PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Public Meeting held December 19, 2002

Commissioners Present:

Glen R. Thomas, Chairman
Robert K. Bloom, Vice-Chairman
Aaron Wilson, Jr.
Terrance J. Fitzpatrick
Kim Pizzingrilli

Pennsylvania Universal Service Fund
Annual Rate Adjustment

Docket No. M-00001337

ORDER

BY THE COMMISSION:

On October 11, 2002, the National Exchange Carrier Association (NECA) mailed its Annual Administrator's Report to the Commission. On October 15, 2002, NECA mailed the Report to the telecommunications carriers participating in the Pennsylvania Universal Service Fund (PaUSF), the Pennsylvania Office of Consumer Advocate and the Pennsylvania Office of Small Business Advocate. The Commission received comments to the Report from Verizon Pennsylvania, Inc. (Verizon) and AT&T Communications of Pennsylvania, Inc. (AT&T).

Pursuant to our regulation at 52 Pa.Code §63.164 (relating to Commission oversight) we issue an order within 90 days of receipt of the Administrator's Annual Report, that establishes the size of the Fund, approves a budget for the next calendar year, establishes the assessment rate for contributing telecommunications providers, and establishes administrative guidelines for the upcoming year. We have reviewed the Report from NECA and the comments from Verizon and AT&T, and have made the following determinations regarding the PaUSF for the calendar year 2003.

1. Modify Contribution Rate For Next Year

First, the contribution rate should be increased from .8987062% (.008987062) per year of 2000 average monthly intrastate end-user retail telecommunications revenue to .9639924% (.009639924) per year of 2001 average monthly intrastate end-user retail telecommunications revenue. This 7.3% increase will cover the projected expenses for the Fund for the year 2003.

We have rejected NECA's recommendation that we increase the annual uncollectable factor by three percentage points (3%). NECA stated that the current 5% uncollectible factor, which must cover both delinquent payments and uncollectibles, is low. NECA recommended that an 8% contingency, equivalent of 1-month's funding, be built into the assessment calculation given the current economic conditions and the prevalence of bankruptcy filings by telecommunications companies. NECA argued that having one month's contribution in surplus would afford the Commission the guarantee that the recipient carriers would receive at least one month's payments and one month's time to order a reassessment or pursue borrowing for the Fund to cover a shortfall.

In December 2001, we increased the allowance for uncollectables from 1% to 5% on an interim basis with the provision that we would reevaluate this at the end of 2002. *Pennsylvania Universal Service Fund Annual Rate Adjustment,* M-00001337, December 19, 2001. This was done based on the November 30, 2001 Bureau of Audits' Report regarding the administration of the Fund, the Fund Administrator's Annual Report, and our oversight experience with the Fund between March 2000 and December 2001. In our reasoning, we explained that a 7% decrease in the uncollectible factor between March

2000 and December 2001 was "too severe" and did not "account for the possibility of one or more of the largest contributors being late with payments." We chose an interim 5% uncollectible factor ($1.4 million) because it equals approximately one month's contribution from the Fund's largest competitor, Verizon. Thus, if Verizon should be one month late in contributing to the Fund, the Fund would not run into an immediate deficit. Currently, thirty-one rural incumbent local exchange carriers receive distributions from the Universal Service Fund on a monthly basis. If the Fund is without the money to make these distributions, then the rural ILECs will probably lose money that they cannot recover thereby jeopardizing universal service in our rural areas.

Thus, we must balance the need to ensure that funds are available to the rural ILECs with ensuring that the contributors to the Fund are not required to make excessive monetary contributions. NECA is currently requesting that the uncollectable factor be increased from its current 5% to 8%. Verizon and AT&T reject NECA's recommendation and argue that the current 5% uncollectibles factor is sufficient to meet the needs of the Fund. We agree and will continue, on an interim basis, the 5% uncollectible factor for the following reasons.

First, while the Fund ran successfully this past year with an uncollectible factor of less than 5%, we are concerned about the impact the current economic conditions may have on the Fund. Bankruptcies, mergers and abandonments prevail in both small and large telecommunications companies. In Pennsylvania between January 1 and September 30, 2002, $321,977 has been written off for these reasons.

Second, if the Fund were to run into a deficit, banks are reluctant to establish lines of credit for Funds when there is no entity willing to put up its assets as collateral security. Neither this Commission nor the Commonwealth of Pennsylvania could put at risk its assets to secure a line of credit for the Fund.

Finally, according to our Global Order, the Fund is expected to expire on December 31, 2003. Our decision is only interim at this point and we reserve the right to again reevaluate the needs of the Fund as may be necessary. Whatever money is left in the Fund on the date it is dissolved will be returned to the Fund contributors in existence on the date of dissolution in their pro rata share. Thus, the surplus, while it is in the Fund, will earn interest, and that surplus with its accumulated interest will be returned at the termination of the Fund.

2. Assessment Rate for Calendar Year 2003

In accordance with PaPUC's rules for calculating the annual assessment factor, the PaUSF assessment rate for 2003 has been calculated at 0.9639924% (.009639924) 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 as follows:

1) Reported 2000/2001 annual access line growth rate = 2.16%
2) Projected PaUSF fund balance as of 12/31/02 = $500,000
3) Projected 2003 annual support due to recipient carriers = $33,515,402
4) Projected 2003 annual administration and audit fees = $184,600 ($25,000 audit fees + $159,600 administrator's fees per the NECA-PUC Contract dated July 20, 2001)
5) Projected 2003 Allowance for Uncollectables = $1,650,770
6) Projected 2003 total annual fund size = $34,850,772
   [(Line 3 + Line 4 + Line 5 – Line 2)]
7) Reported 2001 intrastate retail revenues = $3,615,253,831
8) Recommended 2003 Assessment Rate =
   $34,850,772/$3,615,253,831=**.009639924** [(Line 6 / Line 7)]

3. Improvements to Accounting

Last year we ordered NECA make improvements to its accounting systems by modifying its MSAccess system to include amounts applicable to all telecommunications companies required to file worksheets regardless of whether they actually file them. NECA has modified its MSAccess system, but is also in the process of installing a new accounting system software to improve its accounting. NECA has indicated to Commission Staff that it intends to complete implementation of the new software by the end of the year. After NECA implements the new software, our Bureau of Audits will check for improvements to NECA's accounting practices. Therefore, in the interest of ensuring improvements, we will order NECA to complete its implementation of the new accounting system software by December 31, 2002.

Parenthetically, we note here that NECA has complied with the numerous other issues addressed in our December 19, 2001 Order at M-00001337. NECA makes all PaUSF payments to recipient carriers on the 28th day of each month. NECA made process changes necessary to ensure all late payment charges are calculated correctly. NECA expanded the monthly status reports to include cumulative annual lists of carriers removed from the Fund and a schedule of discontinued assessments. NECA revised its interim delinquent payer reports and fixed the monthly statements of account it was sending to carriers; **THEREFORE,**

IT IS ORDERED:

1. That the PaUSF contribution rate factor for the year 2003 is hereby increased from .8987062% per year 2000 average monthly intrastate end-user retail telecommunications revenue to .9639924% per year of 2001 average monthly intrastate end-user retail telecommunications revenue.

2. That NECA is directed to send a letter to all contributors explaining specifically how this contribution factor increase affects them and what their monthly contribution total has changed to for the months of January through December, 2003.

This form letter must be approved by Commission Staff before it is mailed to participants.

3. That NECA complete implementation of its new accounting system software by December 31, 2002, and notify the Commission upon completion.

BY THE COMMISSION:

James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: December 19, 2002

ORDER ENTERED: