

MEMORANDUM

To: Missouri Public Service Commission Official Case File
Case No. TO-2005-0308

From: Walt Cecil, Telecommunications Department

/s/ John Van Eschen 4/26/2005
Utility Operations Division/Date

/s/ William K. Haas 04/26/05
General Counsel's Office/Date

Subject: Relay Missouri Surcharge Supplemental Recommendation

Date: April 25, 2005

I. Background

The purpose of this memorandum is to update the Commission and provide additional information to that contained in Staff's memorandum dated March 17, 2005.

A. Fund Balance Activity since Previous Surcharge Review

The Relay Fund (Fund) balance has continued to decline since the previous surcharge review at an average monthly rate approaching \$90,000; however, from February 2005 to March 2005, the Fund balance declined by \$619,118. Revenue received by the Fund was approximately \$200,000 below that expected and December 2004 and January 2005 Sprint TRS invoices were paid from the Fund. The closing March balance was about \$2.2 million. The average monthly Fund disbursement for Fiscal Year (FY) 2005 to date is \$417, 000, compared to average monthly fund disbursements for FY 2002, 2003 and 2004 which vary from \$413,482 to \$462,925. Fund balance data from July 1998 to March 2005 may be found in Appendices 1-1 and 1-2 and Fund expenditures data from July 2001 to March 2005 in Appendix 1-3.

B. Traditional Relay

Dual Party Relay Services (DPRS) have been provided in Missouri by Sprint-TRS (Sprint) since implementation of the program in June 1991. DPRS are those services which allow third party intervention to connect deaf, hearing-impaired and speech-impaired persons and offices of organizations representing the deaf, hearing-impaired and speech-impaired with telecommunications devices for the deaf (TDD) and the telephone system, making available reasonable access to telephone services to eligible subscribers.¹ DPRS services may be initiated by either a hearing person, or a hearing-impaired or speech-impaired person by dialing 7-1-1, or a 1-800 number. It should be noted that when a hearing-impaired person calls another hearing-impaired person, that call does not need to go through the DPRS system but can be direct dialed and the parties can communicate with each other directly with TDDs. The same is true for calls between speech-impaired persons. DPRS services include hearing carry-over, voice carry-over (VCO) and TDD relay services (collectively, Traditional Relay or Relay) but exclude captioned telephone (CapTel) VCO.

¹ Section 209.253.1, RSMo, 2000

Intrastate Traditional Relay usage is declining. The reasons for this decline are not clear but it is thought that other forms of Relay services, funded by the Federal program², are picking-up the missing minutes.³ These services include video relay services (VRS) and Internet protocol relay services (IP Relay).

Average monthly Relay disbursements and usage for the period July 2004 to February 2005, the most recent month for which we have data, are about \$258,576 and 275,080 minutes, respectively. For the same period, last year, July 2003 to February 2004, the average monthly disbursement and average monthly usage was about \$294,944 and 313,770 minutes, respectively. Traditional Relay disbursement and usage data may be found in Appendix 1-4 and 1-5. The contracted rate, \$0.94, charged for Relay has been in effect since July 2001.

C. CapTel

The CapTel trial ended in June 2004 and has been offered as a program open to all qualified applicants since July 2004. As with Relay, either a hearing person or a hearing-impaired user may initiate a CapTel call. Currently the Telecommunications Equipment Distribution Program (TDEP) indicates approximately 20 CapTel phones are distributed per month. CapTel phones are also available for purchase. Of the 253 phones held by the public, five have been purchased with the rest distributed by the TDEP.

Approximately 100 people participated in the CapTel trial. Monthly average CapTel phone usage under the trial was 65 minutes per month (through June 2004). Average monthly CapTel usage for the period October 2004-March 2005 varied from 133 to 164 minutes. Monthly high-user data is available for August to March 2005, and is significant. For example, one CapTel user consumed 5,529 minutes in January 2005. By eliminating high-user data, average usage declines and varies from 62 to 139 minutes. Data from the period July to September 2004 cover CapTel's transition from the trial to a program and are not representative of actual on-going program activity.

Actual CapTel expenditure and usage data are provided in Appendices 1-6 and 1-7. The contracted rate for CapTel service is \$1.45.

II. Analysis and Forecasts

Staff forecasted the number of lines from which surcharge revenues are collected and Relay expenditures based on available data dating from July 1998 to February or March 2005. To analyze CapTel, three scenarios were created that are based upon average usage suggested by the existing data (153, 175, and 200 minutes average usage). One scenario in which the CapTel program is frozen at June 30, 2005 levels is also attached. Expenditures for the TDEP and the Central Services Cost Allocation Program (Allocation Program) were based upon the amount appropriated or ordered. Interest earned by the Fund for forecasting purposes was \$5,405.59, the average monthly payment earned by the Fund from April 2004 to March 2005.

² *IP Relay Declaratory Ruling*, 17 FCC Rcd 7779, at ¶22.

³ Report and Order, Order on Reconsideration, And Further Notice of Proposed Rulemaking. *In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities*. CC Docket No. 90-571, CC Docket No. 98-67, CG Docket No. 03-123. Released June 30, 2004. Fn. 136. "According to NECA, in March 2004 there were approximately 2.2 million minutes of traditional interstate TRS and 5.2 million minutes of IP Relay."

Any predictions beyond fiscal year-end 2007 are too distant to draw any meaningful conclusions, given that many variables (such as the level of receipts and possible exogenous factors) are used in predicting the fund balance, many of which may change at any time.

A. Surcharge Revenue

Monthly surcharge revenues received since July 1998 to March 2005 were divided by the surcharge in effect for that month to yield an approximation of the number of lines supporting the surcharge and are referred to as Reported Lines. Reported surcharge revenues and line count information may be found in Appendices 1-8, 1-9 and 1-10. Historically, revenues received by the Fund have fluctuated, at times irregularly, as indicated on Appendix 1-9. There have been swings in revenue receipts from as little as slightly more than \$79,000 in July 2003 to as much as slightly more than \$710,000 in November 2003.

Because revenues are the product of the line count and surcharge amount, revenue forecasts will not be useful. By forecasting line counts, the data becomes consistent, can be forecasted and meaningful inferences can be drawn. Forecasted data is compared with historical data in Appendix 1-11. Based on this comparison, Staff's line forecast tracks well with historical performance.

B. Relay Usage Expenditures

Relay usage has been reimbursed at a rate of \$0.94 since July 2001. The average monthly payment for Relay services for the last 12 months is slightly less than \$294,000 per month. Staff prepared forecasts based on all historical Relay usage reimbursed at the rate of \$0.94. Forecasted data are compared in Appendix 1-12 and appear to track well. Relay usage data, in dollars and minutes is contained in Appendix 1-5.

C. CapTel Scenarios

It appears TEDP continues to distribute about 20 CapTel phones per month. Average usage had been calculated at 153 minutes over the period October 2004 to January 2005. There is not enough data to conduct any meaningful forecast. Based on Appendix 1-6, Staff is persuaded that CapTel average usage will increase and has prepared four scenarios as a basis for analysis. The first assumes the Commission issues an order freezing CapTel at the end of FY 2005. The second, third and fourth assume the distribution of 20 additional CapTel phones per month at average monthly utilization rates of 153, 175 and 200 minutes/month, respectively.

D. TDEP and Central Services Cost Allocation

Staff assumed TDEP would expend its appropriation, approximately \$2,100,000, at a monthly rate for the remainder of FY 2005 of \$175,000 and for FY 2006 and FY 2007 at monthly rate of \$186,127. Staff also anticipates the Central Services Cost Allocation program to continue to withdraw its authorized amount from the Fund on a quarterly basis. For the remainder of FY 2005, Staff will use \$16,685 per quarter, and for FY 2006 and FY 2007, \$17,746 per quarter.

E. Discussion

To allow the Commission time to review the data and make its decision, Staff has prepared its scenarios based upon August 1, 2005 and October 1, 2005 surcharge implementation dates.

If the Commission chooses to maintain the current surcharge (\$0.10) and to freeze CapTel at June 30, 2005 levels, projections indicate the Fund balance at the end of FY 2006 would be depleted at

approximately -\$89,000. An increase of \$0.05, if implemented in October, would produce a Fund balance at the end of FY 2006 of approximately \$1,388,000 and if implemented in August, would produce a fund balance of approximately \$1,698,533 by the end of FY 2006. (Please see Appendices 1-13 and 1-14, and 1-15).

If CapTel is continued and distribution continues at 20 phones per month with a 153 minute average utilization rate and no change in the current surcharge, Staff forecasts the Fund will be depleted in April 2006, with a balance of about -\$30,341 and by the end of FY 2006, approximately -\$435,241. The difference between this figure and Staff's initial estimate, \$678,000 at the end of FY 2006, is due to the cumulative impact of TDEP not expending all of its average monthly appropriation and CapTel usage less than that indicated in Staff's CapTel scenarios for February and March 2005. A \$0.15 surcharge, a \$0.05 increase, is expected to result in a Fund balance of approximately \$1,042,367 by the end of FY 2006 if implemented in October and about \$1,352,447 if implemented in August. (See Appendices 1-16, 1-17 and 1-18).

If CapTel average utilization increases to 175 minutes, continuation of the current surcharge will deplete the Fund by April 2006 with a balance of about -\$169,297 and -\$606,289 by the end of FY 2006. A surcharge of \$0.15, if implemented in October will produce an expected Fund balance of about \$871,000 by the end of FY 2006 and about \$1,181,399 if implemented in August. (See Appendices 1-19, 1-20 and 1-21)

If CapTel utilization increases to an average of 200 minutes, continuation of the current surcharge is anticipated to exhaust the fund in March 2006 with the Fund balance approaching -\$107,000. A \$0.15 surcharge implemented in October is anticipated to bring the fund to nearly \$677,000 by the end of FY 2006 and if implemented in August, slightly more than \$987,000. (Appendices 1-22, 1-23 and 1-24).

Since Staff's previous recommendation was filed, more CapTel data has become available. Given the additional data, Staff is more comfortable basing its recommendation on an average utilization less than 200 minutes. Even though overall minutes of use have dropped this month, evaluation of Appendix 1-6 leads Staff to infer that CapTel usage will rise in the future but, that increase may not be as rapid as Staff initially concluded. Specifically, one item of interest is the phone Usage Rate which appears to be dropping (See Appendix 1-7). An average CapTel utilization rate of either 153 or 175 minutes may be defensible. Given the scarcity of CapTel usage data, Staff has estimated conservatively and bases its recommendation on 175 minutes average monthly usage.

III. Final Consideration

Staff believes it would be appropriate to select a minimum Fund-balance-target capable of supporting several months' DPRS expenditures, especially given the irregular revenue stream (Appendix 1-9).

Once a minimum Fund balance-target is selected, it would be a straight forward matter to select an appropriate surcharge. A surcharge of \$0.15 imposed in October will produce Fund balances exceeding \$871,000 by the end of FY 2006 and less than -\$130,000 by the end of FY 2007.

A surcharge of \$0.15 imposed in August produces an anticipated Fund balance exceeding \$1,181,000 by the end of FY 2006 and almost \$176,000 by the end of FY 2007.

IV. Recommendation

Staff recommends the Commission determine the minimum fund balance it finds desirable and provide that guidance to the Staff. However, based on current trends, Staff recommends the Commission increase the surcharge to \$0.15 effective October 1, 2005.