



UTAH UNIVERSAL SERVICE FUND

HISTORY AND MODIFICATION

Utah Rural Telecom Association

UNIVERSAL SERVICE POLICY

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- ▶ Both the federal and state governments have determined that ubiquitous telecommunications service should be available to every citizen of the United States at affordable rates.
- ▶ The costs for deploying services in rural remote areas of the country are a lot higher than in urban areas.
- ▶ Funding for universal service initially came from a series of access charges that long distance carriers paid as intercarrier compensation (ICC) to local exchange companies for originating and terminating the long distance calls in the rural areas.
- ▶ In 1996, the Federal Communications Act was rewritten. While the mandate for universal service remained, the funding of that mandate changed.
- ▶ Instead of funding universal service through access charges, the Federal government set up the Universal Service Fund Support through 4 programs. Providing support to high cost areas is one such program.

STATE UNIVERSAL SERVICE POLICY

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- ▶ Many states followed the FCC, including Utah, and set up state universal service funds.
- ▶ In Utah the State USF program is funded by a surcharge on every Utah customer's bill for public telecommunications service.
 - ▶ Currently the surcharge is 1% of billed intrastate retail rates for public telecommunications service.
 - ▶ The surcharge is collected by the telecom carriers in Utah and is remitted to the Public Service Commission.

DISBURSEMENTS FROM THE

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UUSF

- ▶ Under the Rate of Return regulatory system a carrier is entitled to recover its reasonable expenses in deploying services plus a reasonable rate of return from its rates charged to customers.
- ▶ The state and federal jurisdictions review a rate of return carrier's expenses and revenues to determine reasonableness, and then allow the carriers to earn a prescribed rate of return.
- ▶ Any shortfalls from revenues earned from subscribers are paid from the state and federal USF funds.
 - ▶ This permits carriers to provide service in high cost areas at reasonable rates.

Application for USF

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- ▶ Rate of return carriers are required to file an application for a USF disbursement with the Public Service Commission.
- ▶ The PSC reviews the application and determines the level of support, if any, to which a carrier is entitled.
 - ▶ The applications are rigorously reviewed and audited by the Division of Public Utilities and in some instances the Office of Consumer Service to determine whether operational costs are reasonable and prudent, and to ascertain that the USF funds are used efficiently and in the public interest.
- ▶ Utah rural rate of return telephone companies (like URTA's members) have been operating under this system for 2 decades.

RATE OF RETURN AND USF

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- ▶ It is important to remember that carriers were previously covering their expenses and return through recovery of subscriber fees and access charges from other carriers.
- ▶ The government stepped in and created the rate of return and USF systems.

Current High Cost Utah

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Universal Service

- ▶ Currently there are a total of 13 incumbent local exchange carriers that receive Utah High Cost Universal Service Support.
- ▶ Incumbent local exchange carriers in Utah received approximately \$10M in 2015 from the Utah High Cost Universal Service Fund. This support enables these carriers to provide affordable telecommunications service to the residential and business customers throughout Utah.
 - ▶ And enabled customers outside of those areas to contact friends, families, and businesses in the high cost areas.
- ▶ Without this support, providing service in such areas would be cost-prohibitive.
- ▶ State High Cost Universal Service support is vital for the continued operation of URTA rate-of-return incumbent local exchange carriers.

Universal Service Providers

Value to Utah

- ▶ The High Cost Universal Service Support the state provides to rural incumbent local exchange carriers allows the rural carriers to build and maintain the telecommunication networks necessary to offers modern telecommunication services to rural areas of Utah.
- ▶ These facilities promote:
 - ▶ Business and Tourism Opportunities
 - ▶ Public Safety
 - ▶ Medical Services
 - ▶ Educational Services
 - ▶ Wireless infrastructure
 - ▶ Connectivity to the World

URTA Members'

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Infrastructure is Critical

- ▶ Utah ranks high in deployment of telecommunications and broadband adoption.
- ▶ Rural areas of the state have access to 21st century networks because of the stable and predictable access to funding and support.
- ▶ Infrastructure cost recovery is a multi-decade process. For example, the economic life of undamaged or undisturbed fiber optic cable is 20 or more years. Utah Universal Service provides support over this life by helping recover annual depreciation expenses.
- ▶ Removal or curtailment of high cost support would jeopardize the operations of URTA members and would impact end-user customer services.

CHANGES TO THE UTAH

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UNIVERSAL SERVICE FUND

- ▶ CONTRIBUTIONS TO THE FUND HAVE BEEN DECLINING AS A RESULT OF THE METHOD BY WHICH WIRELESS CARRIERS ALLOCATE REVENUES BETWEEN VOICE SERVICE AND DATA SERVICE
 - ▶ Contributions to the fund are currently made as a percentage of intrastate retail sales.
 - ▶ As a larger portion of a wireless bill is allocated to data, or interstate services, the portion upon which the USF surcharge is applied declines.
 - ▶ So more wireless users are paying less in USF.
 - ▶ PSC has addressed this decline on an interim basis by increasing the contribution rate from 1% to 1.65% effective October 1, 2016.

Contribution Reform Needed

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- ▶ Ensure that all customers who have access to the Public Switched Network pay into the fund on an equal basis, regardless of the technology used.
 - ▶ Wireline, wireless, interconnected voice over internet protocol customers should all pay into the fund equally.
 - ▶ This will increase the contributors while ensuring that those who use the network pay.
- ▶ Move to a “per line/per connection” surcharge rather than a percentage of intrastate retail telephone revenues.
 - ▶ This will stabilize the contributions.
 - ▶ Ensure that those who use the network pay equally for such use.

UUSF CHANGES

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- ▶ Ensure that customers in Utah have access to networks capable of providing affordable basic telephone service and wholesale broadband internet access.
 - ▶ Ensure that the UUSF funds are used by incumbent telephone providers to promote cost recovery of the deployment and management of networks capable of providing basic telephone service or wholesale broadband internet access service.
- ▶ Explicitly provide that the UUSF shall be used to defray the costs of providing deployment and management of networks capable of providing basic telephone service and wholesale broadband internet access service.
 - ▶ Utah wants to be a pioneer in broadband deployment.
 - ▶ This will ensure that networks that are capable of providing voice and data are deployed and maintained.
 - ▶ Broadband networks are a key to robust economic development.

UUSF CHANGES

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- ▶ CLARIFY REQUIREMENTS FOR QUALIFYING FOR DISBURSEMENTS FROM UUSF.
 - ▶ Ensure that rules set by the Public Service Commission are designed to reduce the administrative costs for companies where possible in proceedings involving the UUSF.
 - ▶ Mirror the rate of return in Utah on the Federal rate of return.
 - ▶ Clarify that a company's depreciation method, if allowed by the FCC, will be subject to correct application, but not change in methodology.
- ▶ These few changes will eliminate several contested issues and will result in regulatory certainty for the customers, Commission and rural companies.
 - ▶ Regulatory certainty breeds investment.
 - ▶ Investment in broadband capable networks breeds economic development.

Thank You

QUESTIONS AND ANSWERS