



Brian Kickey  
Manager  
State Program Management

November 7, 2007

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

**RE: Pennsylvania Universal Service Fund 1/06 – 12/06 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 1/06- 12/06 period of operations.

In accordance with the terms of the contract between Solix, Inc. and the Pennsylvania Public Utility Commission (PPUC), this report details the financial activities of the PUSF for the period ending December 31, 2006 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 2008 calendar year.

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

Sincerely,

A handwritten signature in black ink that reads "Brian H. Kickey". The signature is written in a cursive style with a large, stylized "B" and "K".

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

## **Solix, Inc.**

### ***Pennsylvania Universal Service Fund***

#### **A. PUSF Financial Activities**

As shown in the attached financial statements, the gross PUSF assessments during the 01/06-12/06 period were \$33.3 million and the gross support disbursements were \$33.7 million. The corresponding fund balance as of 12/31/06, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$1.66 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$144 thousand for the period, resulting in an average investment earnings rate of 4.80%.

#### **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, Solix, Inc. recommends that the PPUC continues to encourage carriers to pay their annual contribution in a lump sum rather than monthly installments, if economically feasible.

##### **3) Carryover Balance**

The fund balance is currently increasing in size on an average of \$29,845 per month, driven primarily by earning an average of \$11,600 per month in interest on the invested fund balance. The fund balance is projected to continue at that monthly amount for the remainder of 2007, resulting in an anticipated year end fund balance of \$2.1 million. Solix believes it would be prudent to utilize a conservative balance of \$1.5 million as of December 31, 2007 for calculation purposes, providing a further cushion for any unforeseen variances.

### **C. Proposed Assessment Rate for Calendar Year 2008**

In accordance with the PAPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2008 has been calculated at 1.0801709% (.010801709) 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 2005/2006 annual access line growth rate = -4.26%; however, there was one carrier with a net increase, therefore raising the total annual support by \$689.79
- 2) Projected PUSF fund balance as of 12/31/07 = \$1,500,000
- 3) Projected 2008 annual support due to recipient carriers = \$33,570,452
- 4) Projected 2008 annual administration and audit fees = \$149,476
- 5) Projected 2008 allowance for uncollectibles = \$1,603,522
- 6) Projected 2008 total annual fund size = \$33,823,450  
[(Line 3 + Line 4 + Line 5 – Line 2)]
- 7) Reported 2006 intrastate retail revenues = \$3,131,305,386
- 8) Recommended 2008 Assessment Rate =  $\$33,823,450 / \$3,131,305,386 =$   
**.010801709** (Line 6 / Line 7)