Washington Utilities and Transportation Commission

Report on the State Universal Communications Services Program

Chapter 8, Laws of 2013 Second Special Session, Section 212

December 1, 2017

Introduction and Executive Summary

The Washington Utilities and Transportation Commission (commission) submits this report in accordance with Second Engrossed Second Substitute House Bill (2E2SHB 1971), Section 212, concerning the state Universal Communications Services Program (UCS Program). Enacted in 2013, E2ESHB 1971, among other provisions, established the state UCS Program beginning July 1, 2014, to provide temporary direct support to Washington's smaller incumbent communications service providers for a five-year period until July 1, 2019. The program is funded by a legislative general fund appropriation to a universal communications services account. A maximum of $5 million is appropriated each year, for a total of $25 million over five years. Under the legislation, the UCS Program provides direct financial support to designated communications providers that serve fewer than 40,000 access lines throughout Washington and whose customers are at risk of rate instability or service interruptions.[1]

Section 212 of the legislation required:

> By December 1, 2017, and in compliance with RCW 43.01.036, the Washington utilities and transportation commission must report to the appropriate committees of the legislature, on the following: (1) Whether funding levels for each small telecommunications company have been adequate to maintain reliable universal service; (2) the future impacts on small telecommunications companies from the elimination of funding under this act; (3) the impacts on customer rates from the current level of funding and the future impacts when the funding terminates under this act; and (4) the impacts on line and service delivery investments when the funding is terminated under this act.

Over the first four years of the five-year period authorized for the UCS Program, the commission approved more than $14.4 million in funding to eligible telecommunications carriers in Washington. The commission authorized this funding according to rules adopted subsequent to the legislation but prior to the start of the program.[2] Now, during the program's fourth year, funding has adequately maintained small-carrier service prices in Washington's rural areas at levels comparable to similar services in more

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[1] RCW 80.36.650(3). An access line refers either to a "switched access line," which state law defines for tax purposes as "the telephone service line which connects a subscriber's main telephone(s) or equivalent main telephone(s) to the local exchange company's switching office," RCW 82.14B.020 (15), or a "radio access line," defined as "the telephone number assigned to or used by a subscriber for two-way local wireless voice service available to the public for hire from a radio communications service company." RCW 82.14B.020 (10). Radio access lines include, but are not limited to, radio-telephone communications lines used in cellular telephone service or their functional equivalents. *Id.*

[2] In the Matter of Amending and Adopting Rules in WAC 480-123 Relating to Universal Service, Docket UT-131239, General Order R-575 (May 22, 2014).

urban areas of Washington and nationwide. The funding has also provided a necessary transitional lifeline to Washington's smaller telephone companies, by enabling network investments that will help these carriers adapt to a changing telecommunications marketplace and modifications in federal support programs.

The small telephone companies that have benefited from UCS Program support have a long history of providing telecommunications services to many of the high-cost, rural areas of Washington. The owners and employees of these companies are proud and active members of their communities. Their services provide essential telecommunications connectivity (narrowband voice and broadband) to communities whose livelihoods increasingly depend on a digital, interconnected world.

However, it has become increasingly apparent that the telecommunications needs of rural Washington, particularly with respect to access to broadband service, transcends the areas served by small telephone companies. As the nation's attention shifts from legacy voice services to broadband services, policymakers must consider how best to provide financial support to telecommunications providers, especially where the impact can be achieved in a fiscally efficient manner.

If the UCS Program expires as scheduled in 2019, the loss of funding support will affect small telephone companies and their consumers. However, the effect will depend on a company's historical level of state and federal funding assistance, efforts to increase operational efficiencies, and the amount of lead time offered by the UCS Program's five-year transition. Some companies may be better prepared for the impacts of reductions or elimination of state funding.

If the Legislature intends to continue the UCS Program or maintain some form of state support for rural telecommunications services, the commission stands ready to offer suggestions and other information to policymakers that provide a variety of feasible and innovative solutions to the challenges of providing telecommunications and broadband service in Washington's rural areas.

History of Universal Service in Washington

Universal service is the long-standing policy of both the United States[3] and the State of Washington[4] to enable every American, regardless of location, to access affordable high-quality telecommunications and, more recently, broadband services. Historically, the policy has encouraged designated telecommunications carriers to invest in telecommunications networks in less dense, higher cost areas of the country at prices comparable to those offered in more dense, lower cost areas. At the federal and state levels, this has been accomplished through a variety of specific, sometimes obscure, mechanisms that transfer financial resources between providers of telecommunications services and to their customers.

Prior to the advent of local telephone service competition from new telecommunication platforms such as wireless, Voice over Internet Protocol (VoIP), and broadband, universal service was advanced under a federal and state regulatory regime. This regime relied on the significant transfer of revenues from long-distance carriers to local telephone companies, particularly smaller telephone companies that today benefit from the UCS Program. These transfers, commonly referred to as interstate and intrastate access charges, moved a large portion of long-distance company revenues to local exchange companies, referred to as incumbent local exchange companies (ILECs).

ILECs collected interstate and intrastate access charges through rates applied to long-distance carriers using local networks to complete long-distance calls. Interstate access charges, overseen by the Federal Communications Commission (FCC), and intrastate access charges, overseen by the commission, contained implicit support for ILEC provision of telephone services across Washington. Support is most heavily provided to carriers serving predominantly rural areas of the state.

The interstate and intrastate access charge structures, and the federal and state-established support it created, were very successful in promoting the development and maintenance of local telephone infrastructure and universal service.[5] The system could be properly administered because most major service providers, whether local or long distance, were supervised by state and federal regulatory bodies that were jointly responsible for the preservation and advancement of universal service. Despite the success in advancing universal service, the relationships between traditional telecommunications

[3] 47 U.S. Code § 254 - Universal service.

[4] RCW 80.36.610.

[5] While successful, the use of access charges in association with specific federal support programs and objectives often resulted in significant compensation disputes between local telephone companies and long-distance providers.

providers, customers, and government regulatory policies became increasingly strained by the advent of new technologies and new service providers that offer competitive alternatives to traditional wireline services. The advent of wireless services, VoIP, the entry of cable TV into telephone service, and other marketplace and technological developments have, to some degree, undermined the historical construct used to support rural telephone service. These new entrants and services effectively challenged the viability of the access charge regime as well as the specific assistance mechanisms the FCC and Washington had in place to address rural telephone service delivery.

In tandem with the interstate and intrastate access charge system, the FCC oversaw an elaborate federally supported universal service fund (FUSF) that provided direct financial support to telecommunications carriers, particularly ILECs, for the construction and maintenance of national telecommunications infrastructure. The FUSF was substantially expanded with the passage of the federal Telecommunications Act of 1996. The FUSF program consisted of four separate sub-programs: (1) the High Cost Program; (2) the Low Income Program; (3) the School and Libraries Program; and (4) the Rural Health Care Program. Until recently, the primary goal of the High Cost Program portion of the FUSF was to keep telephone service affordable for customers in areas where, absent the support, telephone service would be dramatically more expensive than the national average. This fund was the primary source of funding for many small telecommunications carriers, along with a complex system of fees, surcharges, and other mechanisms supporting companies that provided service to predominantly rural and remote areas of the U.S.

On Oct. 27, 2011, the FCC approved a six-year transfer of money from the FUSF High Cost Program to a new $4.5 billion per year Connect America Fund (CAF) to provide a direct and substantial means for broadband internet expansion, effectively putting an end to the FUSF High Cost Program by 2018. Most, if not all, of the ILECs in Washington that previously received FUSF support now receive CAF support, albeit at differing levels than have historically been provided under the inter-carrier compensation and FUSF mechanisms.

State Universal Communications Services Program Overview

Creation of the fund (Second Engrossed Second Substitute House Bill 1971)

On June 30, 2013, Governor Inslee signed 2E2SHB 1971, enacted during the 2013 Second Special Legislative Session. 2E2SHB 1971 addressed four important telecommunications tax and policy matters:

- Required payment of enhanced 911 excise taxes by prepaid wireless consumers;
- Repealed the sales and use tax exemption that existed for landline telephone consumers;

- Eliminated the excise taxes used to fund the Washington Telephone Assistance Program (WTAP) and Telecommunications Relay Service (TRS) programs replacing funding for these programs from state general fund appropriations; and
- Created the state UCS Program to be developed and implemented by the commission.

As noted above, Part II of the legislation established the UCS Program beginning July 1, 2014, to provide temporary direct support to Washington's smaller incumbent communications service providers for a five-year period expiring July 1, 2019. The program is funded by legislative appropriation to a universal communications account. A maximum of $5 million is appropriated each year, for a total of $25 million over five years. Under the legislation, the UCS Program provides direct financial support to designated communications providers that serve fewer than 40,000 access lines throughout Washington and whose customers are at risk of rate instability or service interruptions.[6]

UTC rulemaking (Docket UT-131239)

On July 3, 2013, the commission initiated a rulemaking proceeding to consider amending and adopting rules in WAC 480-120 (telephone companies) and WAC 480-123 (universal service), to implement the provisions of 2E2SHB 1971. Section 204 of the bill required the commission to establish rules to implement the UCS Program prior to July 1, 2014. Under the legislation, the commission was assigned responsibility for:

- Operation of the program;
- Establishing criteria for eligibility for distributions from the UCS Program, use of distributed funds, and identification of reports to be filed with the commission;
- Making disbursements from the universal communications services account;
- Setting benchmarks and other criteria to calculate distributions from the account; and
- Convening an advisory board to advise the commission on rules and policies governing the operation of the program.

The commission held workshops on July 15, 2013, and October 16, 2013, to address a range of issues concerning operation of the UCS Program. Among a variety of stakeholders, principal participants in the workshops included CenturyLink, the Washington Independent Telephone Association (WITA), Tenino Telephone Company, Kalama Telephone Company, Inland Telephone Company, Whidbey Telephone Company, Frontier Communications Northwest Inc. (Frontier), Western Wahkiakum County Telephone

[6] RCW 80.36.650(3).

Company, Comcast, the Broadband Communications of Washington, and the Public Counsel Section of the Washington Attorney General's Office. The commission also solicited written comments by August 2, 2013, and December 20, 2013, on an initial list of issues to be addressed and draft regulations, respectively.

On April 2, 2014, the commission filed a notice of proposed rulemaking (CR-102) and scheduled a final round of written and oral comments as well as an adoption hearing on May 15, 2014. After considering all of the information submitted by stakeholders regarding the CR-102, the commission adopted final rules May 22, 2014, by written order. The commission received nearly unanimous support for the draft regulations from a variety of stakeholders that participated in the rulemaking process.[7]

Overview of annual funding request and disbursements process

In accordance with the commission's final UCS Program rules, commission staff established an annual funding process to govern the application, review, and authorization of individual funding requests submitted by eligible petitioning carriers. Table A provides an overview of the specific steps and timeframe followed by staff for each annual funding petition submitted by individual carriers.

Table A

[7] During this period, the commission also solicited interest from stakeholders regarding participation in the Advisory Board. Membership in the Advisory Board was finalized by commission order in January 2015. In the Matter of Establishing and Operation of an Advisory Board for the state Universal Communications Service Program Pursuant to Was 480-123-150, Docket 150067 (Order 1), Jan. 29, 2015. The Advisory Board members are as follows:

Advisory Board Membership	
ILECs serving fewer than 40,000 access lines in Washington (Three year term)	Rick Vitzhum, Chief Financial Officer, Kalama Telephone Company and Tenino Telephone Company
ILECs serving more than 40,000 access lines in Washington (Three year term)	Mark S. Reynolds, Northwest Region Vice President – Public Policy, CenturyLink
CLECs serving customers in Washington (Three year term)	Rhonda Weaver, Senior Director - State Government Affairs, Comcast
Wireless communications providers offering service in Washington (Three year term)	Cindy J. Manheim, General Attorney, AT&T
Office of Public Counsel	Simon J. ffitch, Senior Assistant Attorney General*
Commission Staff	Roger Hahn

- Due to Mr. ffitch's retirement from the Office of Public Counsel, the Advisory Board position is currently being filled by his successor, Ms. Lisa Gafken.

UCS Program Annual Application and Funding Process

Annual Timeline	Incremental Process Description
March 1	Companies that received program funds in the prior year file FCC Form 477 for the previous calendar year. This includes broadband and access line data.
April 1	Staff update the petition and reporting templates and receive feedback from industry.
May	Staff conduct industry training for the program's filing requirements and funding process.
May	If required, companies file petitions to adjust residential rates to meet or exceed the FCC's urban rate floor used for federal funding purposes.
May	Staff present residential rate change requests for commission consideration.
July 1	Companies that received program funding during the prior year submit a compliance report, certified by a company officer, containing documentation of operational data and how the funds were used.
July 1	Companies file eligible telecommunication carrier requests and FCC Form 481 to be designated by the commission as eligible for federal Connect America Fund (CAF) support. Staff analyze Form 481 submissions for reconciliation with state compliance reports.
August 1	Companies requesting UCS Program funds for the current state fiscal year (July 1 through June 30) submit funding petitions that include nine exhibits and a financial template.
August through September	Staff review petitions, including exhibits and financial templates, for compliance with state rules and perform the following tasks: a. Document company petitions using a standardized worksheet to ensure consistency and compliance with the state rules. b. Review of the 12-page financial templates including a comparison to state annual reports, audited financial reports, and U.S. Department of Agriculture Rural Utilities Service reports. c. Issue follow-up data requests.
August through September	Petitioners file supplements and revisions to original petitions based on staff feedback and recommendations.
September 1	Petitioning companies submit a copy of FCC Form 477, which includes broadband and access line data.

October	Staff prepare memos with UCS Program funding recommendations for all petitioning companies.
November	Staff present recommendations for the distribution of UCS Program funds to commissioners at a regularly scheduled open meeting. Commission issues orders approving or denying staff recommendations.
November 15	Staff send out public notice of the annual UCS Program Advisory Board meeting.
early- to mid-December	Staff oversee the annual meeting of the UCS Program Advisory Board to discuss program operation and the annual funding process.
December 15	Staff provide documentation of final commission orders to UTC's Financial Services Division to authorize disbursement of UCS Program funds.
mid- to late-December	UTC Financial Services Division renders payment for the UCS Program year .

*Program year timeline dates and ranges are usually contained within one calendar year.

UCS Program Annual Funding Results

Pursuant to 2E2SHB 1971, UCS Program funding first became available to qualifying applicants for petitions filed after July 1, 2014. In accordance with the commission's rules, on or before August 1, 2014, 19 small telephone companies filed petitions, with accompanying documentation, seeking UCS funding for the inaugural year. Based on staff review and recommendations, the commission approved all of the petitions and authorized an aggregate fund distribution of $3,273,912.

In 2015, the second year of the UCS Program, 19 companies submitted petitions totaling $3,857,909 for the 2015–2016 funding year. Based on staff review and recommendations, the commission approved an aggregate fund distribution of $3,450,666, or 89 percent of total requests, to 18 of the 19 petitioning companies. One company was excluded due to earnings above a baseline earnings test.

In 2016, 17 companies submitted petitions totaling $3,691,622 for the 2016–2017 funding year. Based on staff review and recommendations, the commission approved an aggregate fund distribution of

$3,612,980, or 98 percent of total requests, to 16 companies. One company withdrew its application because its earnings were above a baseline earnings test.

In 2017, 17 companies have submitted petitions totaling $4,115,426 for the 2017–2018 funding period.

Appendix A provides a detailed breakdown, by company, of the funding requests submitted during the first three years of the program.

Commission Evaluation of Requirements for the UCS

Adequacy of funding levels for small telecommunications companies

The primary factor driving the Legislature's decision to establish the UCS Program was the acknowledgement that legacy public telephone networks operated by small incumbent telephone companies and the public benefits derived from those networks should, for a transitional period of time, be supported by a state universal service program. The legislature concluded that a transitional fund was necessary to ensure continuity of traditional telephone service for consumers and consumers should continue to have access to communications services at reasonable rates.[8] At the time, the communications marketplace faced significant changes, including:

- Migration from customer reliance on traditional telephone lines to the use of broadband for communications and other online applications;
- Substantial changes in federal regulations governing how communications providers compensated each other for the use of networks;
- Erosion of traditional support mechanisms due to marketplace service and technology transformations;
- Trends towards broadband services in federal support programs, particularly in rural areas;
- Pending modifications to the eligibility criteria and support levels for federal universal service funds.

Collectively, these broad marketplace and regulatory dynamics presented looming threats to Washington's small incumbent telephone companies, which faced the reduction of state and federal resources. The Legislature recognized these changes could lead, in the short term, to unreasonable

[8] 2E2SHB 1971, Section 201.

telephone service rate increases or the complete cessation of traditional telephone services for some Washington consumers. Accordingly, the state UCS Program was created as a targeted and temporary means of support for the legacy public telephone network of Washington's smaller incumbent communications providers and ensures access to the network during the recognized transition to broadband services.

In developing the UCS Program, the commission relied on changes in federal regulations linking support to the price of residential telephone service, relative to an algorithmic assessment of prices across the U.S. Specifically, in 2011, the FCC adopted rules that tied access to the federal universal service fund (FUSF) to a carrier's prevailing residential telephone prices. In order for small carriers to receive support, these prices needed to be at or above the nationwide urban rate floor determined by the Wireline Competition Bureau of the FCC.[9]

The FCC established the urban rate floor to implement reasonable measures to curtail, in its view, excessive federal support from lower cost more urban areas of the country (through the FUSF and later the CAF) that was flowing to rural incumbent companies. The FCC established the urban rate floor to transition artificially low rural telephone prices to pricing that more reasonably reflected levels across the country. Under the FCC's rate floor framework, incumbent telephone companies that continued to charge residential phone rates at prices less than the urban rate floor would be subject to a reduction in monthly FUSF support. The reduction, a direct dollar-for-dollar cut, offset the degree to which the carriers' local rates were less than the urban rate floor. In the FCC's view, absent implementation of the urban rate floor and its temporizing effect on federal support, many of the nation's incumbent telephone companies would have been able to continue to maintain artificially and substantially lower residential telephone rates than corresponding residential rate levels in more urban areas of the country.

The FCC's urban rate floor went into effect July 1, 2012, with an initial price level set at $10 per month for residential telephone service. After 2012, the FCC increased residential telephone rates to the levels illustrated in Table B:

[9] *USF/ICC Transformation Order*, 26 FCC Rcd at 17751, FCC 11-161 (released November 18, 2011).

Table B

FCC's Urban Rate Floor

July 1, 2012 – June 30, 2013	$10
July 1, 2014 – January 1, 2015	$14
January 2, 2015 – June 30, 2016	$16
July 1, 2016 – June 30, 2017	$18

Beginning July 1, 2014, the FCC's urban rate floor raised from $10 to $14 per month. Additional increases were implemented on January 2, 2015, and July 1, 2016, when the rate floor was raised to $16 and $18, respectively. On May 19, 2017, the FCC effectively froze the urban rate floor at $18 until July 1, 2019, and requested comment from the telecommunications industry and others on whether the rate floor calculation should be revised or even eliminated.[10]

A significant aspect of the commission's UCS Program eligibility rules required petitioning carriers to have residential telephone rates that were at or above the FCC's urban rate floor. The commission shared the FCC's view that government assistance should support carriers whose customers faced rate increases beyond reasonable levels. However, the commission also shared the FCC's view that this support should not help maintain arbitrarily low telephone rates at levels well below those in more urban areas.

In accordance with the commission's rules, eligible incumbent telephone carriers have, for the most part, implemented residential telephone service pricing changes in step with the FCC's urban rate floor. Across Washington, residential telephone service prices are currently at or slightly above $18 per month, consistent with the FCC's nationwide approach to federal support.

Eligible carriers' residential telephone prices are also reasonably comparable to their urban counterparts in Washington. For example, over the past five years, CenturyLink's residential telephone service rates in urban areas, including Seattle, Tacoma, and Spokane, have ranged from $13.50 in 2013, when the UCS Program was authorized by the Legislature, to $22 as of May 1, 2017. Table C provides

[10] FCC 17-61, Notice of Proposed Rulemaking and Order in WC Docket No. 10-90 (released May 17, 2017).

an overview of CenturyLink’s urban area residential telephone pricing in Washington over the last five years:

Table C

CenturyLink Urban Pricing for Residential Telephone Service in Washington

April 30, 2013	$13.50
May 1, 2014	$15.00
May 1, 2015	$18.00
May 1, 2016	$20.00
May 1, 2017	$22.00

The UCS Program has worked as intended to maintain reliable universal service, because the funding has mitigated significant or unreasonable telephone service pricing changes. As discussed above, prevailing telephone service prices in Washington’s targeted service areas have remained reasonably comparable to rates in urban areas nationally and in Washington. Additionally, with respect to service reliability, the Commission is not aware of any degradation of local telephone service quality or a deteriorating trend in service outages during the period over which UCS Program support has been awarded to the state’s small telephone companies.

Future impacts from the elimination of funding

Among a number of provisions, the commission’s rules governing the UCS Program required petitioning carriers to submit to an annual application and approval process in which companies must demonstrate financial need. Petitioning carriers were also required to document and report on operational and efficiency changes and network investments to justify use of past support and commit to appropriate plans of action for future support.

The commission understood the intent of the UCS Program was not to insulate small telephone companies from all aspects of a changing telecommunications marketplace or from federally imposed changes to support of rural telephone companies. Rather, the program was intended to enable targeted funding commensurate with the decline of federal support provided to small carriers. The UCS Program also addressed the elimination of an antiquated state support mechanism that was associated with declining traditional long-distance service and inter-carrier compensation.

Given this approach to funding to small telecommunications companies, the potential effect of eliminating the UCS Program varies widely by company. As illustrated in Appendix A, the annual level of UCS Program funding ranged from less than $3,000 to more than $937,000 over four years. In the fourth year of the program, annual funding provided to small companies ranged from approximately $33 per access line to more than $1,571 per access line. The disparity in funding levels clearly illustrates the effect of eliminating program support will vary widely among current recipients of UCS Program support.

These effects may be tempered by operational and financial measures taken by the companies during the life of the UCS Program. As stated previously, the overarching objective of the program was to provide a five-year transitional period during which small telecommunications companies in Washington would take steps to adjust to changing marketplace and governmental support mechanisms. These carriers are fully aware that federal and state support is increasingly challenged by a rapidly changing telecommunications marketplace.

Since adoption of the *USF/ICC Transformation Order*, the FCC has focused on transitioning ILECs from over-reliance on inter-carrier compensation and programs. The FCC has embarked on a funding path that makes federal funding available to a larger array of broadband providers pursuing all manner of technologies to meet the service requirements of rural broadband consumers. Although some support is still directed to specific carriers, including smaller telephone companies, over time the FCC has shifted support to a more neutral framework that eliminates preferences. In particular, the FCC intends to implement a system of reverse auctions, with rigid qualification and challenge processes, that will allow eligible companies to bid down the level of federal support available in certain areas of the country.

Small telecommunications carriers participating in the UCS Program have reported using the transitional period to make operational and financial adjustments in preparation for the termination of the program. For example, total regulated annual capital expenditures for all companies receiving program funds has increased by 64 percent, from an average of $10.7 million during the 2011to 2013 time period to an average of $17.6 million during the 2014 to2016 time period. This increase suggests that, collectively, management of the small telephone companies have confidence to invest for the future, particularly with respect to accelerating the development of broadband service in their operating territories.

Participating carriers have invested in fiber optic facilities for the continued provision of telephone and broadband services. Investments also include enhanced exchange line circuit equipment to increase broadband speeds and data capacity and to provide bandwidth growth capacity. Other network investments include new switching equipment, installation of back-up power and battery facilities, and installation of speed-boosting subscriber cabinets throughout service territories.

If state funding were eliminated, many carriers would continue to innovate and adapt by pursuing new or related business opportunities such as broadband service, Cable TV, and VoIP. Additionally, as the FCC continues the transition to the CAF, small telecommunications carriers will have access to replacement federal support to a varying degree. Some small carriers in Washington may secure funding that exceeds levels received from the legacy FUSF support.[11]

However, substantial decreases in UCS Program support may lead to telephone service price increases, decreased company investments, or full cessation of services in some areas.[12]

Conclusion

At the federal level, the FCC recognized that fixed and mobile broadband services are crucial to economic growth, community competitiveness, and civic engagement. The agency created funding support mechanisms to follow market and technology shifts. Federal support mechanisms are continuously modified to improve efficiency and ensure that recipients of funding are accountable for the funding they receive.

As federal and state policies are shifting from legacy voice services to broadband, telecommunications companies in Washington, including the state's small telephone companies, will need to respond to this change. Companies are also aware that federal programs are shifting from direct support of specific carriers to funding approaches that are more competitively neutral, regardless of carrier classification, technology, and past funding levels. The commission notes that the telecommunications marketplace continues to evolve as new technologies are introduced and the scope of telecom users becomes more diverse. Innovations in wireline and wireless technologies hold the promise of greater

[11] WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087 (March 30, 2016) (*Rate-of-Return Reform Order*). In particular, the FCC acted to modernize the federal support mechanism available to rate-of-return carriers (generally the smaller telephone companies across the U.S.) to support the types of broadband offerings that consumers increasingly demand, by targeting federal support to particular areas that, in the FCC's view, need it the most. The FCC's reforms included concrete deployment obligations by rate-of-return carriers to ensure demonstrable progress in connecting unserved consumers.

[12] The commission notes that in the 2016, the third year of the UCS Program, more than 23 percent of state funding provided to small telephone companies went to Whidbey Telecom, which serves Whidbey Island and nearby areas. The amount of support provided to the company is a direct correlation to its historic level of federal and state assistance relative to other companies.

access at reduced cost, while new entrants explore new service delivery approaches that can be encouraged by access to state support.

In Washington, given the variance in the level of support companies have received under the UCS Program, elimination of program support in 2019 would require some recipient companies to make tough decisions. Some carriers, particularly those with higher support-per-access-line levels may increase local telephone service prices, reduce staff or investment, or pursue sales or mergers to increase operational and financial efficiencies. Others are likely better positioned to weather a reduction in direct support through prudent investments and derived efficiencies, while expanding the scope of services and activities pursued in their respective service areas.

Our report on the operation of the UCS Program and the potential effects of the program's termination in 2019, reflects the commission's best assessment at this time, based on input received from stakeholders, the Advisory Board, and our own experience implementing and operating the fund over the past few years. It also reflects our extensive experience with the companies subject to our jurisdiction that have received UCS Program funding and the current state of federal and state law regarding universal service. We look forward to working with the Legislature and other stakeholders on efforts to address rural telecommunications matters.

Appendix A

Disaggregated Annual UCS Program Requests and Authorized Funding Levels

	2014 (Year 1)		2015 (Year 2)		2016 (Year 3)		2017 (Year 4)	
Company	**Requested**	**Received**	**Requested**	**Received**	**Requested**	**Received**	**Requested**	**Received**
FairPoint								
Ellensburg	313,127	313,127	407,243	*	**	**		
YCOM	235,314	235,314	281,798	281,798	**	**		
Hood Canal	99,235	99,235	117,214	117,214	134,293	134,293	150,518	150,518
Inland Telephone	254,351	254,351	306,793	306,793	356,613	356,613	403,942	403,942
Pend Oreille	154,600	154,600	201,068	201,068	245,213	245,213	287,151	287,151
Pioneer	80,385	80,385	99,862	99,862	118,366	118,366	135,945	135,945
Mashell	139,292	139,292	160,385	160,385	180,423	180,423	199,459	199,459
Scatter Creek								
Kalama	185,874	185,874	217,885	217,885	248,296	248,296	277,186	277,186
Tenino	180,156	180,156	211,387	211,387	241,057	241,057	269,243	269,243
Skyline	49,581	49,581	64,484	64,484	78,642	***	92,091	***
St. John	41,276	41,276	52,308	52,308	62,787	62,787	72,743	72,743

TDS								
Asotin	90,272	90,272	99,808	99,808	108,867	108,867	117,473	117,473
Lewis River	79,838	79,838	102,416	102,416	123,866	123,866	144,243	144,243
McDaniel	182,312	182,312	213,220	213,220	242,582	242,582	270,476	270,476
Toledo	241,535	241,535	279,514	279,514	315,593	315,593	349,869	349,869
Westgate	44,820	44,820	58,291	58,291	71,089	71,089	83,247	83,247
West Wahkiakum	253,105	253,105	233,070	233,070	315,562	315,562	321,119	321,119
Whidbey	646,239	646,239	748,392	748,392	845,439	845,439	937,632	937,632
Hat Island	2,600	2,600	2,771	2,771	2,934	2,934	3,089	3,089
Total	**3,273,912**	**3,273,912**	**3,857,909**	**3,450,666**	**3,691,622**	**3,612,980**	**4,115,426**	**4,023,335**

* Petition for funding denied.
** Did not petition for UCS Program support.
*** Eligible to receive funds if capital investment target is achieved in calendar year 2017.