



Tim Garrett
Manager
State Program Management

October 21, 2009

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

**RE: Pennsylvania Universal Service Fund 1/08 – 12/08 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 1/08 -12/08 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, 2008 and includes Statements of Revenues, Expenses and Changes in Fund Net Assets, Balance Sheets, and Statements of Cash Flows. Also included is a list of recommendations pertaining to the Pennsylvania USF, the **proposed** assessment rate for the 2010 calendar year, and additional analysis.

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

Sincerely,

A handwritten signature in cursive script that reads "Tim Garrett".

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



Pennsylvania Universal Service Fund

A. PUSF Financial Activities

As shown in the attached financial statements, PUSF Assessments during the 01/08 -12/08 period were \$33.7 million and Operating Expenses were \$33.8 million. The corresponding fund balance as of 12/31/08, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$1.8 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$75 thousand for the period, resulting in an average investment earnings rate of 2.89%.

B. Recommendations for the PUSF

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

For the past four 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 \$2,474 per month, driven primarily by earning an average of \$1,360 per month in interest on the invested fund balance. However, following a downward trend also seen in second half 2008, the fund balance is projected to decrease due to latter year write-offs and reduced billed assessments resulting in an anticipated year-end fund balance of \$2.5 million (2008's projected balance was \$2.6 million). Solix believes it would be prudent to utilize a conservative balance of \$1.5 million as of December 31, 2009 for calculation purposes, providing a further cushion for any unforeseen variances.

C. Proposed Assessment Rate for Calendar Year 2010

In accordance with the PAPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2010 has been calculated at 1.1651414% (0.011651414) of 2008 average monthly intrastate end-user retail telecommunications revenue. 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) For Support Recipients, reported 2007/2008 annual access line growth rate = -8.01%; however, there were five carriers with a net increase, raising the total annual support by \$20,785.
- 2) Projected PUSF fund balance as of 12/31/09 = \$1,500,000
- 3) Projected 2010 annual support due to recipient carriers = \$33,599,005
- 4) Projected 2010 annual administration and audit fees = \$155,778
- 5) Projected 2010 allowance for uncollectibles = \$1,604,950
- 6) Projected 2010 total annual fund size = \$33,859,733
[(Line 3 + Line 4 + Line 5 - Line 2)]
- 7) Reported 2008 intrastate retail revenues = \$2,906,062,116
- 8) Recommended 2010 Assessment Rate = $\$33,859,733 / \$2,906,062,116 =$
0.011651414 (Line 6 / Line 7)

continued

D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2010 Assessment Rate and the data used to calculate the 2009 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2007 to 2008.

| Items Compared | 2008 | 2007 | Per Cent Difference |
|---|-------------------------------|------------------------|---------------------|
| Net (Total) Intrastate Operating Revenue (all carriers) | \$ 2,906,062,116.43 | \$ 3,049,572,900.82 | -4.71% |
| Support Carriers Intrastate Revenue ANNUAL | \$ 335,199,655.00 | \$ 345,041,043.24 | -2.85% |
| Access Lines (all carriers) | 2,405,441 | 2,571,225 | -6.45% |
| Support Carriers Access Lines | 1,011,566 | 1,099,688 | -8.01% |
| | | | |
| | 2010 Rate Calc. | 2009 Rate Calc. | |
| Monthly Support Amount | \$ 2,799,917.05 | \$ 2,798,184.96 | +0.06% |
| # of Contributors | 273 | 271 | +0.74% |
| # of Carriers with < \$120 assess/yr | 129 | 93 | +38.71% |
| Assessment Rate | 0.011651414 | 0.011094904 | +5.02% |
| | | | |
| | Assessment Rate Growth | | |
| | 2002 | 2001 | +10.96% |
| | 2003 | 2002 | +3.20% |
| | 2004 | 2003 | +0.67% |
| | 2005 | 2004 | +6.14% |
| | 2006 | 2005 | +3.30% |
| | 2007 | 2006 | +3.48% |
| | 2008 | 2007 | +1.97% |
| | 2009 | 2008 | +2.71% |
| | 2010 | 2009 | +5.02% |