



Texas Statewide Telephone  
Cooperative, Inc.  
2013 Legislative Update  
Finance/Accounting/Commercial  
Conference

July 10-12, 2013



# Legislative Advocacy

- ◆ Primary focus is Universal Service Funds
- ◆ For as long as there has been rural telephone service provided by small investor owned and cooperative telephone companies, there has been a mechanism to share the revenues of the network as a whole.



# Legislative Advocacy

- ◆ In the early years that mechanism was the average revenue per message, then the cost separations methodology, then pooling in Texas, and most recently the TUSF process.
- ◆ The processes have changed over the years, but the underlying purpose has not.



# Legislative Advocacy

- ◆ The rural companies and cooperatives were organized to serve the vast rural and agricultural areas that the larger telephone companies did not serve because the population was too sparse and the locations too remote.
- ◆ Many citizens would have no service, telephone or broadband, if not for these rural providers.



# Legislative Advocacy

- ◆ Provision of service in these vast rural areas of our Texas is not possible without some form of revenue sharing and support provided by a mechanism at least similar to those which have existed through the years.
- ◆ We support improving the process, whatever that mechanism may be, but without some form of support, provision of service to customers in these areas would not be possible.



# Legislative Advocacy

- ◆ Furthermore, rural providers have made significant investments through the years, which continue today.
- ◆ These investments were and are made with the understanding that these support mechanisms would exist.



# Legislative Advocacy

- ◆ We must have a system that is certain, dependable, sustainable, and fulfils the promises and obligations of the principle of universal service.
- ◆ The network is ever growing and ever evolving from a traditional voice-only network to a voice-data-broadband network.





# Legislative Advocacy

- ◆ There is not an “old network” and a “new network”, it is “the network” and is constantly evolving.
- ◆ The network depends on TSTCI member companies
- ◆ TSTCI member companies depend on USF revenues, or a new generation of support to replace the existing USF





# Legislative Position “Talking Points”

- ◆ More than a decade of telling our story
- ◆ Legislative Education
  - Legislators
  - Legislative Staff
- ◆ Introduction: Texas Statewide Telephone Cooperative, Inc. (TSTCI) represents 35 (and growing) small telephone companies which provide high quality telecommunication services in high cost, rural areas of the state. These companies are either consumer-owned cooperatives or small independent companies serving less than 31,000 access lines.



# Legislative Position “Talking Points”

- ◆ **Universal Service Fund**: A stable and certain Universal Service Fund is critical for providing high quality telecommunication services to consumers in rural high cost areas. TSTCI member companies existence and ability to provide telecommunication services to consumers in rural high cost areas is dependent upon this vital support mechanism.



# Legislative Update

- ◆ Legislation is a process
  - Sausage making
  - Negotiation
  - Collaboration
  - Relationships
    - Our Membership
    - Industry Peers
    - Industry Opponents
    - Legislators
    - Legislative Staff
    - Regulators and staff



# Legislative Update

## SB 583



## Legislative Update – SB 583

- ◆ SB 583 is a success story, but one built upon the foundation of HB 2603 from the 2011 Legislative Session
  - HB 2603 provided CPI adjusted TUSF which equaled an approximate 33% increase over the support provided in the original TUSF of Docket 18516



## Legislative Update – SB 583

- ◆ Section 1 of the Bill sets out the creation and implementation of a financial “needs test” for *companies and cooperatives larger than 31,000 lines*. A continuing financial need for support is either proved up front, or support is reduced in a step-down process. It also addresses support for CLEC ETPs in areas where support for the ILEC is going away.



## Legislative Update – SB 583

- ◆ For ILEC companies and cooperatives that serve greater than 31,000 lines and receive TUSF from the *Texas High Cost Universal Service Plan* (“*Large Company Fund*”) there are new requirements to continue receiving TUSF
- ◆ Mid-Size Companies receive TUSF from Large Company Fund and Small Company Fund resulting from acquisitions of companies originally in Small Co. Fund





## Legislative Update – SB 583

- ◆ The Commission must adopt a rule to establish the standards and criteria for a company under this section to demonstrate a financial need for continued support for residential and business lines (“Needs Test”).
  - Rulemaking initiated no later than Jan. 1, 2014
  - Rule adopted no later than December 1, 2014



## Legislative Update – SB 583

- ◆ If a company does not initiate a proceeding under the needs test, their support is reduced as follows:
  - Jan. 1, 2017 to 75% of the funding the company was eligible for on Dec. 31, 2016.
  - Jan. 1, 2018 to 50% of the funding the company was eligible for on Dec. 31, 2016.
  - Jan. 1, 2019 to 25% of the funding the company was eligible for on Dec. 31, 2016.
  - This time line allows for the rate-rebalancing settlement in Docket 40521 to be implemented prior to the step-down.



## Legislative Update – SB 583

- ◆ Any time after the Needs Test rule is adopted, a company under this section may file no more than one petition to initiate a contested case proceeding as necessary to determine the eligibility for and amount of continued support.



## Legislative Update – SB 583

- ◆ For ILEC companies and cooperatives that serve greater than 31,000 lines and receive TUSF from the *Small and Rural Incumbent Local Exchange Company Universal Service Plan* (“*Small Company Fund*”) there are new requirements to continue receiving TUSF



## Legislative Update – SB 583

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  - Rulemaking initiated no later than Jan. 1, 2014
  - Rule adopted no later than December 1, 2014



# Legislative Update – SB 583

- ◆ If a company does not initiate a proceeding under the needs test, their support is reduced as follows:
  - Jan. 1, 2018 to 75% of the funding the company was eligible for on Dec. 31, 2017.
  - Jan. 1, 2019 to 50% of the funding the company was eligible for on Dec. 31, 2017.
  - Jan. 1, 2020 to 25% of the funding the company was eligible for on Dec. 31, 2017.
  - This time line allows for any rate rebalancing under Docket 41097 to be implemented prior to the step-down.



## Legislative Update – SB 583

- ◆ Section 2 requires companies larger than 31,000 lines that receive support from the Large Company Fund, and are not subject to a total support reduction plan, to file annual earnings reports with the PUC.





## Legislative Update – SB 583

- ◆ Section 3 addresses the continuing form of PURA § 56.025 as follows:
  - Only companies and cooperatives that serve less than 31,000 lines are now eligible for the support recovery provisions of § 56.025.
  - Any support being distributed to a company serving greater than 31,000 lines, including any support which has been granted prior to the enactment of this bill, will cease.



## Legislative Update – SB 583

- ◆ Section 4 eliminates the language that says “a revenue showing is not required for a disbursement from the universal service fund under this subchapter.”
  - This change does not mandate a revenue showing but allows it as an option. Non rate-of-return companies have used this language as a shield when their TUSF funding levels are being discussed.



# Legislative Update – SB 583

## ◆ Section 4 – *continued*

- Each of TSTCI's members has filed annual earnings reports with the commission, and revenues would be a key component in determining a reasonable return in any proceeding to reset support levels currently.



# Legislative Update – SB 583

- ◆ Section 5 the most important provision for TSTCI member companies
  - This is a continuation of PURA § 56.032 which was enacted by HB 2603 (2011). Key provisions and changes are as follows:
    - CPI adjusted support mechanism for the small and rural companies extended until Sept. 1, 2017.
    - Companies that chose to freeze their support at 2010 levels are subject to adjustment, including by rate rebalancing.
    - Any statutory reference to per-line support, with regard to the Small Company Fund, has been removed.



# Legislative Update – SB 583

- ◆ VERY IMPORTANT –
  - Companies that chose the CPI adjustment option are NOT subject to adjustment, including by rate rebalancing



## Legislative Update – SB 583

- ◆ PUC Docket 41097 – Commission Staff’s petition to establish a reasonable rate for Basic Local Telecommunications Service pursuant to PUC Substantive Rule §26.404
  - **June 21, 2013, as a result of SB 583 passing and being signed by the Governor, PUC grants motion to dismiss TSTCI members, and other small rural ILECs who previously opted for the CPI adjustment for calculation of TUSF afforded by HB 2603**



## Next Phase

- ◆ TSTCI TUSF Task Force to begin work on concept of a “new” USF process to replace the existing process which is now set to expire on September 1, 2017, then reverting back to the 18516 per line methodology
- ◆ Developing a new methodology is not an option, it is a must





# Texas Legislature Legislative Statistics 83<sup>rd</sup> Regular Session 2013

83rd Regular Session - 2013

Status	HB	HCR	HJR	HR	SB	SCR	SJR	SR	Total HB & SB	Total
Introduced	3950	207	130	3213	1918	49	63	1100	5868	10630
Passed	732	153	6	3173	705	36	4	1100	1437	5909
Vetoed	15	0	n/a	n/a	11	0	n/a	n/a	26	26

- ◆ Only 19% of House Bills filed were passed
- ◆ Only 37% of Senate Bills filed were passed
- ◆ 94% of Resolutions filed were passed



## Other Bills of Interest

- ◆ Franchise Tax
  - \$1M exemption continued
- ◆ HB 2585 – Toll road reimbursement
- ◆ Using cell phone while driving
  - Offered again but not adopted
- ◆ Other attacks on Universal Service Fund
  - Service areas adjacent to MSAs
- ◆ Sales Tax
  - HB 1133 – Refund of tax on Telcom equipment



## Other Bills of Interest

- ◆ Special Session #2 - HB 13
  - Relating to a permit requirement and the payment by a utility of a fee for the use of state highway rights-of-way.
- ◆ TSTCI is working to prevent this idea from being adopted



# Regulatory Update

- ◆ Only 2 PUC Commissioners
- ◆ Oversight of TUSF
- ◆ PUC Docket 41097
  - Reasonable Rate Issue - Dismissal
- ◆ PUC Dockets 39939 /41573
  - 5-Year Plan
  - Waiver request turns into new plan by PUC



# PUC Dockets 39939 /41573

- ◆ Specifically, Staff recommends that the petitioners that are rate of return or price cap ETP/ETCs each be required to file the following information on a service-area basis by July 31, 2013:
- ◆ 1) TOTAL TUSF RECEIPTS by the following categories:
  - a) THCUSP,
  - b) SRILEC USP,
  - c) High Cost USP for Uncertificated Areas,
  - d) High Cost Assistance Fund,
  - e) Additional Financial Assistance,
  - f) Universal Service Fund Reimbursement for Certain IntraLATA Service,
  - g) Lifeline,
  - h) Tel-Assistance; and



# PUC Dockets 39939 /41573

- ◆ 2) TOTAL OPERATING EXPENSE  
broken out by the following categories:
  - a) Plant Specific Operations Expense,
  - b) Plant Non-Specific Operations Expense,
  - c) Customer Operations Expense,
  - d) Corporate Operations Expense,
  - e) Depreciation & Amortization,
  - f) Other Operating Expense; and



## PUC Dockets 39939 /41573

- ◆ 3) TOTAL PROPERTY broken out by the following categories:
  - a) Telecom Plant in Service,
  - b) Property Held for Future Use, and
  - c) Telecom Plant Under Construction.
- ◆ This information should be provided for the calendar year of January 1, 2012 through December 31, 2012.





## PUC Dockets 39939 /41573

- ◆ CONCLUSION - P.U.C. Substantive Rule 26.402 remains valid and enforceable regardless of changes the FCC has made to its federal reporting requirements. However, Staff acknowledges that the Commission, for purposes of administrative efficiency, may wish to account for these changes at the federal level in implementing the TUSF disclosures required under P.U.C. SUBST. R. 26.402.



- ◆ **CONCLUSION** (*continued*) - Therefore, Staff recommends that the Commission issue an order granting all petitioners good cause extensions of time and requiring additional reporting by petitioners that are rate of return or price cap ETP/ETCs consistent with the above recommendations.



Any Questions ?



Thank You !