

**Pennsylvania Universal Service Fund
Annual Report
September 2024
Docket # M-00001337**

Rolka Loube (RL), the Administrator of the Pennsylvania Universal Service Fund (Pa. USF or Fund), hereby submits the following report to the Pennsylvania Public Utility Commission (Pa. PUC or Commission) on the Fund Activities.

A. Pa. USF Financial Activities

As shown in the attached financial statements, Pa. USF Assessments during the January 2023 through December 2023 period were \$35.72 million and Operating Expenses were \$34.12 million. The corresponding Fund balance as of December 31, 2023, after taking into consideration interest earned, late payment charges, and administrative expenses paid, was \$5.03 million. Interest earned on the invested fund balance, which is credited to the Pa. USF, totaled \$184 thousand for the period.

B. Rolka Loube Recommendations for the Administration of the Pa. USF

1. Retain Annual Funding Contingency at 5%

For the past eighteen years, the Pa. PUC has approved an assessment factor that utilized a 5% funding contingency. This percentage contributes to the rate factor and is intended to account for uncollectible revenues and bad debt. Actual uncollectible revenue has averaged less than \$200,000 per year over the past sixteen years; however, there have been recent bankruptcies and abandonments by contributing carriers that support keeping a 5% contingency in the coming year.

2. Carryover Balance

The fund balance is projected to end the 2024 year at \$4.45 million.

The past two years, a conservative cash balance of \$1.5 million was used for calculation purposes. RL recommends increasing the cash balance to \$1.75 million as of December 31, 2024, plus the prior year revisions received during 2024 of \$1,211,694, for our calculation purposes. This conservative cash balance will provide further cushion for any unforeseen variances.

3. Carrier Data Collection Reports of Prior Year Revenues

Carriers are required to report annual revenues from the prior calendar year by March 31st. The annually reported revenues are used in calculating the new year's Pa. USF assessment rate. Rolka Loube introduced in 2023 a web-based portal for online reporting whereby carriers could fulfill this requirement with the Administrator.

4. Significant Updates

On August 24, 2023, the Commission formally voted to issue an Advance Notice of Proposed Rulemaking (ANOPR) at Docket No. L-2023-3040646.¹ This ANOPR posed questions and solicited comments on various issue areas affecting the operation and the potential reform of the Pa. USF mechanism and the relevant Pa. PUC regulations. The Commission received initial and reply comments from several interested parties in this ANOPR proceeding.

The Commission addressed certain matters that pertained to the prior cycle of annual Pa. USF carrier compliance reviews that Rolka Loube completed in 2023 through the issuance of appropriate Orders and Secretarial Letters.² These reviews involved the validation of reported intrastate retail revenues for the 2021 calendar year.

In accordance with the directives of the Commission's December 8, 2022, Order at Docket No. M-00001337,³ and relevant contractual obligations, Rolka Loube timely completed the Pa. USF annual carrier reviews for the 2022 reporting year for ten contributing and ten *de minimis* carriers. These reviews were largely finalized by June 30, 2024. The individual Carrier Review Reports and a Summary Report were formally filed with the Commission on August 20, 2024. These Reports contain a number of findings, observations, and recommendations involving certain carriers. Rolka Loube is currently working with Pa. PUC Staff on related follow-up activities.

C. Rolka Loube Recommendations for Ensuring Carrier Compliance

Rolka Loube recommends that the Commission continue to authorize a certain number of Carrier Compliance Reviews each year to ensure that the Carrier filings that are being submitted each year by March 31st are compliant with Pa. PUC regulations and directives. RL will submit a carrier selection plan to the Commission for approval. Upon completion of each carrier review, RL will submit a written report to the Commission that sets forth its findings and any recommended courses of action needed to remedy any findings of noncompliance.

Based on its experience with the annual Carrier Compliance Reviews, Rolka Loube recommends the following changes to the review process and seeks additional Commission guidance in certain areas:

1. Rolka Loube recommends a change in the composition of the annual carrier reviews. Rather than selecting ten (10) contributing carriers and ten (10) *de minimis* carriers for review, Rolka Loube recommends that the annual reviews cover fifteen (15) contributing and five (5) *de minimis* carriers. The review experience so far indicates that the material results of examining the compliance of contributing carriers significantly outweigh the potential benefits and the cost of time expended in the reviews of an equal number of *de minimis* carriers.

¹ *Rulemaking to Amend 52 Pa. Code §§ 63.161 — 63.171 (relating to Universal Service)*, Docket Nos. L-2023-3040646 and P-2010-2217748, Advance Notice of Proposed Rulemaking Order entered September 20, 2023, 53 Pa.B. 7005 (Nov. 11, 2023).

² See, e.g., *Verizon Pennsylvania LLC 2022 Pennsylvania Universal Service Fund Carrier Compliance Review Report*; *Verizon North LLC 2022 Pennsylvania Universal Service Fund Carrier Compliance Review Report*, Docket Nos. M-2023-3037828 and M-2023-3037829, Order entered May 23, 2024; *Granite Telecommunications, LLC 2022 Pennsylvania Universal Service Fund Carrier Compliance Review Report*, Docket No. M-2023-3037820, Order entered December 7, 2023 (*Granite Order*).

³ *Pennsylvania Universal Service Fund Annual Rate Adjustment*, Docket No. M-00001337, Order entered December 8, 2022.



2. During the most recent cycle of compliance carrier reviews (reportable Pa. USF revenues for the 2022 calendar year), Rolka Loube identified certain revenue categories where specific regulatory guidance is needed for determining whether relevant intrastate retail amounts should be included as reportable Pa. USF revenues. Related services and their associated revenue amounts are often classified as Miscellaneous or Other in the respective Pennsylvania-specific and Federal Communications Commission (FCC) revenue accounting (e.g., Line 418.3 Other revenues in the annual FCC Form 499-A). The need to clarify whether such services and their corresponding jurisdictional intrastate retail revenue amounts should be included as reportable Pa. USF revenues is important because the Pa. USF contribution revenue base continues to decline, and the annual contribution assessment factor is increasing. Rolka Loube seeks guidance on the following categories of services and revenues:
 - a. **Pole Attachment Revenues:** Currently, there is not sufficient Pa. PUC regulatory guidance for the Pa. USF reporting treatment of pole attachment revenues. Pole attachments are used by several entities, including telecommunications carriers and communications concerns (e.g., cable television companies), and for a variety of purposes. A telecommunications carrier's pole attachment revenues would need to be properly disaggregated into jurisdictional retail and wholesale amounts prior to a potential imposition of Pa. USF reporting and contribution assessment obligations. It should be noted that the FCC excludes pole attachment revenues from reporting obligations associated with the federal USF mechanism.⁴ Certain telecommunications carriers have stated that pole attachment revenues should not be reported for Pa. USF purposes because they are rental revenues and are unrelated to the Pa. USF or are unregulated revenues.⁵ Rolka Loube notes that the Commission exercises regulatory jurisdiction over pole attachments in Pennsylvania.⁶
 - b. **Dark Fiber Revenues:** Dark fiber constitutes optical fiber with no attached electronics that does not transmit any light or signals. Telecommunications carriers would often deploy optical fibers that are not "lit" and, therefore, are not used and remain "dark."⁷ Such dark fiber facilities are often leased to other telecommunications carriers, communications firms or institutional private users. These entities supply the necessary electronics so that previously "dark" fiber optic strands become "lit" and put into use. Rolka Loube's compliance reviews have disclosed that carriers do not include dark fiber lease revenues for Pa. USF reporting purposes. Certain carriers may classify dark fiber leasing revenues as retail and wholesale without a further jurisdictional assignment (e.g., intrastate, interstate). Carriers most commonly classify dark fiber leasing revenues as Other in their respective annual FCC Form 499-As. The FCC Form 499-A Instructions exclude revenues from the "sale or lease of transmission facilities, such as dark fiber or bare transponder capacity, that *are not provided*

⁴ FCC Public Notice, Wireline Competition Bureau Seeks Comment on Proposed Changes to the 2025 FCC Form 499-A, FCC Form 499-Q, and Accompanying Instructions, WC Docket No. 06-122, (FCC, Rel. June 28, 2024), DA 24-622, Instructions to the Telecommunications Reporting Worksheet, FCC Form 499-A, p. 36, <https://docs.fcc.gov/public/attachments/DA-24-622A1.pdf> (FCC Form 499-A Instructions).

⁵ The classification of intrastate retail revenues as unregulated is not determinative whether such revenues are reportable for Pa. USF purposes. *See, e.g., Granite Order.*

⁶ *Assumption of Commission Jurisdiction Over Pole Attachments from the Federal Communications Commission*, Docket No. L-2018-3002672, Final Rulemaking Order entered September 3, 2019; 50 Pa.B. 469 (Jan. 18, 2020); 52 Pa. Code § 77.1 *et seq.*

⁷ Harry Newton, Steve Schoen, *Newton's Telecom Dictionary*, 31st ed. (Harry Newton, New York, NY, 2018), p. 364.



*as part of a telecommunications service or as a UNE [unbundled network element]*⁸ from the reporting associated with the federal USF mechanism. Certain telecommunications carriers have stated that dark fiber leasing revenues should not be reported for Pa. USF purposes because they are rental revenues and are unrelated to the Pa. USF or are unregulated revenues.

- c. **Colocation Revenues:** The compliance reviews identified carriers with colocation revenues. Physical colocation takes place with the leasing of space (e.g., in a central office or data center) and the provision of electric power and other services by one carrier to another carrier or entity.⁹ Certain carriers may classify colocation revenues as retail and wholesale without a further jurisdictional assignment (e.g., intrastate, interstate). Carriers most commonly classify colocation revenues as Other in their respective annual FCC Form 499-As. Thus, colocation revenues (wholesale and retail) are not reported for federal USF mechanism purposes. The FCC Form 499-A Instructions direct the inclusion of wholesale physical colocation revenues in Line 307 of FCC Form 499-A under 47 U.S.C. § 251(c)(6) (Interconnection – Collocation).¹⁰ Thus, wholesale physical colocation revenues are not reportable for federal USF mechanism purposes. However, the presence of retail physical colocation revenues may indicate that such colocation arrangements may be utilized by discrete end-users that may not engage in the resale of telecommunications or communications services. One carrier stated that colocation revenues are unregulated revenues that should not be included in the Pa. USF reportable revenues.

D. Proposed Assessment Rate for Calendar Year 2025

In accordance with the Pa. PUC's rules for calculating the annual assessment factor, the Pa. USF assessment rate for 2025 has been calculated at 2.8629221% (.028629221) of calendar year 2023 average monthly intrastate end-user retail telecommunications revenue. The assessment calculation is based on data submitted by the carriers during the annual data collection process as well as projections of the fund carryover balance and administrative auditing fees.

1. For Support Recipients, reported 2022/2023 overall annual access line growth rate = (-12.36%).
2. Projected Pa. USF fund balance as of 12/31/2024 plus revisions received based upon completed carrier reviews conducted during 2023 for calculation = \$2,961,693.96
3. Projected 2025 annual support due to recipient carriers = \$33,832,274.54
4. Projected 2025 annual administration and audit fees = \$173,900
5. Projected 2025 5% allowance for uncollectibles = \$1,543,529.03
6. Projected 2025 total annual fund size = \$32,588,009.61 [(Line 3 + Line 4 + Line 5 – Line 2)]
7. Reported calendar year 2023 intrastate retail revenues (contributing carriers) = \$1,138,277,915.40

⁸ FCC Form 499-A Instructions, p. 36 (emphasis added). Inclusion of dark fiber leasing revenues in Line 418 of FCC Form 499-A excludes such revenues from relevant reporting for federal USF mechanism purposes.

⁹ *Newton's Telecom Dictionary*, 31st ed., p. 311.

¹⁰ FCC Form 499-A Instructions, pp. 24, 29.



8. Recommended 2025 Assessment Rate = $\$32,588,009.61 / \$1,138,277,915.40 = \underline{\underline{.028629221}}$

E. Comparative Analysis

Below is comparative analysis between various data points used to calculate the **proposed** 2025 Assessment Rate and the approved 2024 Assessment Rate.

Items Compared	2024 Rate Calculation	2025 Rate Calculation	Percent Difference
Monthly Support Amount	\$2,819,356.21	\$2,819,356.21	0%
# of Contributors	205	206	0%
# of Carriers with <\$120 assessment/year	85	87	2.35%
Assessment Rate	0.026877579	0.028629221	6.52%

Items Compared	2022	2023	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$1,254,613,668.46	\$1,138,314,710.02	-9.27%
Support Carriers Annual Intrastate Revenue	\$104,950,938.49	\$97,767,898.99	-6.84%
Support Carriers Access Lines	292,721	256,534	-12.36%



Assessment Rate Growth			
2014	2015	↑	7.35%
2015	2016	↑	4.48%
2016	2017	↑	5.23%
2017	2018	↑	7.17%
2018	2019	↑	8.23%
2019	2020	↓	-1.61%
2020	2021	↑	4.01%
2021	2022	↓	-1.93%
2022	2023	↑	19.07%
2023	2024	↑	6.20%
2024	2025	↑	6.52%

