COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO THE STATE) CASE NO. 2016-00059 UNIVERSAL SERVICE FUND)

ORDER

On February 1, 2016, the Commission, on its own motion, initiated this administrative proceeding to investigate the current and future funding, distribution, and administration of the Kentucky Universal Service Fund ("KUSF"), which provides supplemental support for authorized telecommunications carriers that also participate in the federal Lifeline program. The Commission stated that the need for the investigation arose from the projected depletion of the KUSF by April 2016, at which time the fund would no longer be able to meet its monthly obligation, absent action to increase funding or reduce spending. The Commission also stated that it would review the need to continue the KUSF, future funding levels of the KUSF, and the possibility of reducing the level of support on a permanent basis. The Commission named as parties the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, all Local Exchange Carriers, all commercial mobile radio service providers, and all eligible telecommunications carriers. The Commission established a procedural schedule providing for the filing of testimony by parties, discovery, and an opportunity for a hearing. On March 10, 2016, the Commission raised the KUSF surcharge from \$0.08 to \$0.14 on an interim basis pending the outcome of this investigation.

Commission Staff conducted multiple rounds of discovery and provided an opportunity for the parties to request a hearing. No request for a hearing was made. Accordingly this case is ripe for a decision.

BACKGROUND

The Commission has historically supported universal service¹ and, in 1995, began to explore the establishment of a universal service fund to preserve and expand universal service in Kentucky.² In Administrative Case No. 355,³ the Commission preliminarily established the KUSF. The Commission required that implicit subsidies, imbedded in terminating access rates, be removed and that universal service be explicitly subsidized.⁴ The Commission stated that the goal of the KUSF was to "promote, through wireline and wireless technology, connection to the telecommunications network,"⁵ and to "promote basic connectivity to the network,"⁶ On October 31, 1996, the Commission closed the case and established Administrative Case No. 360 "for the purpose of receiving the comments due in this

⁶ Id. at 39.

¹ See PSC Administrative Case No. 323, An Inquiry Into IntraLATA Toll Competition, An Appropriate Compensation Scheme for Completion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality (Ky. PSC Dec. 29, 1994.)

² PSC Administrative Case No, 355, *An Inquiry Into Local Competition Universal Service, and the Non-Traffic Sensitive Access Rate* (Ky. PSC Apr. 21, 1995) at 1.

³ By Order entered on September 26, 1996 ("September 26 Order").

⁴ Id. at 21.

⁵ Id. at 37.

proceeding on universal service and for the conduct of the workshops and any hearings on orders on universal service issues."⁷

The Commission established the KUSF in 1998, in Administrative Case No. 360, as well as the funding and distribution mechanisms needed to administer the KUSF.⁸ The KUSF was created to provide state matching support for the federal Lifeline program in Kentucky—at the time all eligible carriers provided landline service. In 2005, the Federal Communications Commission ("FCC") authorized non-facilities-based wireless carriers to receive Lifeline subsidies.⁹ Since 2005, the federal Lifeline program support distribution has shifted; in 2010, wireless providers received nearly 55 percent of federal Lifeline support.¹⁰

The federal Lifeline program currently provides \$9.25 per month per customer to carriers that offer Lifeline services. That support may be used to reduce or eliminate the cost of service for landline services (usually a reduction to the cost of the tariffed rate for basic local exchange rate) or allow for the provision of additional services if the provider offers bundled mobile services.

The KUSF provides \$3.50 per month per Lifeline customer. At the time of implementation of the KUSF in 1998, the federal USF would provide additional Lifeline support of 50 percent of the state support, up to a maximum of \$1.75 per month of

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⁷ PSC Administrative Case No, 355, *An Inquiry Into Local Competition Universal Service, and the Non-Traffic Sensitive Access Rate* (Ky. PSC Oct. 31, 1996) at 8–9.

⁸ PSC Administrative Case No. 360, *Inquiry Into Universal Service and Funding Issues* (Ky. PSC May 22, 1998.)

⁹ Lifeline and Linkup Reform and Modernization, Report and Order and Further Notice of Proposed Rulemaking, WC Docket No. 11-42; Lifeline and Link Up, WC Docket No. 03-109; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Advancing Broadband Availability Through Digital Literacy Training, WC Docket 12-23 (rel. Feb. 6, 2012) at ¶ 21.

matching support. Because the KUSF provided \$3.50 per month of state support, beginning in 1998, eligible telecommunications carriers ("ETCs") in Kentucky that received KUSF support would receive up to an additional \$1.75 per month per Lifeline customer from the federal USF. The FCC, in 2012, subsequently removed the matching support and established the federal Lifeline support at \$9.25 per month. Thus, ETCs receiving both federal and state support currently receive up to \$12.75 per month per Lifeline customer.

The KUSF is funded by a per-access line surcharge collected from all wireless carriers and local exchange carriers. The Commission initially established the surcharge at \$.05. The Commission, citing changes to the projected cost of the KUSF, subsequently lowered the surcharge to \$.03 per access line on November 15, 1999. Citing changes to the projected cost of the KUSF, the Commission raised the surcharge to \$.05 on November 17, 2000, and increased it to \$.08 on June 3, 2004. The surcharge was increased to \$.14 per line temporarily on March 10, 2016, as a result of the ongoing administrative investigation.

On April 27, 2016, the FCC released its Order reforming the federal Lifeline Program.¹¹ Among the changes the FCC instituted in the federal Lifeline Program are changes to the eligibility criteria for Lifeline customers and to minimum service standards for mobile voice service. Specifically, the FCC removed Low-Income Home Energy Assistance Program, the National School Lunch Program, and the Temporary

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¹¹ Lifeline and Link Up Reform and Modernization, WC Docket No. 11-42; Telecommunications Carriers Eligible for Universal Service Support, WC Docket No 09-197; Connect America Fund, WC Docket No. 10-90, Third Report and Order, Further Report and Order, and Order on Reconsideration (Rel. April 27, 2016). ("Lifeline Modernization Order").

Assistance to Needy Families from the eligibility criteria for receiving Lifeline benefits¹² and added participation in Veterans Pension benefit and Survivors Pension benefit to Lifeline's eligibility program. The FCC also established the minimum minutes for mobile voice service at 500 minutes per month.¹³ For mobile carriers offering bundled plans, the FCC added an additional requirement of 500 megabytes of data per month. The changes in the eligibility requirements became effective on December 1, 2016. The Commission issued an Order on October 19, 2016, directing Lifeline providers to file plans complying with the new FCC directives.

The Lifeline Modernization Order also provided that the minimum service standards would increase annually. Wireless providers offering bundled services would have to increase their offerings to: 750 minutes/1 gigabyte ("GB") data by December 1, 2017, and 1,000 minutes/2 GB data by December 1, 2018. After 2018 providers would need to offer a minimum of 1,000 minutes of talk time and increase the data offering to a level that the FCC determines annually. Wireless carriers offering bundled services would continue to receive the federal \$9.25 subsidy.

For voice-only customers, the minimum minutes also increase to 1,000 minutes after December 1, 2018. However, the federal support for voice-only service would gradually be reduced to zero. Federal support would remain at \$9.25 through November 30, 2019, but would decrease to \$7.25 on December 1, 2019; \$5.25 on December 1, 2020; and \$0.00 on and after December 1, 2021. Therefore, after December 1, 2021, per current FCC Order, there will be no federal support for voice-

¹² *Id.* at ¶¶ 188–196.

¹³ *Id.* at ¶ 100.

only (primarily landline) Lifeline customers. Customers will be eligible for federal Lifeline support only if they receive a wireless bundle or receive stand-alone broadband service.

DISCUSSION

The Commission does not reach its decision in this proceeding lightly. The Commission is faced with a choice: continue to raise surcharges for the KUSF, and/or reduce or eliminate the KUSF support. What is clear is that the program cannot continue in its current form.

This case was initiated due to the distressed financial condition of the KUSF. The KUSF had its largest surplus in May of 2012; since then a significant number of wireless ETCs have been certified to draw from the KUSF. Yet, there was no increase in the surcharge from 2008 until March 2016, when the Commission was forced to raise the surcharge by 75 percent.

In recent months, three carriers have taken actions that, taken as a whole, would require that the surcharge be increased substantially in order to meet pending and future KUSF obligations. The first action is a *fait accompli*. On September 1, 2016, Sprint Corporation and Virgin Mobile USA. L.P., operating under the brand Assurance Wireless, informed the Commission of a pending transaction whereby Assurance Wireless, which is not certified to receive KUSF support, would transfer approximately 13,000 Lifeline customers to i-wireless, LLC, which is certified to received KUSF support.¹⁴ The transfer of customers added an additional \$45,500 monthly liability to the KUSF. The other action involves two carriers, American Broadband and

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¹⁴ September 1, 2016 Letter from John N. Hughes to Talina Mathews, Executive Director, Kentucky Public Service Commission. A copy of the letter may be viewed here: <u>http://www.psc.ky.gov/telecomm_informational_letters/Sprint%20Corporation%202016-09-01.pdf</u>

Telecommunications Company ("American Broadband") and TracFone Wireless, Inc. ("TracFone), which are both certified as ETCs in Kentucky to receive federal Lifeline support but not KUSF. Both carriers have now petitioned the Commission to be certified to receive reimbursement from the KUSF.¹⁵ According to the most recent records maintained by the Universal Service Administrator Company ("USAC"), TracFone has approximately 66,569 Lifeline customers in Kentucky and American Broadband has approximately 5,873 Lifeline customers in Kentucky.¹⁶ If both petitions are granted, TracFone and American Broadband would seek reimbursement for 72,442 customers from the KUSF, for a monthly increase in disbursements of approximately \$253,547. In order to meet the increased liability, the surcharge would, have to be raised to at least \$0.21, a 50 percent increase from March of 2016, and a 162 percent increase within the past year. We find that a surcharge of that level is an unreasonable burden to place on Kentuckians' telephone bills.

The Commission takes notice that, according to records maintained by USAC, approximately 40 percent of eligible customers in Kentucky are currently enrolled in Lifeline.¹⁷ Thus, the surcharge could continue to increase if the adoption rate increases. The Commission desires a stable levy of the KUSF surcharge, and wishes to avoid recurrent increases to the surcharge that would be required to meet the increasing

¹⁵ See PSC Case No. 2016-00426 Petition of American Broadband and Telecommunications Company for Reimbursement from Kentucky Universal Service Fund as an Eligible Telecommunications Carrier, (Filed December 5, 2016) and PSC Case No. 2009-00100, Petition of Tracfone Wireless, Inc. for Designation as an Eligible Telecommunications Carrier In the Commonwealth of Kentucky for the Limited Purpose of Offering Lifeline and Link Up Service to Qualified Households (Petition filed Nov. 22, 2016).

¹⁶ <u>http://www.usac.org/li/tools/disbursements/results.aspx</u> (Last visited February 13, 2017).

¹⁷ See <u>http://usac.org/li/about/process-overview/stats/participation.aspx</u> (Last visited February 13, 2017).

liabilities. The alternative to increasing the surcharge is for the Commission to reduce the level of KUSF support to offset the increase of KUSF liabilities.

In Kentucky, as of February 2017, there are approximately 17,000 landline customers who receive Lifeline support.¹⁸ According to records compiled by USAC, approximately 36 percent of landline Lifeline customers are 45–65 years old, and 56 percent are over 65. These generally older customers have and will be adversely affected by FCC action.

The original goals of universal service, following on the heels of the AT&T breakup in 1983, was to ensure that all customers had access, at a minimum, to emergency services, operator services, long-distance services, and unlimited local calling. In Kentucky, low local rates were achieved by artificially inflating access charges—the fees that long-distance companies pay to local companies to complete calls. This allowed the local carriers, particularly rural carriers, to charge artificially low rates for basic local exchange service

The introduction of the federal USF in 1996, and the KUSF in 1998, provided further reductions in rates so that several Lifeline customers of rural carriers received basic service at no charge. Thus, Lifeline continued to provide and promote the necessary connectivity that was the original intent of universal service.

Beginning in 2011, the FCC, in reforming intercarrier compensation, also implemented reforms that have led to increases in basic local exchange rates for rural

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¹⁸ <u>http://www.usac.org/li/tools/disbursements/results.aspx</u> (Last visited February 13, 2017).

carriers.¹⁹ First, the FCC began to gradually reduce access rates to zero. This has deprived the rural carriers of the implicit subsidy from artificially high access rates that rural carriers used to keep local rates low. Second, the FCC established minimum benchmark rates for basic local exchange service that the carriers must charge in order to receive high-cost loop support, which is federal support designed to defray the costs of providing local service in high-cost areas. If a rural carrier did not increase its basic local exchange rates to the minimum benchmark rate, the carrier would suffer a reduction in high-cost loop support. The minimum benchmark rate is currently \$18 and will increase to \$20 on July 1, 2017.²⁰ Due to FCC mandates, rural carrier basic local exchange rates have, in some cases, increased by over 200 percent in the past five years, and will likely increase in the future.

We do not believe this to be reasonable, as the increase may leave some of the most vulnerable Kentuckians, the elderly and those who live in rural areas with limited wireless coverage, at a disadvantage compared to other Lifeline customers. The loss of the federal Lifeline subsidy and the FCC-mandated increase in basic local exchange service rates jeopardize these Kentuckians' ability to access the telephone network and emergency services. Accordingly, we find that KUSF support will no longer be available to wireless Lifeline and will be limited only to the provision of landline Lifeline services. Thus, not only will KUSF support remain for landline Lifeline, the KUSF support will

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¹⁹ See In the Matter of Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform: Mobility Fund, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011).

²⁰ In the Matter of Connect America Fund et al, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54 (June 10, 2014), at 7.

increase as the federal support decreases. The KUSF support for landline Lifeline will increase commensurate with the federal support decrease on a cent for cent basis, until the KUSF support reaches a maximum of \$7.50.

The mobile Lifeline providers operate in a competitive market, with over 25 wireless carriers generally competing across the state. This provides competitive pressure to keep rates low and provide additional services in order to attract and maintain customers. We do not believe that removing KUSF support from wireless Lifeline will have a substantial impact on the current competitive market. The combination of the FCC minimum standards, and the federal subsidy, should be sufficient to continue to promote the competitive provision of mobile voice and broadband services. Even if the reduction of KUSF support leads to a reduction in wireless Lifeline services offered to Kentucky customers, we note that the new federal minimums require levels of data and voice service that are far more generous than almost all Lifeline offerings in Kentucky prior to December 16, 2016.

Similar competitive pressures do not exist for landline customers, where in many cases the only landline ETC is the incumbent carrier in the area. For customers of the rural carriers in particular, the loss of the federal subsidy in conjunction with the recent increases in local exchange rates will lead to a substantial increase in monthly charges for basic local exchange service. The KUSF support will be increasingly important to these customers.

Wireless ETCs may have to adjust their business models to conform to the ruling in this Order. Therefore the Commission will allow ample time for them to make any necessary adjustments. There is an approximate two-month lag between when Lifeline

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services are rendered and when payment is remitted from the KUSF. To ensure that all carriers receive payment for Lifeline services rendered, wireless ETCs will no longer be able to request reimbursement from the KUSF for Lifeline services provided after April 30, 2017. KUSF payments to wireless ETCs will cease with the payment for services provided for the month of April 2017. The per-line KUSF surcharge beginning July 1, 2017, will be reduced to \$0.03 per line.

There are remaining issues to be investigated in this matter, particularly with the calculation of the payment of the surcharge into the KUSF. The Commission will continue to investigate the remaining issues through a subsequent Order.

Based upon the foregoing, it is HEREBY ORDERED that:

1. Beginning May 1, 2017, KUSF Lifeline support will be limited to landline Lifeline service only.

2. Wireless ETCs will not be reimbursed from the KUSF for Lifeline service provided after April 30, 2017.

3. KUSF payments to wireless ETCs will cease with the payment for the month of April 2017.

 The surcharge for the KUSF will be reduced to \$0.03 per line on and after July 1, 2017.

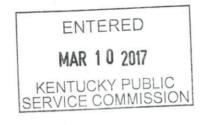
5. The KUSF support will increase commensurate with the federal support decrease cent for cent from the current \$3.50 until KUSF support reaches a maximum of \$7.50.

 Each ETC shall notify its customers of any changes to the rates or services of the ETC's Lifeline offerings.

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By the Commission



ATTEST:

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Case No. 2016-00059

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*Rural Cellular Corporation dba Verizon Wireless Rural Cellular Corporation dba Verizon Wireless One Verizon Way Mailcode VC53S475 Basking Ridge, NJ 07920 *Alltel Communications, LLC Alltel Communications, LLC One Verizon Way Mailcode VC53S475 Basking Ridge, NJ 07920

*Beaver Telecom, LLC Beaver Telecom, LLC 1509 McDuffie Street Houston, TX 77019

*Win.Net Telecommunications, Inc. Win.Net Telecommunications, Inc. 332 W Broadway, Suite 214 Louisville, KY 40202

*Easy Telephone Service Company dba E Easy Telephone Service Company dba Easy 4352 SE 95th Street Ocala, FL 34480

*dishNet Wireline, LLC dishNet Wireline, LLC 9601 S Meridian Blvd Englewood, CO 80112

*Solavei, LLC Solavei, LLC 10500 NE 8th Street, Suite 1300 Bellevue, WA 98004

*NextGen Communications, Inc. NextGen Communications, Inc. 275 West Street, Suite 400 Annapolis, MD 21401 *Ted Heckman Managing Director, Regulatory & Government Cincinnati Bell Telephone Company 221 E Fourth Street, Room 103-1170 Cincinnati, OH 45202

*Cumberland Cellular, Inc. dba Duo Co Cumberland Cellular, Inc. dba Duo County 2150 N Main Street P. O. Box 80 Jamestown, KY 41269

*Wild Telecommunications, Inc. Wild Telecommunications, Inc. 220 Greenbriar Road Lexington, KY 40503

*MuniNet Fiber Agency MuniNet Fiber Agency 1500 Broadway Street Paducah, KY 42001

*The Electric Plant Board of the City d/b/a The Electric Plant Board of the City of Paducah, 1500 Broadway Street Paducah, KY 42001

*Edward T Depp Dinsmore & Shohl, LLP 101 South Fifth Street Suite 2500 Louisville, KENTUCKY 40202

*IM Telecom, LLC d/b/a Infiniti Mobil IM Telecom, LLC d/b/a Infiniti Mobile 1705 South Baltimore Avenue Tulsa, OK 74119 *BellSouth Telecommunications, LLC db BellSouth Telecommunications, LLC dba AT&T 601 W Chestnut Street 4th Floor East Louisville, KY 40203

*BellSouth Telecommunications, LLC db BellSouth Telecommunications, LLC dba AT&T 601 W Chestnut Street 4th Floor East Louisville, KY 40203

*Teleport Communications America, LLC Teleport Communications America, LLC 601 W Chestnut Street 4th Floor East Louisville, KY 40203

*BellSouth Long Distance, Inc. dba AT BellSouth Long Distance, Inc. dba AT&T Long 601 W Chestnut Street, Suite 408 Louisville, KY 40203

*Cricket Wireless, LLC Cricket Wireless, LLC 12735 Morris Road, Building 200 Alpharetta, GA 30004

*Duo County Telephone Cooperative Cor Duo County Telephone Cooperative Corporation, 2150 N Main Street P. O. Box 80 Jamestown, KY 42629

*AT&T Corp. AT&T Corp. 601 W Chestnut Street 4th Floor East Louisville, KY 40203 *New Cingular Wireless PCS, LLC dba A New Cingular Wireless PCS, LLC dba AT&T 1010 N St Mary's Street, 9th Floor San Antonio, TX 78215

*Velocity Networks of Kentucky, Inc. Velocity Networks of Kentucky, Inc. 120 East Third Street Russellville, KY 42276

*Telecommunication Properties, Inc. Telecommunication Properties, Inc. 901 Main Street, Suite 2600 Dallas, TX 75202

*i-Wireless, LLC i-Wireless, LLC 1 Levee Way, Suite 3104 Newport, KY 41071

*Eastern Telephone & Technologies Eastern Telephone & Technologies 106 Power Drive Pikeville, KY 41501

*Windstream Norlight, LLC Windstream Norlight, LLC 4001 Rodney Parham Road Little Rock, AR 72212

*US LEC of Tennessee, LLC dba PAETEC US LEC of Tennessee, LLC dba PAETEC 4001 N Rodney Parham Road Little Rock, AR 72212 *Windstream Kentucky West, LLC Windstream Kentucky West, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*Windstream NuVox, LLC Windstream NuVox, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*Talk America, LLC Talk America, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*Network Telephone, LLC Network Telephone, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*McLeodUSA Telecommunications Service McLeodUSA Telecommunications Services, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*The Other Phone Company, LLC dba Access The Other Phone Company, LLC dba Access One 4001 N Rodney Parham Road Little Rock, AR 72212

*Windstream Communications, LLC Windstream Communications, LLC 4001 N Rodney Parham Road Little Rock, AR 72212 *Windstream KDL, LLC Windstream KDL, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*PAETEC Communications, LLC PAETEC Communications, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*Windstream NTI, LLC Windstream NTI, LLC 4001 N Rodney Parham Road Little Rock, AR 72212

*Windstream Kentucky East, LLC Windstream Kentucky East, LLC 4001 N Rodney Parham Road Little Rock, AR 72212