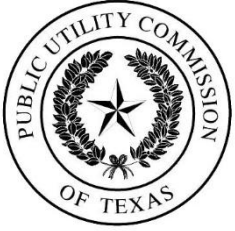




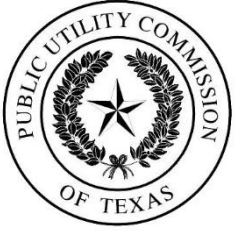
Texas Universal Service Fund (TUSF)

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 (PURA)
 - 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



Texas Universal Service Fund (TUSF)

TUSF Assessment/Surcharge

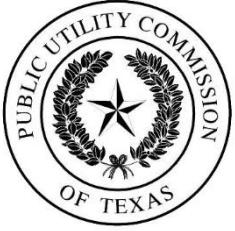
- Funded by a fee assessed on telecommunications providers' receipts for intrastate telecommunications services. PUC sets the level of this fee.
- Assessed on traditional land-line and wireless providers
- Current TUSF surcharge is 4.3% of assessable receipts
- Providers are allowed to pass through the assessment to customers as a line item on bills



Texas Universal Service Fund (TUSF)

History of TUSF Surcharge

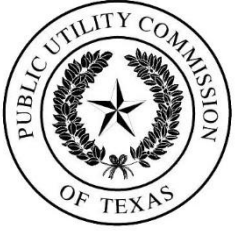
- Fund Assessment Rates
 - September 2004 – October 2006 5.65%
 - October 2006 5.00%
 - July 2007 4.40%
 - January 2009 3.40%
 - December 2011 4.30%
- Factors affecting surcharge level
 - Telecommunications revenue grew through 2008, but declined rapidly from 2008-2011. A combination of declining revenue and declining assessment rates meant Texans paid about \$300 million less in 2011 vs. 2006.
 - 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

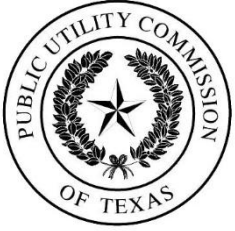
High Cost Assistance Programs	Program Description	Annual Disbursements FY 2011
Texas High Cost Universal Service Plan (THCUSP)	Assist eligible telecom providers in high cost rural areas in providing basic service at reasonable rates; Available to providers in areas of 4 largest providers – AT&T, Verizon, Century Link, Windstream-Valor	\$265.8 M
Small and Rural Incumbent Local Exchange Company (ILEC) Universal Service Plan	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	\$79.9 M
Implementation of PURA 56.025	ILECs with fewer than 31,000 lines may request additional funds from TUSF based on proven needs caused by certain government actions.	\$4.6 M
Additional Financial Assistance (AFA)	Non-Chapter 58/59/65 ILECs, serving high-cost rural areas, may request additional funds from TUSF; ILEC must prove need	\$0
Eligible Telecommunications Providers for Uncertificated Areas	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.	\$161 K



Texas Universal Service Fund (TUSF)

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

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



Texas Universal Service Fund (TUSF)

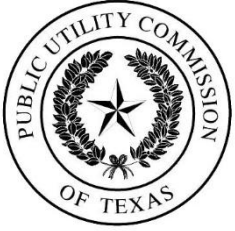
- Legislation passed last session
 - SB 980
 - Required PUCT to evaluate all TUSF programs, make changes, and report back on whether fund is meeting its purpose
 - Provided that deregulated areas do not receive TUSF support (codified PUCT decisions)
 - markets with less than 30,000 in population can 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



Texas Universal Service Fund (TUSF)

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

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



Texas Universal Service Fund (TUSF)

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.



Texas Universal Service Fund (TUSF)

Questions?

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Public Utility Commission of Texas

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