

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: **November 13, 2015***Agenda Item #1

Company: All Local Service Providers

Docket No. P999/CI-15-535

In the Matter of the Telephone Assistance Plan (TAP) Annual Review

Issues: Should the Commission maintain the current TAP credit and surcharge levels?

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Relevant Documents

Revised TAP Reports for CY 2014 July 14, 2015

Commission Order Accepting Reports, Retaining Benefit and Surcharge Levels and Setting
Schedule for Future Action August 31, 2015

TAP CY2015, Six Month Review September 1, 2015

Department Comments September 30, 2015

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Statement of Issues

Should the Commission maintain the current TAP credit and surcharge levels?

Background

Under Minn. Stat. §§ 237.69–71, the Commission is the coordinator of the Telephone Assistance Plan (TAP), a program that provides monthly bill credits to low-income telephone subscribers. The bill credits are funded by a monthly surcharge on every access line in the state.

Local service providers collect the surcharges, and remit them to the TAP Fund (which is held by the Department of Public Safety), and apply the credits to the bills of TAP participants. The TAP Fund reimburses the service providers for the cost of the credits and for reasonable administrative costs. The Commission is in charge of the reimbursement process, including collecting and auditing data from the service providers. (See Minn. Stat. § 237.70, subd. 7 (d) (3) and (5)).

The Commission is also charged with determining both the amount of the credits and the amount of the surcharge, subject to statutory maximums. (See Minn. Stat. § 237.70, subd. 7 (d) (1) and (2)).

Commission rules require it to examine credit and surcharge levels at least annually (See Minn. R. 7817.0500) and authorize it to adjust those levels at any point on 30 days' notice. (See Minn. R. 7817.0700)

On July 10, 2013, the Commission issued its Order Establishing New Credit and Surcharge Levels in Docket No. P999/CI-13-213 increasing the monthly credit from \$2.50 to \$3.50 per month and decreasing the monthly surcharge from \$0.06 to \$0.03 per access line resulting in a declining fund balance over time.

On September 8, 2014, the Commission retained the current levels of TAP benefit at \$3.50 and the monthly surcharge at \$0.03, noting that the funding appeared sufficient to meet current demands at that time.

On July 14, 2015, the 2014 TAP Reports were submitted by the Administrator.

On August 20, 2015, the Commission met to consider the local service providers' 2014 annual TAP reports, filed under Minn. R. 7817.0900, subp. 4, and to consider adjusting TAP credit levels or surcharge levels.

The Commission's TAP Administrator submitted both provider-specific and industry-aggregate data covering all local service providers, showing numbers of TAP enrollees, numbers of access lines, surcharge collections, credits reimbursed, and administrative expenses reimbursed. The Administrator reported a TAP Fund end-of-year (calendar year 2014) balance of \$1,539,468.

The Commission concluded in its August 31st Order that the end-of-year balance, plus ongoing surcharge collections, would provide an operating reserve and cover TAP credits and related costs through 2015 and the first half of 2016, *assuming no change in relevant factors*. (Emphasis added.) Noting that relevant factors could change, the Commission set a schedule to monitor and reexamine these issues before the end of the calendar year 2015, to protect against both over and under collection of the TAP surcharge and to ensure the uninterrupted provision of TAP credits.

The Commission's Order on August 31, 2015 in this proceeding:

1. Accepted the 2014 TAP reports filed by all local service providers;
2. Retained the current TAP bill credit and access-line surcharge; and
3. Scheduled the Commission to reexamine TAP bill-credit and surcharge issues on or about November 12, 2015, following the 6 month updated report on September 1st and comments by interested parties by October 1.

Before the Commission now is the 6 month updated report and responding Comments submitted by the Department of Commerce (DOC).

TAP Administrator's 6-Month Update

The Administrator's 6-month update to the annual TAP report was filed on September 1, 2015.

Service providers having 100 subscribers or more report TAP information on a monthly or quarterly basis. Providers having fewer than 100 subscribers report at the end of each calendar year. While information from all providers was addressed in the Annual Report, this 6-month update relies on new data provided by providers having 100 subscribers or more who report on a quarterly or monthly basis. These providers represent in excess of 93 percent of the provider lines and in excess of 98 percent of the TAP subscribers.

The essential outcomes of the 6-month update are:

- The fund balance continues to be reduced, per direction of the Commission, at a 6-month average rate of approximately \$23,528 per month; and
- The fund balance as of June 30, 2015, was approximately \$1,398,300.

Department of Commerce Comments

Comments from the Department of Commerce (DOC) focus on two changing conditions that will at some time affect the fund balance: federal law changes affecting 1) the price of local service; and 2) the number of eligible TAP subscribers. It finds no immediate need to change either surcharge or credits, but note that mid-2016 may be time to reconsider the need.

The DOC notes that the FCC has made known its schedule of changes to local floor rates. While the initial floor rate through June, 2013, was \$10, it was raised to \$14 in July, 2013 and remained so until changed again on January 2, 2015 to \$16 where it remains at present.

On July 1, 2016, the FCC will set the rate floor at the lower of either \$18 or the rate floor level established by the FCC's 2016 urban rate survey.

On July 1, 2017, the FCC will set the rate floor at the lower of either \$20 or the rate floor established by the FCC's 2017 urban rate survey.

The DOC observed:

While local carriers are not required to raise their local rates to the FCC determined rate floor level, local carriers with rates below the rate floor level will lose high cost universal service funds on a dollar for dollar basis. As a result, local carriers have raised rates, making local telephone service less affordable for low-income households. (See DOC Comments at p. 3.)

... The TAP credit is currently set at \$3.50 per household. The Federal Lifeline credit, currently set at \$9.25 per month, is provided in addition to the TAP credit. Thus, the combined low-income support for eligible Minnesota households is \$12.75, which is about 80 percent of a \$16 monthly telephone bill. (See DOC Comments at p. 4.)

... [A]dditional fees and taxes can add \$10 or more to a monthly telephone bill. (See DOC at p. 5.)

The DOC notes that the number of TAP subscribers drawing on the fund continues to decline from 72,073 in 2012 to 40,412 in 2013 (after the FCC required annual reverification of eligibility), to an average of 33,802 in 2014 and estimate of 30,757 in 2015. (See DOC Comments at p. 3-4; and Staff BP of August 28, 2014, in P999/CI-14-470.)

The DOC also notes a declining number of landline telephones supporting payments into the fund indicating:

The number of access lines that are assessed the monthly TAP surcharge decreased from 2,073,415 in the year 2012 to 1,948,566 in the year 2013. The access line count decreased to 1,885,102 in the year 2014 and 1,737,449 as of the end of June 2015. (See DOC Comments at p. 4.)

Neither the declining number of subscribers or lines in itself warranted a revisiting of the surcharges or reimbursements, according to the DOC Comments.

The DOC recommends revisiting possible changes to the TAP credit after likely increases to the FCC price floor occur in the upcoming year (e.g., after July 1, 2016).

Staff Analysis

Staff observes that *absent significant changes* in the relative number of lines or subscribers, or in surcharge rates or reimbursement rates, the fund's balance of \$1,398,300 would decline by \$23,528 per month, reaching \$1,000,000 (a possible target operating balance) about 16 months following this reporting period (approximately October, 2017).

While both the total number of subscribers and lines continue to decline, the relative proportion of subscribers receiving funds to the number of lines contributing to the fund, remain similar.

As the DOC noted in its Comments, the only foreseeable changes to the program are the FCC's anticipated increases to the floor rate the first of July, 2016 and 2017.

Staff concludes that it is likely the TAP fund balance will remain operationally viable with a balance of at least \$1 million through July 1, 2016, when the FCC floor rate increase will take effect.

The TAP Administrator will continue to monitor the fund balance on a quarterly basis. Following the reporting of first quarter 2016 data, it may be timely to revisit credit and surcharge levels in May or June in light of the additional time elapsed and pending change in the FCC floor rate in July. Furthermore, this could provide the administrative efficiency of implementing any necessary changes in TAP credits or surcharges in unison with changes that might be needed in the upcoming fiscal year for TAM and/or 911 programs.

Commission Options

Issue: Should the Commission maintain the current TAP credit and surcharge?

Options:

- A. Yes. Maintain the present TAP credit and surcharge.
- B. No. Change either the TAP credit or surcharge or both as the Commission finds necessary.

Staff Recommendations

Staff recommends Option A.