

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

SKYLINE TELECOM, INC.

Requesting distribution of funds from the
state universal communications services
program created in RCW 80.36.650

DOCKET UT-170861

ORDER 01

ORDER GRANTING
DISTRIBUTION OF FUNDS FROM
THE STATE UNIVERSAL
COMMUNICATIONS SERVICES
PROGRAM SUBJECT TO
CONDITIONS

BACKGROUND

- 1* RCW 80.36.650 establishes a state universal communications services program (State USF Program) to support small incumbent telephone companies serving high-cost rural areas of Washington.¹ The State USF Program temporarily replaces both the universal service support pool (Traditional USF) and the annualized cumulative reduction in support from the federal Connect America Fund Intercarrier Compensation (CAF-ICC) up through and including the year for which program support is distributed.²
- 2* A company is eligible to receive distributions from the State USF Program if it can demonstrate that, absent such additional funding, its customers are at risk of rate instability, service interruptions, or cessations. An eligible company will receive a distribution not to exceed the sum of the amount the company received from the Traditional USF for 2012 and the cumulative reduction in support the company received from the federal CAF-ICC.
- 3* On July 28, 2017, Skyline Telecom, Inc. (Skyline or Company) filed a petition requesting support from the State USF Program for fiscal year ending June 30, 2018.

¹ This is a transitional program that partially offsets reductions of the small companies' intrastate terminating access revenues implemented by the Federal Communications Commission (FCC) in its order FCC 11-161. The program makes available an annual fund of up to \$5 million to provide distributions to qualifying companies and is scheduled to terminate after five years.

² WAC 480-123-120(2).

- 4 Commission staff (Staff) reviewed the Company's Petition, including related work papers, and has determined that the Company meets the requirements of WAC 480-123-120, which sets out the factors the Commission considers to determine whether a provider has demonstrated that its customers are at risk of rate instability, service interruptions, or cessations.³ Overall, Staff finds that the Company's total operations, rate of return (ROR), and its stand-alone return on equity (ROE), for both regulated and non-regulated operations, are not excessive.⁴
- 5 In 2016, Skyline was approved to receive State USF Program support of \$78,642 subject to the condition that the Company must incur \$78,642 in capital expenditures during calendar year 2017.⁵ This designated fund was intended to assist the Company's effort to install a 30-mile aerial-fiber build in the Silverton exchange. As of October 31, 2017, the Company has not incurred any capital expenditures for this project. Accordingly, funds have not yet been distributed. According to the Company, the construction has not begun because it has not yet secured a meet-point agreement with Frontier Communications Northwest, Inc. (Frontier). It is Staff's understanding that preliminary discussions are underway. The Company has also received a bid for construction of the aerial-fiber build and has inquired about pole attachment agreements with the power company (Snohomish County PUD) and Frontier.
- 6 For the 2018 fiscal year, Staff recommends the Commission grant Skyline State USF Program support in the amount of \$92,091 subject to the following conditions:
- (a) The company must provide Staff with an officer-approved 2018 capital budget plan of approximately \$450,000 for the project to install a 30-mile aerial-fiber build in the Silverton exchange, which will be used to support broadband. The budget plan must be submitted to Staff for review at least 30 days prior to commencing construction.

³ Pursuant to WAC 480-123-120(1), the Commission will consider the provider's earned rate of return on a total Washington company books and unseparated regulated operations basis, the provider's return on equity, the status of the provider's existing debt obligations, and other relevant factors including, but not limited to, the extent to which the provider is planning or implementing operational efficiencies and 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 Staff used a Washington ROR threshold of 10 percent to assess the Company's relative earning levels. Skyline's ROR was 9.3 percent and its stand-alone ROE was less than one percent in 2016.

⁵ See *In re Petition of Skyline Telecom, Inc. Requesting distribution of funds from the state universal communications services program created in RCW 80.36.650, Docket UT-160951, and Order 01 ¶ 3.*

- (b) Construction must begin in 2018. Once the Company provides notification and documentation to Staff that construction has started, program funds will be distributed within 30 days of the notification date.
- (c) Skyline must submit a progress report to Staff no later than January 31, 2019. The report must include cost detail of the capital expenditures and a narrative how the program funds received further the goal of the State USF Program.

DISCUSSION

7 We agree that the Company is eligible for a distribution from the State USF Program for the fiscal year ending June 30, 2018, and adopt Staff's recommendation. The Company has demonstrated that its earned ROR on its regulated Washington operations and its stand-alone ROE are at levels that may cause a risk of rate instability and/or service cessation. The goal of the State USF Program is to facilitate Class B companies' transition from voice to broadband service, and any distribution of the fund the Commission grants to Skyline should be used consistent with that objective. We share Staff's concern that the Company will again be unable to use the funds to facilitate a timely transition to broadband services. The Company's lack of action to use the funds granted last year for its network build-out plan establishes that the conditions we attach here continue to be necessary.

8 Accordingly, we find that, subject to Skyline satisfying the conditions set out in paragraph 6, above, a distribution in the amount of \$92,091 from the State USF Program is in the public interest, is consistent with the purposes underlying the regulations and applicable statutes, and should be granted.

FINDINGS AND CONCLUSIONS

- 9 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate public service companies.
- 10 (2) Skyline is a local exchange company as defined in WAC 480-120-021 and a public service company subject to Commission jurisdiction.
- 11 (3) Skyline has demonstrated that its total regulated Washington operations rate of return and its stand-alone return on equity, for both regulated and non-regulated,

are not excessive.

- 12 (4) Skyline has demonstrated that its earned rate of return and return on equity are both at levels that demonstrate a risk of rate instability or service cessation.
- 13 (5) Skyline's failure to implement the network construction plans during 2017 and described in its last request for a disbursement from the State USF Program presents a risk that subsequent funds for 2018 will not serve the Program's purpose of facilitating the Company's transition towards broadband service.
- 14 (6) Skyline is eligible to receive funding from the State USF Program for 2018 in the amount of \$92,091 subject to the conditions that (a) the Commission will not disburse the funds until Skyline provides Staff with an officer-approved 2018 capital budget plan of approximately \$450,000 for the project to install a 30-mile aerial-fiber build in the Silverton exchange which will be used to support broadband. The budget plan must be submitted to Staff for review at least 30 days prior to the beginning of construction, and (b) construction must begin in 2018, and (c) Skyline must submit a progress report to Staff no later than January 31, 2019. The report must also include cost detail of the capital expenditures and a narrative of how the program funds received further the goals of the State USF Program.

ORDER

THE COMMISSION ORDERS:

- 15 (1) The Commission grants Skyline Telecom, Inc.'s request for funds from the State USF Program for fiscal year ending June 30, 2018, in the amount of \$92,091 subject to the following conditions:
- (a) Skyline Telecom, Inc. provides Staff with an officer approved 2018 capital budget plan of approximately \$450,000 for the project to install a 30-mile aerial-fiber build in the Silverton exchange which will be used to support broadband. The budget plan must be submitted to Staff for review at least 30 days prior to the beginning of construction.
 - (b) Construction must begin in 2018. Once Skyline Telecom, Inc. provides notification and documentation to Staff that construction has started, program funds will be distributed within 30 days of the notification date.

- (c) The Commission requires that Skyline Telecom, Inc. submit a progress report to Staff no later than January 31, 2019. The report must also include cost detail of the capital expenditures and a narrative of how the program funds received further the goal of the State USF Program.
- 16 (2) The Commission retains jurisdiction over this matter for purposes of effectuating this order.

DATED at Olympia, Washington and effective November 9, 2017.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner