

**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-160951

ORDER 01

ORDER GRANTING
DISTRIBUTION OF FUNDS FROM
THE STATE UNIVERSAL
SERVICE COMMUNICATIONS
PROGRAM WITH 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) 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 On July 20, 2016, Skyline Telecom, Inc. (Skyline or Company) filed a petition requesting support from the State USF Program (Petition) for fiscal year ending June 30, 2017.
- 4 Staff reviewed the Company's Petition, including related workpapers, and has determined that the Company meets the requirements of WAC 480-123-120, which sets out the

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).

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)⁴ and the Company's consolidated return on equity of combined operations, both regulated and non-regulated, are not excessive.

5 Staff, however, observes that Skyline has not implemented the planned \$450,000 capital project to deploy fiber into its Silverton exchange that the Company described in support of its last request for State USF Program funding.⁵ In the absence of such implementation, Staff is concerned that Skyline's capital expenditures will revert back to 2014 and 2015 levels of zero and \$57,000, respectively. The goal of the State USF Program is to facilitate companies' transition from voice to broadband service, and any distribution the Commission makes to Skyline should be consistent with that objective.

6 Staff, therefore, recommends the Commission grant Skyline State USF Program support in the amount of \$78,692 but distribute those funds only after the Company demonstrates that it has incurred that amount in capital expenditures during 2017. If Skyline makes the requisite demonstration, Staff further recommends that the Commission require the Company to submit a report no later than January 1, 2018, providing a narrative and cost detail of those capital expenditures.

DISCUSSION

5 We adopt Staff's recommendation. We agree that the Company is eligible for a distribution from the State USF Program for the fiscal year ending June 30, 2017. The Company has demonstrated that its earned rate of return on regulated operations and rate of consolidated return on equity are both at levels that reflect a risk of rate instability or service cessation. We also share Staff's concern that Skyline's failure to implement the

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 9.8 percent in 2015.

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-151526, Order 01 ¶ 3.

network build plans it described in support of its last request for State USF Program funding presents a risk that the funds we grant this year will not serve the purpose of facilitating the Company's transition to broadband service.

6 Accordingly, we find that, subject to Skyline satisfying the conditions Staff proposes, a distribution in the amount of \$78,692 from the State USF Program is in the public interest, is consistent with the purposes underlying the regulation and applicable statutes, and should be granted.

FINDINGS AND CONCLUSIONS

- 7 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate public service companies.
- 8 (2) Skyline is a local exchange company as defined in WAC 480-120-021 and a public service company subject to Commission jurisdiction.
- 9 (3) Skyline 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.
- 10 (4) Skyline 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.
- 11 (5) Skyline's failure to implement the network construction plans described in its last request for a disbursement from the State USF Program presents a risk that subsequent funds will not serve the Program's purpose of facilitating the Company's transition to broadband service.
- 12 (6) Skyline is eligible to receive funding from the State USF Program in the amount of \$78,692 subject to the conditions that (a) the Commission will not disburse the funds until Skyline has demonstrated it has incurred that amount in capital expenditures in 2017, and (b) the Company files a report by the end of that year detailing those expenditures and describing how they furthered the State USF Program's objectives.

ORDER

THE COMMISSION ORDERS:

- 13 (1) The Commission grants Skyline Telecom, Inc.'s request for funds from the State USF Program for fiscal year ending June 30, 2017, in the amount of \$78,642 subject to the following conditions:
- (a) The Commission will disperse the funds only after Skyline Telecom, Inc., provides information sufficient to demonstrate that the Company has incurred \$78,642 in capital expenditures during fiscal year 2017; and
 - (b) Skyline Telecom, Inc., files a report with the Commission no later than December 31, 2017, detailing the capital expenditures the \$78,642 funded and describing how those expenditures furthered the objectives of the State Universal Service Fund.
- 14 (2) The Commission retains jurisdiction over this matter for purposes of effectuating this order.

DATED at Olympia, Washington and effective November 10, 2016.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner