

## **Minutes from the first Advisory Board meeting for the State Universal Communications Service Program**

### **INTRODUCTION:**

The first meeting of the Advisory Board for the State Universal Communications Service Program (State USF) as required in Washington Administrative Code (WAC) 480-123-150 was held on Tuesday, April 7, 2015 at the Washington Utilities and Transportation Commission Building at Olympia, Washington in Room 139.

Public Notice of the meeting was published on March 19, 2015 and was also listed on the Commission's public web page in the Calendar section.

### **ATTENDEES:**

The meeting began at 10:30 and all Board members participated by phone or were in attendance as listed below:

Board Members attending:

Roger Hahn, Chairman – Staff

Simon ffitich, Senior Assistant Attorney General – Public Counsel

Rhonda Weaver, Senior Director – State Government Affairs, Comcast – CLECs

Rick Vitzthum, Chief Financial Officer, Kalama and Tenino Telephone Company (ILEC's serving fewer than 40,000 access lines in Washington)

Board Members Participating by Phone:

Cindy Manheim, General Attorney AT&T – Wireless communications providers

Mark Reynolds, Northwest Region Vice President – Public Policy, CenturyLink (ILECs serving more than 40,000 access lines in Washington)

Other parties in attendance:

Brian Thomas, Commission - Acting Policy Director

Bill Weinman, Commission - Assistant Director Telecommunications

Jennifer Cameron-Rulkowski – Assistant Attorney General

Betty Buckley, Executive Vice President Washington Independent Telephone Association (WITA)

Robert Snyder, Attorney (representing several of the WITA companies)

### **AGENDA ITEMS I – V, OVERVIEW OF RULES AND REQUIREMENTS:**

Roger Hahn, Chairman, convened the meeting by welcoming all participants and Brian Thomas provided a brief overview of the history of the State Universal Service Program.

Roger Hahn discussed Agenda items II – V which included Background information of the rulemaking and WAC 480-123, State Universal Communications Service Program which details the prerequisites, petition and eligibility requirements. Chairman Hahn described the review and financial considerations Staff performed used in reviewing each company's petition. This included the following:

Regulated rate of return on a total Washington basis

Return on Equity

Debt obligations  
Business plans and operational efficiencies

Staff also considered out-of-period adjustments, allocations between regulated and nonregulated operations. A standard checklist was used by Staff in reviewing all petitions and financial results.

After the conclusion of Agenda items II – V, Simon ffitch, Board Member, asked if there were any companies that came close to not qualifying for support based upon the companies' rate of return (ROR) or return on equity (ROE). Chairman Hahn identified two companies, Skyline and Ellensburg had either high ROR or ROEs and noted that the earnings review is only one factor Staff considers in determining eligibility. The rules do not have a "bright line" test for ROR or ROE but companies' earnings are one item Staff reviewed during their analysis for eligibility. Skyline's high ROE was a result of the company's capital structure of low equity and high debt due to their Oregon affiliated operations. Skyline and its affiliated Incumbent Local Exchange Companies debt is held by the federal Rural Utilities Services agency and does not allow for cash transfers or borrowing between affiliates. With that restriction, Staff determined that Skyline did meet the eligibility requirements. The Commission imposed additional reporting requirements to these companies in their orders. This included separating the funds in a separate account and reporting of the use of these funds on specific projects.

Rick Vitzthum, Board Member also spoke about the petition and filing requirements and recognizing this was the first distribution of funds acknowledged the amount of data submitted by each company was not burdensome.

**AGENDA ITEM VI, YEAR 1, 2014 - RESULTS:**

Chairman Hahn, addressed Section VI, Year 1, 2014 – Results of the agenda. All 19 companies that filed petitions were approved and received funds. This included a distribution of \$1,155,000 to 15 companies in October as a one-time occurrence for cash flow purposes that previously received State USF. In January, all 19 companies received funds totaling \$2,120,000 which represented the cumulative reduction in support from the Connect America Fund (CAF) program.

Total funds distributed in first Year totaled \$3,275,000 or approximately \$1.7 million less than the \$5 million annual program maximum. Rhonda Weaver, Board Member, asked if the \$1.7 million would revert back to the State general fund. Brian Thomas, Commission – Policy indicated, "Yes"; however, Betty Buckley, of WITA, indicated "No" based on discussion with legislatures. Staff will research this issue and report back to the Advisory Board.

The projected distributions from the program for years 2 – 5 were included as an attachment to the Agenda which was discussed. The attachment presented to the Advisory Board estimates that the fourth and fifth year distributions will exceed the annual \$5 million limitation. This led to a discussion of pending legislation as described by Brian Thomas which if less than \$5 million is expended in any fiscal year, the unexpended portion must be carried over to subsequent fiscal years and be available for program expenditures in subsequent fiscal years. Legislation is

pending and Brian stated that the Commission's position on this legislation is neutral. Betty Buckley also stated that WITA was not actively pursuing this legislation.

Simon ffitich requested a copy of projected distributions by company.

**AGENDA ITEM VII, YEAR 2, 2015 ACTIVITY:**

Chairman Hahn indicated that Staff was working on the financial template that is included in the petition to make it more user friendly and will provide detailed instructions to make the petition process more efficient. He also indicated that Exhibit 3 in the petition which describes the company's demonstration of risk and cessation of business will require more specific company detail for the second filing. Both of these items as well as Year 1 reporting requirements will be discussed in a training session for companies on April 28.

**AGENDA ITEM VIII, PETITIONER REPORTING FOR YEAR 1 – DUE JULY 1, 2015:**

Reporting requirements of how prior year funds were used as required in WAC 480-123-130 was discussed and Chairman Hahn indicated that this would be discussed at the April 28 meeting. It is the intent of this requirement that the reporting on the use of the State USF funds be company specific.

Simon ffitich asked if Staff would be preparing a report summarizing how the money was spent once all companies submitted such reports. Brian Thomas stated that Staff was not required to issue such a report but would be required to issue a report to the legislature in three years describing how the funds of the program were being used.

Rob Snyder, stated that he did not believe the intent of the new money from the program was for capital expenditures but rather for paying costs, such as depreciation for investments that were previously made by the companies. Brian Thomas indicated that the reporting requirement for use of the funds needed more detail. Simon ffitich also stated that there is a section in the rules requiring each company to describe how it is transitioning to a new future.

**AGENDA ITEM IX, YEAR 2 PETITION FILING DUE AUGUST 1, 2015:**

Next meeting expectations and intent were discussed. Simon ffitich indicated that the purpose of the Advisory Board includes their advice in resolving issues and whether the next meeting should held prior to the Year 2, distribution. Rhonda Weaver stated that due to the turnover of new legislators it would be preferable to have our next meeting prior to the legislative session. It was agreed that the next meeting should be held in December 2015.

The meeting adjourned at 11:30 am, April 7, 2015.