



COLORADO

**Department of
Regulatory Agencies**

Public Utilities Commission

Joshua B. Epel, Chairman
Pamela J. Patton, Commissioner
Glenn A. Vaad, Commissioner
Doug Dean, Director

Joe Neguse, Executive Director
John W. Hickenlooper, Governor

December 1, 2015

The General Assembly
State Capitol Building
Denver, Colorado 80203

Dear General Assembly Member:

The attached Interim Report of the 2015 Colorado High Cost Support Mechanism (HCSM) is hereby submitted to the House Economic and Business Development and the Senate Business, Labor and Technology Committee. The 2015 HCSM full report, including the information required by § 40-15-208, C.R.S., will be submitted once the Commission concludes its proceeding that will have determine 2015 and future year distributions and operations of the fund.

The HCSM was created in House Bill 95-1335 to provide financial assistance to local exchange providers to help make basic local exchange service affordable and allow such providers to be fully reimbursed for the difference between the reasonable costs incurred in making basic service available to their customers within a rural, high cost geographic support area and the price charged for such service. In May 2014 the General Assembly made several fundamental changes to the HCSM. These changes included making it clear that HCSM is to support local exchange providers only in areas of the state without effective competition and to provide funding to aid providers deploying broadband services in unserved areas. These issues are currently being addressed by the Commission in a litigated proceeding that will not be final until after the beginning of 2016.

If I can be of further assistance to you, please let me know.

Doug Dean
Director



**INTERIM REPORT OF THE
COLORADO HIGH COST SUPPORT MECHANISM
TO THE GENERAL ASSEMBLY
DECEMBER 1, 2015**

Executive Summary

The Commission is required to submit a written report of the High Cost Support Mechanism (HCSM) to the General Assembly on or before December 1st each year pursuant to § 40-15-208(2)(b), C.R.S. The report provides a detailed overview of the operations of the HCSM for the calendar year and proposed operations for the following year. As discussed below, the Colorado HCSM is in a change state and is currently being heard at the Commission. The 2015 report will be submitted to the General Assembly as soon as possible once current on-going Commission proceedings are concluded.

In 2014 the Colorado General Assembly enacted five Telecom Reform Bills, two of which affected the HCSM directly. House Bill (HB) 14-1329 and HB 14-1331 generally deregulated many services including basic voice service, with enumerated exceptions, while retaining the HCSM fund. The newly created Broadband Fund enacted by HB 14-1328, enables the Commission to transfer HCSM funds to the Broadband Fund, but sets limits that only allows funds to be transferred that were collected at the surcharge rate in effect on May 10, 2014, and that are no longer needed to support universal basic service in Colorado in areas determined to be effectively competitive. The Commission continues to address complicated issues that must balance this intent to aid the development of broadband services with the continued need to fund voice service in high cost rural areas.

The HCSM fund continues to be negatively affected by a significant decline in contributions. Total projected contributions in 2015 to the HCSM fund are estimated to be \$42.6 million. There continues to be a steady decline in wireline revenues as consumers abandon traditional wireline service. Additionally, highly competitive wireless price plans and the proliferation of consumer data packages have resulted in a significant decline in wireless contributions.

On August 20, 2015, Qwest Corporation, doing business as CenturyLink, CenturyTel of Eagle, CenturyTel of Colorado, and El Paso County Telephone (collectively CenturyLink); Public Utilities Commission Trial Staff; Colorado Telecommunications Association, Inc. (CTA); and Northern Colorado Communications, LLC (NCC) jointly filed with the Commission a Stipulation and Settlement Agreement (Settlement) along with a Joint Motion to, among other things, approve the Settlement in Proceeding Nos. 15M-0158T and 14M-0947T. The Settlement proposes HCSM support amounts to be paid to CenturyLink, CTA, NCC, and N.E. Colorado Cellular, Inc., doing business as Viaero Wireless for the four years 2015 through 2018. Commission hearings on this matter were held on November 16 through 18, 2015. The final outcome of this proceeding will impact 2015 and future distributions.

The surcharge is projected to remain at the current rate of 2.6 percent for the foreseeable future pending resolution of current Commission proceedings impacting distributions. This rate has been in effect since April 1, 2013. A full report will be submitted once current Commission Proceedings are concluded with a known distribution outcome, most likely by the end of the first quarter of 2016.