

ITEM NO. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 7, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2018

DATE: October 25, 2017

TO: Public Utility Commission

FROM: Jon Cray *JC*

THROUGH: Michael Dougherty *M* and David Poston *DP*

SUBJECT: RESIDENTIAL SERVICE PROTECTION FUND: (Docket No. UM 1180(12)) Surcharge Rate Review and Recommendation.

STAFF RECOMMENDATION:

Reduce the monthly surcharge rate for the Residential Service Protection Fund (RSPF) to \$0.06 for calendar year 2018.

DISCUSSION:

Issue

Whether the Commission should adjust the current RSPF surcharge rate.

Applicable Law

Chapter 290, Oregon Laws 1987, §7(1), as amended, allows a monthly surcharge to be assessed on each landline or wireless subscriber who has access to the Oregon Telecommunications Relay Service (OTRS) and the rate may not exceed \$0.35.

The surcharge provides revenue for three telephone assistance programs: Telecommunication Devices Access Program (TDAP), Oregon Telephone Assistance Program (OTAP), also known as Oregon Lifeline, and OTRS. Under Chapter 290, Oregon Laws 1987, §7(3), the Commission must review the surcharge and the RSPF balance on an annual basis in order to adjust the surcharge as necessary to ensure the fund has adequate resources, yet does not exceed six months of projected expenses.

Analysis

Background

Staff annually reviews the revenue and expenditures of the previous year and calculates projections for the next year to determine whether the current surcharge rate is sufficient to sustain expenditures and maintain a six-month reserve balance.

On December 7, 2016, the Commission adopted Staff's recommendation to maintain the RSPF surcharge at \$0.07, effective January 1, 2017, to reduce the ending balance to match the six-month operating costs. See Order No. 16-471.

Despite maintenance of the RSPF surcharge rate at \$0.07 in calendar year 2017, the fund still exceeds six months of projected expenses due to a few factors.

1. On April 24, 2017 Sprint Corporation (Sprint) and i-wireless, LLC (i-wireless) terminated a joint venture agreement in which Sprint would have acquired an ownership interest in i-wireless, an Oregon Eligible Telecommunications Carrier (ETC) and Eligible Telecommunications Provider (ETP). As part of that agreement, Virgin Mobile USA, L.P. (Virgin Mobile), also an ETC and ETP subsidiary of Sprint, would have transferred its Lifeline customers, under the Assurance Wireless brand, to i-wireless' Access Wireless brand. Virgin Mobile claimed federal Lifeline support¹ for approximately 19,000 customers whereas i-wireless planned to claim both federal Lifeline and OTAP support for those customers (i.e., \$3.50).² Staff had based its recommendation on the expectation that expenditures for OTAP would double. However, because of the terminated transaction, OTAP expenditures were not as projected.
2. Contracts for the purchase and distribution of TDAP equipment had not been executed due to the unforeseen need to cancel and reissue a revised Request for Proposal. The Commission only purchased approximately \$188,000 worth of specialized telecommunications equipment, including speech generating devices and tablets in fiscal year 2017 as opposed to more than a million in fiscal year 2016.

Reducing the surcharge rate to \$0.06 is expected to match the RSPF ending balance with six-months of operating costs. The current ending balance continues to hover around \$3.8 million with a six-month operating cost of less than \$2 million. However, Staff estimates by the end of 2018, the ending balance will be \$1.5 million, which will be

¹ The Commission granted Virgin Mobile's request for a waiver of Oregon Administrative Rule 860-033-0035(1)(c) in Docket No. Um 1522. See Order No. 12-015.

² i-wireless, at the time, did not have any Lifeline customers in Oregon.

more aligned with the projected six-month operating cost of \$1.9 million. Also, even with a rate reduction \$0.06 for statutory compliance, it appears that an increase in the surcharge rate may be necessary in calendar year 2019 to accommodate the forecast of increased program expenditures.

Below is an overview of the surcharge history since the program's inception.

| | |
|--------------------------------|--------|
| October 1987 – June 1990 | \$0.25 |
| July 1990 – June 1993 | \$0.15 |
| July 1993 – August 1994 | \$0.16 |
| September 1994 – December 1996 | \$0.25 |
| January 1997 – December 1997 | \$0.13 |
| January 1998 – December 2001 | \$0.10 |
| January 2002 – December 2004 | \$0.13 |
| January 2005 – December 2005 | \$0.10 |
| January 2006 – January 2007 | \$0.08 |
| February 2007 – December 2008 | \$0.05 |
| January 2009 – December 2009 | \$0.09 |
| January 2010 – December 2013 | \$0.12 |
| January 2014 – December 2014 | \$0.11 |
| January 2015 – December 2015 | \$0.09 |
| January 2016 – December 2017 | \$0.07 |

Conclusion

Staff finds that reducing the surcharge rate to \$0.06 for the calendar year 2018 is necessary to match the ending balance with forecasted operating costs, yet will ensure the RSPF has adequate resources in 2018.

PROPOSED COMMISSION MOTION:

Approve a decrease in the RSPF monthly surcharge rate from \$0.07 to \$0.06, effective January 1, 2018.