

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

In the Matter of the Petition of

HAT ISLAND TELEPHONE
COMPANY,

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

DOCKET UT-180670

ORDER 01

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

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) that was eliminated on July 1, 2014, and the annualized cumulative reduction in support from the federal Connect America Fund Intercarrier Compensation (CAF) 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.³
- 3 On August 2, 2018, Hat Island Telephone Company (Hat Island or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition

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 *Direct Communs. Cedar Valley, LLC v. FCC (In re FCC 11-161)*, 753 F.3d 1015 (10th Cir. 2014). 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).

³ *Id.*

requesting support from the State USF Program (Petition) for fiscal year ending June 30, 2019.

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.⁴ Overall, Staff thinks that the Company's total operations rate of return (ROR) and the Company's consolidated return on equity of combined operations, both regulated and non-regulated, are not excessive.⁵ Staff recommends the Commission find the Company eligible for State USF Program support in the amount of \$3,236 to be disbursed no later than December 21, 2018.

DISCUSSION AND DECISION

5 We agree with Staff that the Company has demonstrated its eligibility for a distribution from the State USF Program for fiscal year ending June 30, 2019.

6 The Company has demonstrated that both its earned ROR on regulated operations and rate of consolidated return on equity are at levels that reflect a risk of rate instability or service cessation.

7 We find that a distribution in the amount of \$3,236 from the State USF Program is in the public interest, consistent with the purposes underlying the regulation and applicable statutes, and should be granted.

FINDINGS AND CONCLUSIONS

8 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate public service companies, including local exchange companies.

⁴ 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.

⁵ Staff used a Washington ROR threshold of 10 percent to assess the Company's relative earning levels. Hat Island's ROR was -62.6 percent in 2017.

- 9 (2) Hat Island is a local exchange company as defined in WAC 480-120-021 and a public service company subject to Commission jurisdiction.
- 10 (3) Hat Island has demonstrated that its total operations rate of return and its consolidated return on equity of combined operations, both regulated and non-regulated, are not excessive.
- 11 (4) Hat Island has demonstrated that both its earned rate of return on regulated operations and rate of consolidated return on equity are at levels that demonstrate a risk of rate instability or service cessation.
- 12 (5) Hat Island is eligible to receive funding from the State USF Program in the amount of \$3,236 to be disbursed no later than December 21, 2018.

ORDER

THE COMMISSION ORDERS:

- 13 (1) Hat Island Telephone Company's request for funds from the State USF Program for fiscal year ending June 30, 2019, in the amount of \$3,236 is granted.
- 14 (2) The funds will be disbursed by December 21, 2018.
- 15 (3) The Commission retains jurisdiction over this matter for purposes of effectuating this order.

DATED at Olympia, Washington and effective November 8, 2018.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner