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NEWS RELEASE

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PSC Ends State Low-Income Subsidy for Wireless Phones

Landline subsidy remains; state Lifeline support fee will decrease

FRANKFORT, Ky. (March 10, 2017) – The Kentucky Public Service Commission (PSC) is revamping the state program that provides assistance to low-income telephone customers and refocusing it on meeting the needs of the mostly elderly and rural customers who rely on landline phones.

In an order issued today, the PSC said that it is faced with a choice of sharply increasing the surcharges that all phone customers pay to support the Lifeline program or reducing the subsidies offered by the program.

“What is clear is that the program cannot continue in its current form,” the PSC said.

Beginning May 1, 2017, Kentucky will no longer provide a \$3.50 monthly per-customer payment to carriers that provide wireless phone service for eligible low-income customers. Eligible wireless providers will continue to receive the \$9.25 per month federal subsidy for each customer that receives Lifeline service.

The state will continue to subsidize landline service for low-income customers. Because the federal subsidy for landline service is being phased out and will be eliminated entirely in December 2021, the state Lifeline subsidy will gradually increase to \$7.50 per month to offset the loss of federal funds on a dollar-for-dollar basis.

Eliminating the state Lifeline subsidy for wireless phones will reduce the financial pressure on the Kentucky Universal Service Fund (KUSF), which is the source of Kentucky’s Lifeline subsidies. It is funded by a 14-cent monthly surcharge on each phone line in the state.

That surcharge will drop to 3 cents on July 1, 2017, because the state subsidy will now go to support far fewer customers.

The decision to restructure the state Lifeline program was the result of a number of factors. The PSC initiated a review of the program in February 2016, when it became clear that the KUSF was on the verge of running out of funds due to an increased number of wireless customers qualifying for the Lifeline subsidy. The state subsidy now goes to about 166,000 customers, all but about 17,000 of whom use it for wireless service.

In March 2016, the PSC stabilized the KUSF by increasing the surcharge from 8 cents to 14 cents. The federal program is funded by a separate surcharge.

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Since then, however, three additional wireless providers with about 85,000 total Lifeline customers have applied to receive funds from the state program. They already receive the federal subsidy to support Lifeline service to their customers.

The PSC said that adding those customers would necessitate increasing the monthly per-line surcharge to a minimum of 21 cents, which “is an unreasonable burden to place” on Kentucky phone customers.

Changes to the state Lifeline program also are being driven by changes at the federal level. The Federal Communications Commission (FCC) last year decided to phase out federal Lifeline subsidies for landline service in favor of providing subsidies for broadband service. The FCC also has mandated increases in the cost of basic landline service in rural areas.

The PSC noted in today’s order that 56 percent of Kentucky Lifeline customers who receive landline service are over the age of 65. Another 36 percent are between the ages of 45 and 65.

Changes to the federal Lifeline program may put “some of the most vulnerable Kentuckians - the elderly and those that live in rural areas with limited wireless coverage” - at risk of losing their ability to access the telephone network and emergency services, the PSC said. The changes to the state Lifeline program are intended to assist those customers.

The PSC indicated that removing the state subsidy for wireless Lifeline service should have little effect on those wireless customers, as there is intense competition in the wireless market which will tend to keep rates low. Adequacy of service will be maintained through new FCC rules that require substantially higher levels of both voice and data service.

However, competition is almost non-existent in the landline market, especially in rural areas, according to the PSC. With little pressure to keep landline rates low, and the loss of federal subsidies, the state Lifeline subsidy has become increasingly important for low-income customers in those areas, the PSC said.

Universal Service Funds (USF) were created by the Federal Telecommunications Act of 1996, with the goal of making telephone service available to everyone. The KUSF was established by the PSC in 1998.

Initially, the KUSF received matching funds through the federal USF. The FCC in 2012 ended the matching support, and instead set the federal support at \$9.25 per month per Lifeline customer. The FCC last year continued wireless subsidies at that level through 2021, while expanding it to broadband.

Lifeline customers are required to provide proof of their low-income qualifying status to the phone company on an annual basis. Lifeline subsidies are limited to one phone line or broadband service per household.

About 40 percent of eligible Kentuckians are currently receiving Lifeline service.

In today’s order, the PSC noted that a number of issues regarding the KUSF remain unresolved, most notably the question of how surcharge payments are made into the fund. Those issues will be the subject of further proceedings in the case, the PSC said.

Today’s order and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2016-00059.

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The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 75 employees.

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