

**Minutes from the Advisory Board Meeting for the State Universal Communications Service Program held on December 16, 2016.**

**INTRODUCTION:**

The Advisory Board for the State Universal Communications Service Program (State USF), pursuant to Washington Administrative Code (WAC) 480-123-150 and described in Docket UT-150067, held its annual meeting on Friday, December 16, 2016, at the Washington Utilities and Transportation Commission Building at Olympia, Washington in Room 139.

Public Notice of the meeting and its agenda were distributed on November 21, 2016, and was also listed on the Commission's public web page in the Calendar section.

**ATTENDEES:**

The meeting began at 10:00 am P.T.; and ALL Board Members were in attendance:

**Board Members attending:**

- Roger Hahn, Commission Staff – Chairman
- Lisa Gafken, Assistant Attorney General – Public Counsel
- Rhonda Weaver, Senior Director of State Government Affairs, Comcast – (Competitive Local Exchange Companies or “CLECs”)
- Rick Vitzthum, Chief Financial Officer Kalama and Tenino Telephone Companies – (ILECs serving fewer than 40,000 access lines in Washington)
- Cindy Manheim, Executive Director – Senior Legal Counsel , AT&T – (Wireless Providers)
- Mark Reynolds, Northwest Region Vice President of Public Policy, CenturyLink – (ILECs serving more than 40,000 access lines in Washington)

**Other parties in attendance/or participating by phone:**

Tim Zawislak, Commission Staff  
Chad Magendanz, Washington State Legislature  
Frank McIntyre, Controller – Whidbey Telephone Company

**OPENING COMMENTS:**

Chairman Roger Hahn convened the meeting including the introduction of all attendees and the purpose of the Advisory Board as stated in WAC 480-123-150.

## **AGENDA:**

The published agenda items were presented by Roger Hahn which included a summary of 2016 activity and anticipated 2017 activities.

## **DISCUSSION ITEMS:**

In addition to the published agenda and a handout listing the companies receiving funds, the following is a summary of other items also discussed by Board Members and participants:

### **FCC Report 477:**

Chairman Roger Hahn described a summary of FCC Report 477 for broadband activity in Washington for companies participating in the State USF program.

- Board Member discussion included
  - a) broadband take rates, growth, speeds
  - b) voice grade access line loss
  - c) a perspective of the rural broadband market from Rick Vitzthum representing Tenino and Kalama Telephone Companies and Frank McIntyre representing Whidbey Telephone Company.
- **Take away:** Broadband subscriber growth has remained flat (even though the take rate appears to have increased – but this is nonetheless primarily a result of the voice grade access line loss in the denominator). The good news is that the customers are continuing to transition to higher speed tiers.

### **Senate Bill 5670:**

Senate Bill 5670 was passed in March of 2016, and allows for program funds not distributed in the current plan year to carry-over to the following plan year and be used if disbursements in that subsequent year exceed \$5 million (less administrative costs).

- Undistributed program funds from Year 1 were \$1.7 million, Year 2 were \$1.5 million, and Year 3 were \$1.3 million; which will all carry-over to Years 4 and 5.
- The use of undistributed program funds could occur in Years 4 and 5 if all 19 ILECs under 40,000 access lines participate and are approved.
- Passage of Senate Bill 5670 also allows disbursing program funds across fiscal periods (after June 30) if an investment in capital expenditure spending condition is met (as is anticipated to be the case for Skyline Telecom in Year 3).

### **Year 3 Disbursements:**

A summary of program funds approved for disbursement by company and individual rate of returns for Year 3 was distributed and discussed. In addition, the range of Return on Equity for companies receiving funds was provided orally by Chairman Roger Hahn. (Note: ROE is filed confidentially and individual company data was not communicated to the Board).

### **Potential Impact to future disbursements:**

- Effective July 1, 2016, the Federal USF support decreased by approximately 13 percent in the aggregate and will therefore impact the current and future earnings of the participating small ILEC companies. (e.g. Year 4 is based on 2016 financial results).
- The urban rate floor for R1 increases from \$18 to \$20 effective July 1, 2017, and is a prerequisite to receive State USF support. The increased floor does not include either the ARC or the SLC which are additional charges billed to the customer.

### **Report to the Legislature**

A discussion was held regarding the required **State USF Report to the Legislature** which is due no later than **December 1, 2017**, for the state universal communications service program. Board member, Cindy Manheim, provided a summary of the reporting requirements for context. Chairman Roger Hahn described his understanding of the process as follows:

- The UTC Policy Division is responsible for the report.
- Program participants and WITA will be requested to provide input.
- Commission Staff will provide analytical support of the program data and input.

### **Board Member Terms**

Board Members' initial appointments and terms were established for the first three years as stated in Docket UT-150067, Order 01, dated January 29, 2015.

- Chairman Roger Hahn interprets that the initial terms will expire January 29, 2018.
- Order 01 allows for the reappointment of those members, if approved by the Commission, for additional three year terms.

### **Conclusion:**

The meeting adjourned at 10:55 am, December 16, 2016.

