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October 25, 2005

James J. McNulty
Secretary
Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

**RE: Pennsylvania Universal Service Fund 1/04 – 12/04 Period Report
Docket No. M-00001337**

Dear Mr. McNulty:

Enclosed for filing in Docket No. M-00001337 is a summary of the activity for the Pennsylvania Universal Service Fund (PUSF) for the 1/04- 12/04 period of operations.

In accordance with the terms of the contract between NECA Services, Inc. and the Pennsylvania Public Utility Commission (PPUC), this report details the financial activities of the PUSF for the period ending December 31, 2004 and includes a Balance Sheet, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows. Also included is a list of recommendations pertaining to the Pennsylvania USF and the proposed assessment rate for the 2006 calendar year.

Please contact me if you have any questions or comments regarding the enclosed materials.

Sincerely,

cc: PA Office of Consumer Advocate
PA Office of Small Business Advocate
Chief Counsel, PPUC
Director of the Bureau of Fixed Utilities, PPUC
Director of the Bureau of Audits, PPUC
PUSF Participating Carriers

Attachments

NECA Services, Inc.
Pennsylvania Universal Service Fund
October 25, 2005

A. PUSF Financial Activities

As shown in the attached financial statements, the gross PUSF assessments during the 01/04- 12/04 period were \$33.3 million and the gross support disbursements were \$33.5million. The corresponding fund balance as of 12/31/04, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$2.3 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$48 thousand for the period, resulting in an average investment earnings rate of 1.27%.

B. Recommendations for the PUSF

1) Continue to Utilize an Annual Funding Contingency of 5%

For the past three years, the PPUC has approved an assessment factor that utilized a 5% funding contingency. This has proven to provide sufficient cash flow to ensure that all PUSF support payments are made on schedule.

2) Encourage Annual Payments

Since its inception, most carriers that are required to pay into the PUSF have paid via monthly contributions, regardless of their total annual amount due. As a way to increase operational efficiencies for the carriers as well as the Administrator, NECA Services recommends that the PPUC encourages carriers to pay their annual contribution in a lump sum rather than monthly installments, if economically feasible.

C. Proposed Assessment Rate for Calendar Year 2006

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2006 has been calculated at 1.0236739% (.010236739) of intrastate retail revenues. The assessment calculation is based on data submitted by carriers during the annual data collection process as well as projections of the fund carryover balance and administrative and auditing fees:

- 1) Reported 2003/2004 annual access line growth rate = -2.41% , therefore set at zero
- 2) Projected PUSF fund balance as of 12/31/05 = \$2,000,000
- 3) Projected 2006 annual support due to recipient carriers = \$33,565,234
- 4) Projected 2006 annual administration and audit fees = \$146,440
- 5) Projected 2006 allowance for uncollectibles = \$1,578,262
- 6) Projected 2006 total annual fund size = \$33,289,935
[(Line 3 + Line 4 + Line 5 – Line 2)]
- 7) Reported 2004 intrastate retail revenues = \$3,252,005,925
- 8) Recommended 2006 Assessment Rate = \$33,289,935/\$3,252,005,925= **.010236739**
[(Line 6 / Line 7)]