

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY REGULATORY)
COMMISSION PROCEEDING TO)
ESTABLISH FUNDING FOR THE COSTS OF)
THE INDIANA LIFELINE ASSISTANCE)
PROGRAM, PURSUANT TO THE)
PROVISIONS SET FORTH IN HEA 1279,)
CODIFIED AS IC 8-1-36-8)

CAUSE NO. 43082

SUPPLEMENTAL ORDER

RESPONDENTS:)
ALL TELECOMMUNICATIONS SERVICE)
PROVIDERS, INCLUDING INTRASTATE)
WIRELESS CARRIERS, IN THE STATE OF)
INDIANA)

APPROVED: JUN 30 2010

BY THE COMMISSION:

David E. Ziegner, Commissioner
David E. Veleta, Administrative Law Judge

The Indiana Utility Regulatory Commission (“Commission”) initiated its review in this matter with an Order issued in this Cause on July 6, 2006. The purpose of this proceeding is to establish funding requirements for the Indiana Lifeline Assistance Program (“ILAP”) as a result of statutory directives for Lifeline service contained in legislation passed in 2006 by the Indiana General Assembly under House Enrolled Act (“HEA”) 1279.¹ HEA 1279 was signed into law by Governor Daniels on March 14, 2006. Section 59 of HEA 1279 added a new chapter to the Indiana Code, codified as Indiana Code § 8-1-36.

Pursuant to the provisions set forth in Indiana Code § 8-1-36-8(b), the Commission is required to determine funding requirements for the following costs of the ILAP, after notice

¹ In general, “Lifeline” service provides universal service support for qualifying low-income consumers whereby such consumers pay reduced charges in obtaining such support. “Universal service” as used here is essentially basic local telephone service – the ability to place a telephone call and to receive a telephone call at just, reasonable and affordable rates that are reasonably comparable between rural and urban areas. In the federal Telecommunications Act of 1996 (“TA-96”), Congress defined “universal service” as an “evolving level of telecommunications services that the [FCC] shall establish periodically . . . taking into account advances in telecommunications and information technologies and services.” 47 U.S.C. § 254(c)(1) of TA-96.

In the Order of the Federal Communications Commission (“FCC”), addressing the universal service support provisions of TA-96, the FCC established regulations (47 C.F.R. § 54.101 et. seq.) that require all eligible telecommunications carriers (“ETCs”), receiving compensation from the federal Universal Service Fund for costs incurred in providing universal service, to make available Lifeline service to qualifying low-income consumers. See, *In Re: The Matter of Federal-State Joint Board on Universal Service*, Report and Order, CC Docket No. 96-45 rel. May 8, 1997. The FCC’s subsequent rules, implementing the provisions of TA-96, define Lifeline service and identify the services or functionalities provided. See, 47 C.F.R. § 54.401(a).

and hearing, in a manner based on and consistent with comparable federal funding mechanisms for the federal Lifeline program:

- (1) The costs of reimbursing ETCs for lost revenues associated with providing further reduced charges for Lifeline support.
- (2) Reasonable expenses incurred by the Commission and ETCs to:
 - (A) Administer the program; and
 - (B) Publicize the availability of the program in a manner reasonably designed to reach eligible customers.

Indiana Code § 8-1-36-8(b).

As required by Indiana Code § 8-1-2-36-8(b), the Commission conducted a proceeding in this Cause to determine funding for certain costs of the program, including the costs of reimbursing eligible telecommunications carriers for lost revenues associated with providing reduced charges for basic telecommunications service to participants and the reasonable expenses incurred by the Commission and Eligible Telecommunications Carriers (“ETCs”) to administer the program and publicize the availability of the program in a manner reasonably designed to reach eligible customers.

Following notice and hearing in this matter, the Commission issued a Final Order in this Cause on November 7, 2007, that approved an agreed funding proposal presented by certain parties to the proceeding and established the following funding levels:

(a) Foregone revenue from the \$1.00 Lifeline Discount	\$715,000
(b) Administrator expenses	\$100,000
(c) ETC administration expenses	\$362,000
(d) Outreach	<u>\$300,000</u>
Total Initial Funding Requirement	\$1,477,000

On May 14, 2008, in furtherance of the specific requirements set forth in the statute with respect to rulemaking, the Commission adopted a final rule (“2008 ILAP Rule”). A budget approval letter from the State Budget Agency is required before a Proposed Rule can be approved. The State Budget Agency did not approve the Proposed Rule citing concerns with the expense portions of the funding requirement. Additionally, the State Budget Agency further expressed concern regarding the surcharge to be imposed on all telecommunications customers, relative to the amount of actual assistance provided to eligible customers. On October 21, 2009, the Commission issued an Order reopening this Cause to reexamine the ILAP funding issues.

Pursuant to notice and as provided for in 170 IAC § 1-1.1-15, proof of which was incorporated into the record by reference and placed in the official files of the Commission, the Commission convened a prehearing conference in this Cause in Judicial Courtroom 224 of the National City Center, 101 West Washington Street, Indianapolis, Indiana at 2:00 p.m. on

November 23, 2009. ETCs subject to the provisions of Indiana Code § 8-1-36, intervenor Indiana Telecommunication Association (“ITA”), and the Indiana Office of Utility Consumer Counselor (“OUCC”) appeared and participated at the Prehearing Conference.

On February 19, 2010, Sprint Nextel (“Sprint”) prefiled the direct testimony and exhibit of its witness, Lilli Taylor, Regulatory Policy Manager for Sprint. On February 19, 2010, Verizon North Inc. and Contel of the South, Inc., d/b/a Verizon North Systems (“Verizon”) filed its ILAP proposal. On February 19, 2010, intervenor Indiana Telecommunication Association prefiled the direct testimony and exhibits of its witness, Alan I. Matsumoto, Manager for ITA member CenturyLink. On March 19, 2010, the OUCC prefiled the direct testimony of its witness, Ronald L. Keen, a Senior Analyst within the OUCC’s Resource Planning, Emerging Technologies, and Telecommunications (“RPETT”) Division. On March 19, 2010, the ITA prefiled the responsive testimony of its witness, Alan I. Matsumoto. On April 1, 2010, the ITA prefiled the reply testimony of its witness, Alan I. Matsumoto.

Pursuant to notice and as provided for in 170 IAC § 1-1.1-15, proof of which was incorporated into the record by reference and placed in the official files of the Commission, the Commission convened an evidentiary hearing in this Cause on Thursday, May 6, 2010 in Judicial Courtroom 224 of the National City Center at 101 West Washington Street, Indianapolis, Indiana. The ITA, Verizon, Sprint, AT&T Indiana, the Indiana Exchange Carrier Association (“INECA”), and the OUCC appeared and were duly represented by counsel. No members of the general public appeared or sought to testify at the evidentiary hearing.

The ITA offered into evidence the direct, responsive, and reply testimony and exhibits of its witness, Alan I. Matsumoto. Sprint offered into evidence the direct testimony and exhibit of its witness, Lilli Taylor. Verizon offered into evidence its ILAP proposal. The OUCC offered into evidence the direct testimony of its witness, Ronald L. Keen. All prefiled testimony and exhibits were admitted into evidence without objection. All parties waived cross-examination of the witnesses.

Based upon the applicable law and the evidence herein, the Commission, having considered the complete record now finds as follows:

1. Notice and Jurisdiction. Due, legal and timely notice of the public hearing in this Cause was given and published by the Commission as provided for by Indiana law. The proofs of publication of the notice of the hearing have been incorporated into the record of this proceeding. With the exception of the OUCC, which is a party pursuant to Indiana Code § 8-1-1.1, all Respondents in this Cause either are, or represent, public utilities as that term is defined in Indiana Code § 8-1-2-1(a). Moreover, pursuant to Indiana Code § 8-1-36-8(b), funding for the costs of the ILAP are to be determined by the Commission, after notice and hearing. Accordingly, the Commission has jurisdiction over the parties and the subject matter of this Cause.

2. Evidence Presented in this Cause.

A. Direct Testimony. The ITA and Sprint sponsored witnesses who submitted direct testimony. Verizon submitted an ILAP proposal.

The Indiana Telecommunication Association. On February 19, 2010, ITA prefiled the direct testimony and exhibits of its witness, Alan I. Matsumoto, Manager for ITA member CenturyLink. Mr. Matsumoto's testimony provided background on the ITA's ILAP recommendations. The ITA developed its recommendations and provided them in advance to the other parties in this Cause. OUCC advised the ITA that their agency has no objection to the ITA's proposed rule changes. Sprint advised the ITA that Sprint supports ITA's proposal with one exception and intended to file testimony on that exception.

Mr. Matsumoto's testimony presented the ITA's ILAP Recommendations as proposed modifications to sections 170 IAC § 7-8-10 *Consumer education and outreach* and 170 IAC § 7-8-12 *Funding* of the 2008 ILAP Rule that was adopted by the Commission on May 14, 2008.

Mr. Matsumoto's testimony addressed the four main expense components of the ILAP: (1) Foregone Revenue for Customer Discounts; (2) Fund Administrator Fee; (3) Outreach Reimbursement; and (4) Administrative Cost. Mr. Matsumoto addressed each of the four components individually in his testimony.

On the issue of Foregone Revenue for Customer Discounts, Mr. Matsumoto recommended retaining the initial ILAP rate discount of \$1.00 per month for each ILAP participant, as reflected in the Commission's 2008 ILAP Rule. Mr. Matsumoto updated the estimate of annual foregone revenue to approximately \$663,684, based on 2008 data from the FCC Universal Service December 2009 Monitoring Report. Mr. Matsumoto indicated that the ITA's recommendation for the ILAP rate discount addressed the State Budget Agency's concerns with the ILAP funding requirement since it did not appear to take issue with ILAP support of \$1.00 per month for each ILAP participant.

Regarding the Fund Administrator Fee, Mr. Matsumoto recommended that the Commission contract with Solix, Inc. ("Solix"), the administrator of the Indiana Universal Service Fund ("IUSF"), to serve as the ILAP administrator on the basis of scale economies and efficiencies to be gained through unified administration of the IUSF and ILAP. Mr. Matsumoto cited his positive interactions with Solix as the Interexchange Carrier ("IXC") representative on the IUSF Oversight Committee and his belief that Solix has served proficiently as IUSF administrator and possesses the experience and knowledge necessary to establish and operate the ILAP fund. Mr. Matsumoto noted that Solix has provided an estimate of \$61,000 for the fund administrator fee in Year 1.

For Outreach Reimbursement, Mr. Matsumoto recommended that reimbursement for reasonable outreach expenses be paid from the ILAP fund when incurred by an individual ETC, a group of ETCs, or an agent representing an ETC or group of ETCs in support of: (1) optional outreach methods described in Section 170 IAC § 7-8-10(d) and (2) the outreach methods approved by the Commission as an alternative to these optional outreach methods, as described in Sections 170 IAC 7-8-10(e) and 170 IAC § 7-8-12(a)(3)(B). Mr. Matsumoto indicated that due to the limited outreach funds, parties must submit a claim and obtain pre-approval for any outreach activity, in order to receive reimbursement. Mr. Matsumoto recommended that the Commission establish the annual outreach budget at the beginning of each year, as setting an initial amount for the outreach budget will allow the Commission to adjust the outreach budget as ILAP experience accrues and information is available on properly

sizing outreach expenditures that are deemed to be the most effective. With the Commission controlling outreach reimbursement, it would be able to set it at an appropriate level, addressing the State Budget Agency's concerns over the ILAP outreach costs.

Regarding Administrative Cost, Mr. Matsumoto recommended that each carrier's reimbursement for ILAP administration expenses be limited to 2% of the carrier's collected ILAP surcharges. This recommendation is consistent with the manner in which carriers are reimbursed for IUSF administration expenses. Reimbursement of ILAP administrative expense at 2% of collected ILAP surcharges would be within the range of \$15,000 - \$20,000 and would address the State Budget Agency's concerns over the administrative costs of the ILAP.

Mr. Matsumoto recommended that the ILAP be evaluated by the Oversight Committee twelve months after its implementation, with subsequent reviews conducted on a biennial basis. Shortening the interval from the 2008 ILAP rule from eighteen to twelve months after the implementation of the ILAP will ensure the ILAP is meeting stated goals and operating properly and enable any adjustments to the ILAP to be effected sooner. This will help ensure ILAP funding is at appropriate levels and the ILAP surcharge is in accordance with the benefits received by eligible ILAP participants.

Finally, Mr. Matsumoto summarized the initial ILAP funding estimates under the ITA's proposal:

(a) Foregone Revenue for customer discounts	\$663,684
(b) Fund Administrator Fee	\$61,000
(c) Outreach Reimbursement	\$80,000 - \$150,000
(d) Administrative Cost	<u>\$15,000 - \$20,000</u>
Total Annual Program Cost	\$819,684 - \$894,684

Mr. Matsumoto estimated the ILAP surcharge percentage by taking the initial ILAP funding range of \$819,684 - \$894,684 and dividing by 2009 total Indiana net billed intrastate retail telecommunications revenues of approximately \$2,711,271,650, resulting in an ILAP surcharge percentage in the range of 0.0302% - 0.0330%. For illustrative purposes, a consumer with monthly charges for intrastate services of \$50 would be assessed a monthly ILAP surcharge of between 1.5¢ - 1.6¢. Mr. Matsumoto believes this is a reasonable ILAP funding level and satisfies the State Budget Agency's concerns regarding the ILAP funding requirement.

Sprint. On February 19, 2010, Sprint prefiled the direct testimony and exhibit of its witness, Lilli Taylor, Regulatory Policy Manager for Sprint. Ms. Taylor's testimony outlined Sprint's position on the proposed amendments to the ILAP outreach rules as proposed by the ITA. Ms. Taylor provided a summary of Sprint's interaction with the ITA on its proposal. Ms. Taylor attached Exhibit LT-1, which reflects the final ITA proposal, which incorporates all but one of Sprint's suggestions. The one Sprint suggestion that was not included in the final ITA proposal is related to Rule 170 IAC § 7-8-10(a)(4). The ITA proposal would change the Rule (to add what is noted in *italics*): "To the extent a customer service representative discusses the parameters of payment arrangements with a consumer and *there is an indication they may be*

eligible for the ILAP, the customer service representative should also advise the consumer about the availability of the ILAP.” Ms. Taylor indicated that the ITA proposal adds a level of subjectivity that imposes significant operational and, ultimately, financial challenges for Sprint. Ms. Taylor included an estimate of an initial one-time implementation expense of \$217,500 and annual on-going expense of \$500,370. Ms. Taylor recommends the Commission retain the provisions of the existing Rule that allow wireless ETCs to seek certain exemptions where compliance is technically infeasible (170 IAC 7-8-8(b)), and approve the portion of the ITA proposal that allows carriers to seek approval and any available funding for alternative outreach models (170 IAC § 7-8-10(e), 170 IAC § 7-8-12(a)(3)(B), and 170 IAC § 7-8-12(d). However, Sprint recommends that the Commission reject the portion of the ITA proposal that requires a customer be advised of ILAP availability when there is an indication of ILAP eligibility. Sprint had no objection to the remainder of the ITA proposal.

Verizon. On February 19, 2010, Verizon filed its ILAP proposal. Verizon stated that it joins in the ITA’s proposal and testimony, but is separately filing an additional proposal. Verizon proposes to limit 170 IAC § 7-8-3(b) to Basic Telecommunications Services (“BTS”) customers who are ILAP eligible. Verizon believes there are statutory reasons for such a limitation and cites to Indiana Code § 8-1-36-8(a) which provides that the ILAP “shall offer reduced charges for basic telecommunications services to eligible customers.” Verizon provides policy reasons for limiting ILAP to BTS customers, citing concerns that extending ILAP to consumers subscribing to higher priced non-basic services that they cannot afford will increase uncollectible accounts and potentially impact consumers’ credit ratings.

B. Responsive Testimony. The OUCC and the ITA submitted responsive testimony.

OUCC. On March 19, 2010, the OUCC prefiled the testimony of its witness, Ronald L. Keen. Mr. Keen confirmed the OUCC’s involvement in the collaborative process that led to the drafting and filing of the proposed changes described in Mr. Matsumoto’s testimony. The OUCC does not object to the proposed changes. With respect to Sprint’s proposed change to the ITA’s proposal, the OUCC urged the parties to attempt to develop a “win-win” solution, resulting in alternate language that would further the interests of all stakeholders and could be implemented without significantly altering the language proposed in Mr. Matsumoto’s testimony. Mr. Keen indicated that the OUCC opposes Verizon’s assertion that ILAP discounts only be made available to Indiana customers that receive BTS, noting that the ILAP statute is clearly intended to broaden, rather than narrow, the number of Indiana consumers eligible to receive state and federal low-income Lifeline assistance. The OUCC believes the Indiana General Assembly did not intend to remove or limit federally funded Lifeline discounts already being provided to eligible Indiana consumers when it decided to provide supplemental support under a new state Lifeline program with broader income-based eligibility requirements. Mr. Keen stated that Verizon’s proposed reading of the ILAP statute runs counter to the Indiana General Assembly’s clear legislative goals and urged the Commission to reject Verizon’s request. Mr. Keen also requested the Commission consider: (1) adding customer education, outreach or marketing requirements to the ILAP Rule in the future, and (2) increasing the monthly Lifeline discount provided under the ILAP in the future, after current economic pressures have eased, thereby opening the door for additional federal matching funds, while improving the ratio of program benefits to program costs.

The Indiana Telecommunication Association. On March 19, 2010, the ITA prefiled the responsive testimony of its witness, Alan I. Matsumoto, in response to Sprint's direct testimony and Verizon's proposal. Sprint recommended that the Commission reject the ITA amendment to 170 IAC § 7-8-10(a)(4) that adds the condition "there is an indication [that the customer] may be eligible for the ILAP" for advising the customer of ILAP availability on a payment arrangements call. Mr. Matsumoto stated that the ITA's proposal does not preclude a service representative of an ETC from advising a consumer of the availability of the ILAP when there is no indication the customer may be eligible for the ILAP. The ITA recommended that the condition "there is an indication they may be eligible for the ILAP" be added to preclude the need for ETCs to discuss ILAP availability on every customer call for payment arrangements, to be responsive to the needs of their customers. Mr. Matsumoto did not agree with Sprint that compliance with the ITA's proposal would necessitate large-scale modifications to Sprint legacy operating systems and associated expenses. In Mr. Matsumoto's view, given: (a) Sprint stated it can comply with the ITA's recommendation for rule 170 IAC § 7-8-10 (a)(4), except for its misplaced concern with the added condition and (b) nothing in the his recommendation would prohibit Sprint from advising of ILAP availability on every customer call for payment arrangements, if that is Sprint's preference, then there is no need for the Commission to adopt Sprint's proposal. Accordingly, Sprint's proposed change should be rejected and the ITA's ILAP recommendations should not be altered.

Mr. Matsumoto did not agree with Verizon's interpretation of Indiana Code § 8-1-36-8(a) that would limit ILAP eligibility to basic telecommunications services customers only. Mr. Matsumoto pointed out that Indiana Code § 8-1-36-8(a)(3) prohibits an ETC from discontinuing BTS to an ILAP participant because of nonpayment of charges for other services billed by the ETC. If ILAP eligibility were limited to BTS customers only, then Indiana Code § 8-1-36-8(a)(3) would not exist, since the definition of "basic telecommunications services" states that it: "is: (A) the sole service purchased by the customer."²

Mr. Matsumoto disagreed with Verizon's purported policy reasons for its proposed change to the Commission's 2008 ILAP Rule. Mr. Matsumoto believes that Verizon's paternalistic approach in allegedly protecting ILAP customers by not providing an incentive to purchase services they cannot afford is misguided and that ILAP customers should be allowed the freedom to make independent service and budget decisions. Mr. Matsumoto stated that there are numerous health, safety, welfare, and other reasons that an ILAP customer may desire non-basic telecommunications services, and, if the Commission were to adopt Verizon's proposal, important ILAP customer needs would be unmet. Mr. Matsumoto pointed out that the FCC's Lifeline program does not restrict Lifeline participants to basic telecommunications services and further, existing Indiana Lifeline customers are not prohibited from purchasing nonbasic telecommunications services. Mr. Matsumoto believes that if Verizon's proposal were adopted, existing Indiana Lifeline customers would be disadvantaged by implementation of the ILAP; potentially resulting in extreme customer confusion and disruption. Mr. Matsumoto noted that Verizon provided no evidence or substantiation of its assertions of increased uncollectible accounts, increases in the amounts of such accounts, and threats to consumers' credit ratings. Mr. Matsumoto indicated that Verizon has failed to demonstrate any

² Indiana Code § 8-1-2.6-0.1 (a) (2) (A)

statutory or policy grounds for its proposed change, and the Commission should reject Verizon's proposal to limit ILAP eligibility to BTS customers only.

C. Reply Testimony. On April 1, 2010, the ITA prefiled the reply testimony of its witness, Alan I. Matsumoto, in response to the testimony of the OUCC. Mr. Matsumoto noted that the OUCC encouraged Sprint and the ITA to reach a compromise on the ITA's proposed modification to rule 170 IAC § 7-8-10 (a)(4). ITA proposes and Sprint opposes adding a condition that: "there is an indication [that the customer] may be eligible for the ILAP" for advising a consumer of ILAP availability. Mr. Matsumoto indicated that while the ITA appreciates the OUCC's support for compromise, as stated in his responsive testimony, the ITA's proposed rule 170 IAC § 7-8-10 (a)(4) accommodates Sprint's concerns and Sprint could comply with the disclosure of ILAP availability, without altering the ITA's language. Consequently, compromise is not necessary. Mr. Matsumoto concluded that the ITA's proposal, without alteration, addresses Sprint's concerns and there is no need for the Commission to take further action, and it should not adopt Sprint's proposed change to the ITA's ILAP recommendations.

Mr. Matsumoto supported the OUCC's opposition to Verizon's proposal that would limit ILAP eligibility to basic telecommunications services customers only. Mr. Matsumoto noted that the OUCC established that Verizon's proposal runs counter to the Indiana General Assembly's legislative intent for the ILAP and, together with his responsive testimony demonstrating that Verizon failed to demonstrate any need on statutory or policy grounds for its proposal, the Commission should accept the OUCC's recommendations and reject Verizon's proposed change.

3. Commission Discussion and Findings. The Commission initiated this proceeding to establish funding requirements for the Indiana Lifeline Assistance Program as required by Indiana Code § 8-1-36, which directs us to not only determine and establish a funding mechanism for the costs of the ILAP, after notice and hearing, but also to adopt rules, no later than July 1, 2008 (to become effective no later than July 1, 2009), for the administration of this program.

For purposes of consideration of funding in this proceeding, as set forth in Indiana Code § 8-1-2-36-8(b), the Commission must determine funding for certain costs of the program, after notice and hearing, in a manner based on and consistent with comparable federal funding mechanisms for the federal Lifeline program. Consideration of the issues in this matter include the costs of reimbursing eligible telecommunications carriers for lost revenues associated with providing reduced charges for basic telecommunications service to participants; and, the reasonable expenses incurred by the Commission and eligible telecommunications carriers to administer the program and publicize the availability of the program in a manner reasonably designed to reach eligible customers.

With respect to the funding of the ILAP, we affirm, consistent with our November 7, 2007 Order, that all telecommunications carriers providing intrastate retail telecommunications services to customers in Indiana shall contribute to the support of the ILAP fund on a competitively neutral basis as mandated by Section 254(f) of the federal Telecommunications Act of 1996 ("TA-96"). This is consistent with the ITA's recommendation for the funding

section of the Rule and no other party objected to this portion of the ITA proposal.³ While the ITA and other parties proposed specific language for the ILAP Rule, we find that the specific language is more appropriately addressed during the rulemaking proceeding. Therefore, we will not address Sprint's recommendations and will only address those issues related to the structure of the funding mechanism in this proceeding.

With respect to Verizon's proposal to reduce the cost of the ILAP by limiting reimbursement to ETCs for discounts for eligible customers that receive basic telecommunications services only, we agree with the OUCC and the ITA that Indiana Code § 8-1-36 was not intended to, nor does it based on the plain language, narrow participation in the ILAP. Therefore, we decline to approve Verizon's proposal.

With respect to the ITA's recommendation for the ILAP funding mechanism, the Commission finds that the ITA recommendation reasonably accounts for all expenses associated with ILAP operation and provides a reasonable estimate of associated ILAP costs including: (1) reimbursement to ETCs for foregone revenue resulting from the initial ILAP rate discount of \$1.00 per month for each ILAP participant; (2) a fund administrator fee through unified administration of the IUSF and ILAP by Solix; (3) reimbursement of reasonable expenses for outreach efforts to publicize the availability of the ILAP with the Commission establishing the annual outreach budget at the beginning of each year; and (4) reimbursement of a carrier's administrative costs at a level of 2% of the carrier's collected ILAP surcharges. However, the ITA provided a range for cost elements (3) and (4) as opposed to a specific estimate. Because we find that program cost estimates should be specified to allow for the calculation of the surcharge upon implementation of the fund, the following amounts for outreach and administrative expense reimbursement are hereby approved for use in developing the funding mechanism for the ILAP Fund. For outreach expenses, we find the midrange of \$100,000 is appropriate and in line with the decrease in forgone revenue from the amounts approved in the Commission's November 7, 2007 Order. With respect to administrative expense, we find that the administrative reimbursement of 2% of the ILAP surcharge revenues collected is reasonable and consistent with the federal Lifeline Program. Using 2008 net retail revenue, the amount of 2% of the surcharge was approximately \$18,300. While we recognize that net assessable intrastate retail revenues decreased slightly in 2009, revenues do vary from year to year. Consequently, the use of 2008 data for the final costs estimate is reasonable.

In summary, we find the funding levels for the first year of the program shall be as follows:

a. Forgone Revenue	\$663,684
b. Fund Administrator Fee	\$61,000
c. Outreach Reimbursement	\$100,000
d. Administrative Cost	<u>\$18,300</u>
Total Annual Program Cost	\$842,927

³ Prefiled Direct Testimony of Alan I. Matsumoto on Behalf of the Indiana Telecommunications Association, Exhibit B, filed February 19, 2010.

Consistent with the statutory requirements, the Commission finds that the ITA's ILAP recommendations establish a reasonable ILAP funding level and appropriately address the State Budget Agency's concerns regarding the ILAP funding requirement.

4. Reporting Requirements. It shall be a condition of this Order that all ETCs shall file Annual Reports with the Commission which provide the following information: (1) the amount the ETC is spending to meet its federal ETC obligations under the federal lifeline program; and (2) how the ETC is allocating its spending to meet its federal ETC obligations under the federal lifeline program. These reporting requirements are intended to ensure that ETCs do not recover costs at the State level for obligations the ETC is required to fulfill at the federal level. The Annual Report shall be filed with the Commission's Communication Division by September 1st of each year.

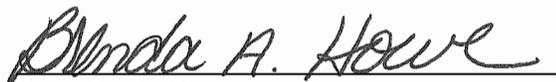
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The ITA's Indiana Lifeline Assistance Program funding mechanism recommendations are hereby approved by the Commission as set forth herein.
2. The Staff is directed to draft a new ILAP Rule for Commission approval consistent with the findings set forth herein.
3. ETCs shall comply fully with the terms of this Order and submit to the Commission all information required by the terms of this Order.
4. This Order shall be effective on and after the date of its approval.

HARDY, ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JUN 30 2010

I hereby certify that the above is a true and correct copy of the Order as approved.


Brenda A. Howe
Secretary to the Commission