Texas Universal Service Fund (TUSF)

Senate Business and Commerce Committee Hearing
October 9, 2012
Texas Universal Service Fund (TUSF)

• Concept of Universal Service
  – All citizens should have access to basic telecommunications services.
  – Rural areas generally have much higher costs to provide service, and if the rates fully reflected that cost, the rates may be at an unreasonably high level.

• Originally, long distance rates (and rates for other services) subsidized low rural local rates.
  – Once telecommunications markets became open to competition, this became unsustainable. Also, implicit subsidy mechanisms like this tend to create other inefficiencies.

• In the 1990s, Universal Service Funds were reformed to convert these implicit subsidies within long-distance rates to explicit subsidies through a surcharge.
  – Large company high cost support established through use of long-run incremental cost models
  – Smaller companies support calculated based on then-existing subsidy
  – Support in all cases provided on a per-line basis, with support provided on a competitively neutral basis (goes with the customer)

• Social services programs also funded as a means of targeting specific needs
Texas Universal Service Fund (TUSF)

• Fund authorized by Public Utility Regulatory Act (PURAA)
  – Fund exists outside the Treasury, but overseen by PUCT
  – Instituted via Chapter 56 of PURA and PUCT rules

• Programs to assist Texas residents, as needed, in obtaining basic telephone services. Generally fall into three categories:
  – High Cost Programs
    • “Assist telecommunications providers in providing basic local telecommunications service at reasonable rates in high cost rural areas”
  – Social Services Programs
    • Low income rate discounts
    • Subsidized communications services to disabled
  – Administration of fund
    • Cover expenses of administering fund programs including low-income enrollment process and auditing
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TUSF Assessment/Surcharge

• Funded by a fee assessed on telecommunications providers’ receipts for intrastate telecommunications services. PUC sets the level of this fee.

• Assessed on traditional land-line and wireless providers

• Current TUSF surcharge is 4.3% of assessable receipts

• Providers are allowed to pass through the assessment to customers as a line item on bills
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History of TUSF Surcharge

• Fund Assessment Rates
  ▪ September 2004 – October 2006 5.65%
  ▪ October 2006 5.00%
  ▪ July 2007 4.40%
  ▪ January 2009 3.40%
  ▪ December 2011 4.30%

• Factors affecting surcharge level
  – Expenses also fell by $140 million from 2006-2011, a 25% decrease, but not as fast as revenues.
## Texas Universal Service Fund (TUSF)

### Programs in Fund and FY 2011 Disbursements

<table>
<thead>
<tr>
<th>High Cost Assistance Programs</th>
<th>Program Description</th>
<th>Annual Disbursements FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas High Cost Universal Service Plan (THCUSP)</td>
<td>Assist eligible telecom providers in high cost rural areas in providing basic service at reasonable rates; Available to providers in areas of 4 largest providers – AT&amp;T, Verizon, Century Link, Windstream-Valor</td>
<td>$265.8 M</td>
</tr>
<tr>
<td>Small and Rural Incumbent Local Exchange Company (ILEC) Universal Service Plan</td>
<td>Assist eligible small and rural telecom providers in high-cost rural areas in providing basic service at reasonable rates; Available to providers in the areas other than the 4 largest</td>
<td>$79.9 M</td>
</tr>
<tr>
<td>Implementation of PURA 56.025</td>
<td>ILECs with fewer than 31,000 lines may request additional funds from TUSF based on proven needs caused by certain government actions.</td>
<td>$4.6 M</td>
</tr>
<tr>
<td>Additional Financial Assistance (AFA)</td>
<td>Non-Chapter 58/59/65 ILECs, serving high-cost rural areas, may request additional funds from TUSF; ILEC must prove need</td>
<td>$0</td>
</tr>
<tr>
<td>Eligible Telecommunications Providers for Uncertificated Areas</td>
<td>Provides for the PUC to designate a provider for uncertificated areas and allow cost recovery from the TUSF as appropriate; Provides for cost recovery for providers that volunteer to serve uncertificated areas.</td>
<td>$161 K</td>
</tr>
</tbody>
</table>
## Texas Universal Service Fund (TUSF)

### Programs in Fund and Approximate Level of Annual Disbursements (Cont.)

<table>
<thead>
<tr>
<th>Social Services Programs</th>
<th>Program Description</th>
<th>Annual Disbursements FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursement for Certain IntraLATA Service</td>
<td>Non-Chapter 58/59 ILECs eligible for reimbursement for provisions of discounted IntraLATA interexchange high-capacity services to certain non-profit entities</td>
<td>$2.7 M</td>
</tr>
<tr>
<td>Lifeline Service Program</td>
<td>Provides for discounted local phone service for qualified low-income customers and households</td>
<td>$43.1 M</td>
</tr>
<tr>
<td>Telecommunications Relay Service</td>
<td>Provides telecommunications service for hearing-impaired or speech-impaired individuals</td>
<td>$4.2 M</td>
</tr>
<tr>
<td>Specialized Telecommunications Assistance Program (STAP)</td>
<td>Provides procedures for a program and reimbursement to providers of specialized telecommunications equipment or services</td>
<td>$23.9 M</td>
</tr>
<tr>
<td>Audio Newspaper</td>
<td>Provides access to spoken newspapers for visually impaired individuals</td>
<td>$453 K</td>
</tr>
<tr>
<td>Administration of Fund</td>
<td>Administration costs for running programs</td>
<td>$1.3 M</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>$426.1 M</td>
</tr>
</tbody>
</table>
Texas Universal Service Fund (TUSF)

- Legislation passed last session
  - SB 980
    - Required PUCT to evaluate all TUSF programs, make changes, and report back on whether fund is meeting its purpose
    - Provided that deregulated areas do not receive TUSF support (codified PUCT decisions)
      - markets with less than 30,000 in population can receive support if provider demonstrates support is needed to continue service at reasonable rates
  - HB 2603
    - Increased TUSF disbursements to small and rural phone companies through September 1, 2013
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Current PUCT TUSF-Related Projects – High Cost

• Project No. 39937 - Rulemaking to evaluate large company high cost program - *Completed*
  – PUC to set “reasonable rate”. To the extent companies are below that, USF support to be reduced with opportunity to raise local rates.
  – Increase in low-income support to offset a portion of rate increase
  – Contested proceeding to implement – *Completed w/ effective date of 1/1/13*

• Project No. 39938 - Rulemaking to evaluate small company high cost program – *Scheduled for adoption at in later October/early November*
  – As published, comparable to Project No. 39937 large company rule
  – Will also be implemented with contested cases, support/rate changes to be effective January 1, 2014

• Project No. 40342 - Rulemaking to further evaluate high-cost funding needs of providers
  – Consideration of more in-depth evaluation of providers’ need for support
  – May consider revisions to additional financial assistance rules as well
Texas Universal Service Fund (TUSF)

- **Large Company High Cost Program Changes**
  - Reasonable rate established at $23.50-$24.00 per month
  - Maximum annual rate increase of $2.00 per month per year
  - AT&T, and Verizon elected to completely eliminate TUSF support in all exchanges by 1/1/17
  - Reductions in support for all companies in Large Company Fund Total $96 million per year by 2017

<table>
<thead>
<tr>
<th></th>
<th>AT&amp;T Texas</th>
<th>Verizon SW</th>
<th>CenturyLink</th>
<th>Windstream</th>
<th>Total THCUSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current BLTS Rate</td>
<td>$16.15</td>
<td>$17.00</td>
<td>$18.00</td>
<td>$15.50</td>
<td></td>
</tr>
<tr>
<td>Reasonable Rate</td>
<td>$24.00</td>
<td>$24.00</td>
<td>$24.00</td>
<td>$23.50</td>
<td></td>
</tr>
<tr>
<td>Incremental Revenue</td>
<td>$7.85</td>
<td>$7.00</td>
<td>$6.00</td>
<td>$8.00</td>
<td></td>
</tr>
<tr>
<td>Regulated Res Lines</td>
<td>293,516</td>
<td>114,667</td>
<td>120,614</td>
<td>178,746</td>
<td>707,543</td>
</tr>
<tr>
<td>Total Support Reduction</td>
<td>$27,649,207</td>
<td>$9,632,028</td>
<td>$8,684,208</td>
<td>$17,159,616</td>
<td>$63,125,059</td>
</tr>
<tr>
<td>Annual Support Reduction</td>
<td>$6,912,302</td>
<td>$2,408,007</td>
<td>$2,171,052</td>
<td>$4,289,904</td>
<td>$15,781,265</td>
</tr>
<tr>
<td>Current Annual Support</td>
<td>$30,623,749</td>
<td>$39,953,016</td>
<td>$36,149,020</td>
<td>$72,329,874</td>
<td>$179,055,660</td>
</tr>
<tr>
<td>2013 Support Amount</td>
<td>$23,711,448</td>
<td>$37,545,009</td>
<td>$33,977,968</td>
<td>$68,039,970</td>
<td>$163,274,395</td>
</tr>
<tr>
<td>2014 Support Amount</td>
<td>$16,799,146</td>
<td>$35,137,002</td>
<td>$31,806,916</td>
<td>$63,750,066</td>
<td>$147,493,130</td>
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<tr>
<td>2015 Support Amount</td>
<td>$9,886,844</td>
<td>$32,728,995</td>
<td>$29,635,864</td>
<td>$59,460,162</td>
<td>$131,711,865</td>
</tr>
<tr>
<td>2016 Support Amount</td>
<td>$2,974,542</td>
<td>$30,320,988</td>
<td>$27,464,812</td>
<td>$55,170,258</td>
<td>$115,930,600</td>
</tr>
<tr>
<td>2017 Support Amount</td>
<td>$-</td>
<td>$-</td>
<td>$27,464,812</td>
<td>$55,170,258</td>
<td>$82,635,070</td>
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Current PUCT TUSF-Related Projects: Non-High Cost

- Project No. 39939 - Rulemaking to ensure administration of fund is transparent and accountable – *posted for consideration at the October 12 Open Meeting*

- Project No. 39717 - Rulemaking regarding TUSF assessment of VoIP-based service – *posted for consideration at the October 12 Open Meeting*

- Project No. 39936 - Report to Legislature on TUSF – *posted for consideration at the October 12 Open Meeting*
  - Includes evaluation of social programs and summary of results of other proceedings

- PURA 56.025 – Processing of requests for TUSF replacement of Federal USF reductions - *ongoing*
  - FCC has recently reduced support from the Federal USF fund. PURA allows certain companies to request additional funds from TUSF to offset these cuts.
  - One request pending. Anticipate 25-30 additional petitions.
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Questions?

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