

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held December 7, 2017

Commissioners Present:

Gladys M. Brown, Chairman
Andrew G. Place, Vice Chairman
Norman J. Kennard
David W. Sweet
John F. Coleman, Jr.

Pennsylvania Universal Service Fund
Annual Rate Adjustment

Docket No. M-00001337

ORDER

BY THE COMMISSION:

On October 3, 2017, GVNW Consulting, Inc. (GVNW), the Administrator for the Pennsylvania Universal Service Fund (PaUSF or Fund), filed its annual Administrator's Report (Report) with the Commission as required under 52 Pa. Code § 63.163(e), providing a Fund income statement, recommendations for Fund operations, and a proposed budget and assessment rates for the upcoming year. GVNW served copies of the Report on the telecommunications carriers participating in the PaUSF, the Office of Consumer Advocate and the Office of Small Business Advocate. No comments were filed.

Pursuant to 52 Pa. Code § 63.164 (relating to Commission PaUSF oversight), we are issuing this order within ninety days of receipt of the Report. This order 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. Based upon the Report from GVNW, we have made the following determinations regarding the PaUSF for calendar year 2018.

1. Maintain Five Percent (5%) Contingency

For the last twelve 12 years, the Commission has maintained a 5% contingency reserve. This percentage has provided a sufficient cash reserve to ensure that PaUSF support payments timely occur in the event of unforeseen funding shortfalls. GVNW recommends that we maintain the annual funding contingency reserve of 5% in 2018. We agree with GVNW's recommendation.

2. Encourage Annual Payments and the Introduction of Quarterly Payments

GVNW states that, since the Fund's inception in 2000, most contributing telecommunications providers have paid via monthly contributions regardless of their total annual amount due. To increase operational efficiencies for these carriers, as well as the Fund Administrator, GVNW recommends that the Commission continue to encourage providers to pay their annual contributions in a lump sum payment at the beginning of the calendar year rather than in monthly installments if economically feasible. Additionally, GVNW recommends that providers that have nominal monthly contributions, less than \$500 per month, be encouraged to remit payments on a quarterly basis as an alternative to the annual payment suggestion. While financial penalties do not attach for remitting monthly payments, we encourage contributing telecommunications providers to remit either quarterly payments or lump-sum annual contributions.

3. Carryover Balance

GVNW states in its Report that the Fund balance is projected to increase, which will result in an anticipated year-end Fund balance greater than \$1.25 million. GVNW asserts that it would be prudent to utilize a conservative estimated cash balance of \$1.25 million as of December 31, 2017, for calculation purposes, providing a cushion for any

unforeseen variances. However, GVNW also states that an increase in the assessment rate is required to achieve this balance due to decreasing assessable carrier revenues. We agree with GVNW's recommendation to err on the side of caution so that the Fund is adequately funded.¹ Therefore, we will use a \$1.25 million cash contingency reserve balance to calculate contributions for the 2018 calendar year.

4. Electronic Filing of Carrier Data Collection Reports of Prior Year Revenues

During each Fund Year, carriers are required to report annual revenues from the prior calendar year (by March 31), which are used to calculate the following year's PaUSF rate assessment. GVNW is currently developing a web-based portal for online reporting that carriers will be able to use to fulfill this requirement. This portal is scheduled to be brought online in January 2018. Once this web-based portal is operational, carriers will be given unique User IDs and Passwords to use when filing online; the filing system will be available to carriers 24x7. GVNW recommends that the Commission require all carriers to report their annual revenues electronically using GVNW's web-based portal. We agree with GVNW's recommendation and will require that beginning in 2018 carriers submit their annual affidavit identifying their total intrastate end-user telecommunications retail revenue for the previous calendar year to GVNW using the Administrator's web-based portal. Carriers will continue to be required to file a paper copy of their annual revenue report with the Commission's Secretary's Bureau pursuant to the Commission's regulations at 52 Pa. Code § 63.165(a).

5. Assessment Rate for Calendar Year 2018

We agree with GVNW that each provider's contribution rate should be increased from 1.8259005% (0.018259005) of 2015 average monthly intrastate end-user retail telecommunications revenue to 1.9568705% (0.019568705) of 2016 average monthly

¹ The Commission previously adopted this methodology in its 2010 Annual Rate Adjustment Order, *In re: Pennsylvania Universal Service Fund Annual Rate Adjustment*, Docket No. M-00001337 (Order entered December 3, 2010).

intrastate end-user retail telecommunications revenue. This represents an increase of approximately 7.17% over last year's contribution rate. This increase will cover the projected expenses for the Fund for calendar year 2018.

GVNW based the assessment calculation on data submitted by telecommunications carriers during the annual data collection process, as well as GVNW's projections of the Fund carryover balance and projected 2018 administrative and auditing fees as follows:

1. For recipient carriers, reported 2015/2016 annual access line growth rate = -5.03%; however, there were two carriers with positive access line growth, raising the total annual support by \$871.12.²
2. Projected PaUSF Fund balance as of 12/31/17 = \$1,250,000
3. Projected 2018 annual support due to recipient carriers = \$33,826,770.48³
4. Projected 2018 annual administration and audit fees = \$118,172⁴
5. Projected 2018 5% allowance for uncollectibles = \$1,628,838.52⁵
6. Projected 2017 total annual fund size = \$34,323,781.00
[(Line 3 + Line 4 + Line 5 – Line 2)]
7. Reported 2016 intrastate end-user retail revenues = \$1,754,013,957.72
8. Recommended 2018 Assessment Rate =
 $\$34,323,781.00 / \$1,754,013,957.72 = \underline{\mathbf{0.019568705}}$

Conclusion

² The amount of \$871.12 is added to last year's projected 2017 annual support due recipient carriers of \$33,825,899.36 to yield the projected 2018 annual support due to recipient carriers of \$33,826,770.48 at line 3. Even though the recipient carriers' aggregate annual access lines growth rate is negative, if individual carriers have net increases in access lines, they are entitled to more support in accordance with the adoption of the small company plan in the Commission's 1999 Global Order and our regulations. *See Nextlink Pennsylvania, Inc.*, 93 Pa P.U.C. 172 (September 30, 1999), 196 P.U.R. 4th 172, *aff'd sub nom. Bell Atlantic-Pennsylvania, Inc. v. Pennsylvania Public Utility Commission*, 763 A.2d 440 (Pa. Cmwlth. 2000) *vacated in part sub nom. MCI Worldcom Inc. v. Pa. Public Utility Commission*, 844 A.2d 1239 (Pa. 2004) (state court lacked jurisdiction to review unbundled network elements); 52 Pa. Code § 63.165(b)..

³ Annual support projections are based upon annual reports submitted by the recipient carriers.

⁴ This projection is based upon the contracted administrator's fee of \$96,000 for calendar year 2018 plus \$22,172 needed for the external auditor's fees in 2018. In 2017, the PaUSF paid \$22,172 in auditor fees for the calendar year ending December 31, 2016.

⁵ This represents the 5% contingency for uncollectibles over the year 2018.

The Commission agrees with GVNW's recommendations regarding maintaining a 5% annual funding contingency, encouraging either quarterly payments or annual lump-sum payments, using a carryover balance, requiring mandatory online filing using GVNW's web-based portal, and increasing the assessment rate to 1.9568705%;

THEREFORE,

IT IS ORDERED:

1. That the Administrator's Report of GVNW Consulting, Inc. dated October 3, 2016, is approved and the monthly contribution factor for the Pennsylvania Universal Service Fund for 2018 is hereby increased from 1.8259005% (0.018259005) of 2015 average monthly intrastate end-user retail telecommunications revenue to 1.9568705% (0.019568705) of 2016 average monthly intrastate end-user retail telecommunications revenue.

2. That all carriers file their annual revenue reports, due on March 31, 2018, with GVNW Consulting, Inc. electronically using its web-based portal, and file a paper copy with the Commission's Secretary's Bureau.

3. That GVNW Consulting, Inc. is directed to send a letter to all contributing telecommunications providers to the Pennsylvania Universal Service Fund explaining specifically how this contribution factor increase affects them and what their monthly contributions will be for the calendar year 2018. The letter should encourage either payments on a quarterly basis or annual lump-sum payments in early 2018; the letter must be pre-approved by Commission staff before it is mailed to participants.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read "Rosemary Chiavetta". The signature is written in a cursive, flowing style.

Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: December 7, 2017

ORDER ENTERED: December 7, 2017