualifying companies during this transitional period.

On May 22, 2014, the commission issued General Order R-575 in Docket UT-131239 amending and adopting rules in WAC 480-123 to implement the State USF Program established by the legislature. The State USF Program addresses two concerns. The first is the temporary replacement support for the elimination of intrastate access rate element or the Traditional USF pool created in Docket U-85-23 and administered by the Washington Exchange Carrier

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<sup>1</sup> Class B companies that are affiliates of CenturyLink are not eligible for state universal communications program funds.

<sup>2</sup> *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17694, 17751, paras. 84-85, 238 (2011) (*USF/ICC Transformation Order*).

Association. The second is replacing the cumulative reduction in support the company previously received from the federal CAF disbursements up through and including the year for which program support is distributed.<sup>3</sup>

A company is eligible to receive distributions from the State USF Program if the company demonstrates that its financial circumstances are such that its customers are at risk of rate instability, or service interruptions, or cessations, absent a distribution to the company that will allow it to maintain local telephone rates that are reasonably close to the benchmark the commission has established.

In determining eligibility the commission will consider the following factors:

- a. The provider's earned rate of return on a total Washington company books and unseparated regulated operations basis;
- b. The provider's return on equity;
- c. The status of the provider's existing debt obligations;
- d. Other relevant factors including, but not limited to, the extent to which the provider is planning or implementing operation efficiencies;
- e. Business plan modifications to transition or expand from primary provision of legacy voice telephone service to broadband service or otherwise reduce its reliance on support from the program.<sup>4</sup>

## **II. Discussion**

WeavTel filed its petition including financial information on or before August 1 in accordance with the appropriate State USF Program rules. WeavTel did not receive Traditional USF pool support because it is only eligible to receive disbursements from the fund replacing the cumulative reduction in support the company received from the federal CAF Phase 1 up through and including the year for which program support is distributed.

Staff determined that the company met the prerequisites for requesting program support, petition requirements and eligibility requirements as stated in WAC 480-123-100, 480-123-110 and WAC 480-123-120.

Staff reviewed the company's Petition, including the financial and operational results of the Petition and has determined that the company meets the requirements of WAC 480-123. The financial and operational results of the Petition indicates significant access line growth has occurred between 2012 and 2013 and the company's capital expenditures have increased while total operating expense has decreased. Even with these improved results, the company's total

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<sup>3</sup> WAC 480-123-120(2)

<sup>4</sup> WAC 480-123-120(1)

regulated operations rate of return and the company's return on equity of combined operations, both regulated and non-regulated, are negative. The company is making monthly partial payments for its outstanding long term debt and interest expense; however, customers may be put at risk of rate instability or service interruptions, or cessations absent a distribution from the fund. Accordingly, staff concludes and recommends that WeavTel should be eligible to receive State USF Program support in the amount of \$44,820 to be disbursed to the company in January 2015.

### **III. Conclusion**

The commission should grant the request for funds from the State USF Program in the amount of \$44,820, which, consistent with the commission's rules, reflect the cumulative reduction in support the company received from CAF Phase 1 up through and including the year for which program support is to be distributed.