

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

Public Meeting held December 6, 2018

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

M-00001337

ORDER

On October 10, 2018, 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 2019.

1. Maintain Five Percent (5%) Contingency

For the last thirteen (13) years, the Commission has approved 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 and delinquent accounts. GVNW recommends that we maintain the annual funding contingency reserve of 5% in 2019. 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 \$1.5 million. GVNW asserts that it would be prudent to utilize a conservative estimated cash balance of \$1.5 million as of December 31, 2018, 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 \$1.5 million cash contingency reserve balance to calculate contributions for the 2019 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 has developed a web-based portal for online reporting that carriers use to fulfill this requirement. We will continue to require carriers to 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. Recommendations for Ensuring Carrier Compliance

GVNW recommends that the Commission take the following actions to aid in the future operations of the Fund: (1) assess a late penalty for any provider that submits its annual assessment data request response 30 days or more after the March 31 due date; and (2) authorize a certain number of carrier audits annually to ensure that carrier filings are compliant with the Commission's regulations. While we take no formal action on these recommendations in this order, the Commission continues to explore the viability of these suggestions to potentially be utilized in the 2019 calendar year.

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).

6. Assessment Rate for Calendar Year 2019

We agree with GVNW that each provider's contribution rate should be increased from 1.9568705% (0.019568705) of 2016 average monthly intrastate end-user retail telecommunications revenue to 2.1179564% (0.021179564) of 2017 average monthly intrastate end-user retail telecommunications revenue. This represents an increase of approximately 8.23% over last year's contribution rate. This increase will cover the projected expenses for the Fund for calendar year 2019.

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 2019 administrative and auditing fees as follows:

1. For recipient carriers, reported 2016/2017 annual access line growth rate = -7.32%.
2. Projected PaUSF Fund balance as of 12/31/18 = \$1,500,000
3. Projected 2019 annual support due to recipient carriers = \$33,826,770.48²
4. Projected 2019 annual administration and audit fees = \$125,672³
5. Projected 2019 5% allowance for uncollectibles = \$1,616,338.52⁴
6. Projected 2018 total annual fund size = \$34,068,781.00
[(Line 3 + Line 4 + Line 5 – Line 2)]
7. Reported 2017 intrastate end-user retail revenues = \$1,608,568,564.65
8. Recommended 2019 Assessment Rate =
 $\$34,068,781.00 / \$1,608,568,564.65 = \underline{\mathbf{0.021179564}}$

² Annual support projections are based upon annual reports submitted by the recipient carriers.

³ This projection is based upon the contracted administrator's fee of \$97,500 for calendar year 2019 plus \$22,172 needed for the external auditor's fees in 2019. In 2018, the PaUSF paid \$28,172 in auditor fees for the calendar year ending December 31, 2017. This included the Agreed Upon Procedures Report completed during the transition from Solix, Inc., to GVNW as the Fund Administrator, at a cost of \$6,000.

⁴ This represents the 5% contingency for uncollectibles over the year 2018.

Conclusion

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 2.1179564%;

THEREFORE,

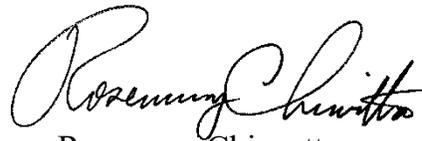
IT IS ORDERED:

1. That the Administrator's Report of GVNW Consulting, Inc. dated October 10, 2018, is approved and the monthly contribution factor for the Pennsylvania Universal Service Fund for 2019 is hereby increased from 1.9568705% (0.019568705) of 2016 average monthly intrastate end-user retail telecommunications revenue to 2.1179564% (0.021179564) of 2017 average monthly intrastate end-user retail telecommunications revenue.

2. That all carriers file their annual revenue reports, due on March 31, 2019, 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 2019. The letter should encourage either payments on a quarterly basis or annual lump-sum payments in early 2019; the letter must be pre-approved by Commission staff before it is mailed to participants.

BY THE COMMISSION



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: December 6, 2018

ORDER ENTERED: December 6, 2018