

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

In the Matter of the Petition of

WESTERN WAHKIAKUM COUNTY
TELEPHONE COMPANY,

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

DOCKET UT-151521

ORDER 01

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

BACKGROUND

- ¹ On May 22, 2014, the Washington Utilities and Transportation Commission (Commission) issued General Order R-575 in Docket UT-131239 amending and adopting rules in Washington Administrative Code (WAC) 480-123 to implement the state universal communications service program (State USF Program) established by the legislature.¹ The State USF Program addresses two concerns. The first is the temporary replacement support for the universal service support pool (Traditional USF), which was eliminated on July 1, 2014. The second is replacing the annualized cumulative reduction in support the company received from the federal Connect America Fund Inter-carrier 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 the company 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.

¹ RCW 80.36.650, *et seq.* establishes a state universal communications services program to support small incumbent telephone companies serving high-cost rural areas of Washington. This program 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).

3 On July 31, 2015, Western Wahkiakum County Telephone Company (WWCT or
Company) filed a petition to receive support from the State USF Program (Petition) for
the fiscal year ending June 30, 2016.

4 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
defines the factors the Commission will use to determine if a provider has demonstrated
that its customers are at risk of rate instability, service interruptions, or cessations.³

5 Staff used a total Washington-earned rate of return (ROR) of 10 percent as a threshold to
assess the petitioning companies' relative earning levels for the purpose of evaluating
their eligibility for State USF Program funds. In cases like this where a company's ROR
is greater than 10 percent, Staff also considered the other eligibility factors.

6 Staff reviewed the financial results included with WWCT's Petition and found that the
Company's Washington 2014 total operations ROR was 10.4 percent, which is slightly
higher than the threshold, but lower than the FCC's current 11.25 percent authorized rate.
Staff finds that the Company's total operations ROR and the Company's consolidated
return on equity (ROE) of combined operations, both regulated and non-regulated, are not
excessive.

7 Staff also reviewed the business plan modifications that will transition the Company from
voice telephone to broadband service. The Company made investments in regulated plant
of \$4.2 million for the four year period from 2011 to 2014. The \$2.7 million portion of
the investment made in 2014 represented approximately 15 percent of the Company's
2013 regulated plant-in-service balance. This investment will enhance the reliability,
speed, and capacity of the Company's broadband service, as well as its telephone service
offerings.

8 Staff recommends that the Commission find the Company eligible for State USF Program
support in the amount of \$233,070, which includes an adjustment for an overpayment of
\$23,093 made in 2014. These funds should be disbursed no later than December 28,
2015. Staff also recommends the Company be required to deposit funds from the State

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.

USF Program in a specific account dedicated to projects for operating efficiencies or the transition from legacy voice to broadband service, and to provide an accounting of these funds by July 1, 2016, and January 1, 2017.

DISCUSSION

9 We agree with Staff that the Company has demonstrated its eligibility for a distribution from the State USF Program for the fiscal year ending June 30, 2016. Although the Company's adjusted Washington ROR is 10.4 percent, which is slightly higher than Staff's recommended threshold of 10 percent, Staff's analysis considered the Company's business plan and capital investment program. We agree with Staff that granting support from the State USF Program will continue to promote the Company's plan and investment in broadband service, which benefits its customers. We find that a distribution in the amount of \$233,070 from the State USF Program, adjusted for the \$23,093 overpayment made in 2014, is in the public interest, is consistent with the purposes underlying the regulation and applicable statutes, and should be granted.

FINDINGS AND CONCLUSIONS

- 10 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate public service companies.
- 11 (2) WWCT is a local exchange company as defined in WAC 480-120-021 and a public service company subject to Commission jurisdiction.
- 12 (3) WWCT 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.
- 13 (4) WWCT has demonstrated that its earned rate of return on regulated operations and rate of consolidated return on equity are both at levels that demonstrate a risk of rate instability or service cessation.
- 14 (5) WWCT is eligible to receive funding from the State USF Program in the amount of \$233,070, adjusted for the \$23,093 overpayment that was made in 2014, which should be disbursed no later than December 28, 2015.
- 15 (6) WWCT should be required to deposit funds from the State USF Program in a separate account dedicated to projects for operating efficiencies or the transition

from legacy voice to broadband service, and to provide an accounting of such funds by July 1, 2016, and January 31, 2017.

ORDER

THE COMMISSION ORDERS:

- 16 (1) Western Wahkiakum County Telephone Company's request for funds from the State USF Program for fiscal year ending June 30, 2016 in the amount of \$233,070 is granted.
- 17 (2) The funds will be disbursed by December 28, 2015.
- 18 (3) Western Wahkiakum County Telephone Company is required to deposit funds from the State USF Program into a separate account dedicated to projects for operating efficiencies or the transition from legacy voice to broadband service, and to provide an accounting of such funds by July 1, 2016, and January 31, 2017.
- 19 (4) The Commission retains jurisdiction over this matter for purposes of effectuating this order.

DATED at Olympia, Washington and effective November 13, 2015.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner