

Agenda Date: December 11, 2014
Item Number: A2

Docket: UT-141540

Company Name: Pend Oreille Telephone Company

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 Pend Oreille Telephone Company (Pend Oreille). The distribution of funds in the amount of \$154,600 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 companies¹ 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.² 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

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

² *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 (WECA). 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.³

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.⁴

II. Discussion

Pend Oreille filed its petition, including financial information, on or before August 1 in accordance with the appropriate State USF Program rules. Pend Oreille 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. Staff finds that the company's 2013 total operations rate of return and the company's consolidated return on equity of combined operations, both regulated and non-regulated are not excessive. In

³ WAC 480-123-120(2)

⁴ WAC 480-123-120(1)

addition, Pend Oreille has monthly and quarterly installment payments for principal and interest on long-term debt until 2029.

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 Pend Oreille should be eligible to receive State USF Program support in the amount of \$154,600, 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 \$154,600, which, consistent with the commission's rules, reflects 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.