

line counts to determine a CETC's prospective payments; use both incumbent and competitive ETC data necessary to develop the basis for High Cost demand projections; and file the projections with the Commission no later than sixty (60) calendar days prior to the calendar quarter in which payments are to be made.<sup>83</sup>

*Centennial's Proposed Method of Reconciling ICLS May Circumvent the Commission's CETC Line Count Rules*

Use of ICLS lines in the manner suggested by Centennial may result in the circumvention of the CETC line count filing schedule set forth in Section 54.307(c) of the Commission's rules, which require CETCs to file line counts on a quarterly basis no later than July 31, September 30, December 30, and March 30 of each year.<sup>84</sup> Where a CETC may fail to submit lines by the initial line count deadline to receive projected ICLS, but timely files lines for the second line count deadline for ICLS reconciliation purposes, a CETC may receive ICLS payments where no payment should have been forthcoming.<sup>85</sup>

When a CETC fails to submit ICLS line counts for calculation of support in the second calendar quarter subsequent to submission, the CETC is ineligible for and does not receive an ICLS disbursement in that quarter.<sup>86</sup> For example, a CETC failing to submit ICLS line counts by the filing deadlines of September 30, 2003, December 30, 2003, March 30, 2004, or July 31, 2004 did not receive ICLS disbursements in the quarters of calendar year 2004 associated with the missed line count filing deadline.

Use of 2004 line count data timely filed in 2005 could, however, result in payments for the period in which the CETC did not file by the requisite filing deadlines because the subsequent timely filing will result in a prior period payment for the quarter in which the initial payment was \$0 consistent with the preliminary late line count filing. In effect, the CETC would get a second opportunity to receive ICLS payments in circumvention of the schedule set forth in Section 54.307(c) of the Commission's rules.<sup>87</sup>

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<sup>83</sup> See 47 C.F.R. § 54.709(a)(3).

<sup>84</sup> The circumvention can occur when the initial line count filing under 47 C.F.R. § 54.307(c) is made subsequent to the due date. Lines timely filed under Section 54.307(c) result in payments in the second subsequent calendar quarter where CETCs are eligible and appropriately certified. Lines that are not timely filed under section § 54.307(c) result in no payment in the second subsequent calendar quarter and precludes future payment for the period absent FCC waiver.

<sup>85</sup> See 47 C.F.R. § 54.307(c).

<sup>86</sup> See *MAG Order* at ¶ 171 ("Line count data that is filed on a quarterly basis will be used to calculate support for the second calendar quarter after the data is filed.").

<sup>87</sup> See 47 C.F.R. § 54.307(c).

Conclusion

USAC correctly calculated the 2004 per line ICLS reconciliation by using PRTC 2003 line count data because the 2004 projected ICLS was originally paid using 2003 line count data. Use of PRTC 2004 line count data as requested by Centennial is inconsistent with the adjustment to the per line rates upon which Centennial PR was originally paid ICLS in calendar year 2004. USAC's methodology of changing the ICLS from projected to actual support in the numerator of the per line rate development equation ensures that Centennial PR was paid based on actual ICLS for the year as if actual common line cost and revenue data were available during the relevant period.

The time period between the line count submission dates and payment period applies to all recipients of High Cost support and is necessitated by the administrative logistics of managing the High Cost Support Mechanism, Commission rules requiring demand projections in advance of the payment period,<sup>88</sup> and Commission rules requiring the reporting of historical line counts.<sup>89</sup> In addition, the use of the original ICLS lines in the reconciliation process is consistent with USAC's administrative practices in other High Cost support component reconciliations where the same line count filing schedule is used for per line rate calculation. Further, using revised ICLS line counts for reconciliation purposes may result in the contravention of Section 54.307(c) of the Commission's rules.<sup>90</sup>

3. Alleged Understated Centennial PR Line Counts

Centennial alleges USAC incorrectly calculated the 2004 per line ICLS reconciliation for Centennial PR by using 2003 line count data instead of 2004 data.

Similar to the discussion of overstated PRTC line counts above, USAC correctly used Centennial PR 2003 line count data to calculate the 2004 per line ICLS reconciliation consistent with Commission requirements<sup>91</sup> and USAC's administrative practices in place since the beginning of the ICLS program. USAC uses the latest available ICLS line counts when projecting demand for high cost areas, and those same ICLS line counts are used when adjusting payments for projected ICLS in the subsequent reconciliation period ensuring that monthly per line ICLS amounts in the payment adjustment result from the use of consistent line counts.

The disconnect between the payment period and the reporting period for the line counts used for the payment period is relatively consistent across High Cost support components that

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<sup>88</sup> See 47 C.F.R. § 54.709(a)(3).

<sup>89</sup> See 47 C.F.R. §§ 54.307(c) and 36.612.

<sup>90</sup> See 47 C.F.R. § 54.307(c).

<sup>91</sup> See *MAG Order* at ¶ 171.

follow the line count schedule set forth in Sections 36.612<sup>92</sup> and 54.307(c)<sup>93</sup> of the Commission's rules.<sup>94</sup> Additionally, the *MAG Order* provides specific guidance on the use of ICLS line counts for purposes of distributing ICLS.<sup>95</sup> Lastly, using 2004 line count data would circumvent the Commission's ICLS line count schedule enabling potential over-recovery of ICLS when reconciled.

#### 4. Alleged Overstatement of Centennial PR 2004 ICLS Revenue

Centennial alleges that USAC overstated Centennial PR's projected ICLS dollars paid for 2004.

USAC agrees it overstated Centennial PR's projected ICLS dollars paid for 2004. While Centennial PR correctly stated that it received \$10,078,638 in 2004 ICLS disbursements, the ICLS prior period adjustments made subsequent to 2004 that impacted 2004 projected ICLS payments were not taken into consideration. The correct payment for calendar year 2004 ICLS is \$9,185,973 when all appropriate adjustments are applied.

##### Centennial PR 2004 ICLS Without 2002 ICLS Recovery

The Centennial PR ICLS payments made in calendar year 2004 for calendar year 2004 were \$10,078,638. The amount reflects disbursements for January through December 2004 without inclusion of the 2002 ICLS reconciliation payment recovery.<sup>96</sup> See *Attachment G, Centennial PR 2004 ICLS Payments After Recovery of 2002 ICLS Reconciliation Dollars*, for further details. The 2004 ICLS total is based on the rates and lines that were used in 2004 prior to any revisions or adjustments resulting from Centennial PR revised line counts or the incumbent carrier revisions to projected ICLS. Using the 2004 data available at the time, the table below provides the lines and rates used to arrive at the calculated \$10,078,638 of Centennial PR ICLS.

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<sup>92</sup> See 47 C.F.R. § 36.612.

<sup>93</sup> See 47 C.F.R. § 54.307(c).

<sup>94</sup> The one inconsistency in the use of line counts under the rules is for lines submitted July 31 for lines served as of December 31 of the preceding year. The rural loops used in HCL and LSS lines submitted July 31 are used for first quarter of the following year projections and payments. Both High Cost Model HCM and ICLS use the July 31 lines as of December 31 for fourth quarter of the current year projections and payments. HCL, LSS, HCM, and ICLS all use the September 30 lines as of March 30 for first quarter of the following year projections and payments. However, for HCL and LSS the September 30 filing, if made, replaces the July 31 filing for first quarter purposes.

<sup>95</sup> See *MAG Order* at ¶ 171.

<sup>96</sup> Actual ICLS dollars paid to Centennial PR in 2004 totaled \$9,924,174 as a result of current period ICLS in 2004 and the recovery of ICLS based on the 2002 reconciliation.

**Centennial PR 2004 ICLS Without 2002 ICLS Recovery**

Date As Of	CETC SAC	ILEC SAC	Res & SLB Lines	MLB Lines	Res Rate Per Line	MLB Rate Per Line	Monthly ICLS <sup>97</sup>	Quarterly Eligible and USE Cert Support
<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	$H=(D*F)+(E*G)$	$I=H*3$
3/31/2003	639001	633200	41368	4373	\$0.199808	\$0.000000	\$8,266	\$24,798
3/31/2003	639001	633201	217121	39484	\$0.000000	\$0.000000	\$0	\$0
6/30/2003	639001	633200	43847	4532	\$0.199808	\$0.000000	\$8,763	\$26,289
6/30/2003	639001	633201	231293	41411	\$0.000000	\$0.000000	\$0	\$0
9/30/2003	639001	633200	46781	4773	\$4.200006	\$1.500006	\$203,640	\$610,920
9/30/2003	639001	633201	245784	44303	\$5.322987	\$2.622987	\$1,424,511	\$4,273,533
12/31/2003	639001	633200	48555	4741	\$4.245287	\$1.545287	\$213,456	\$640,368
12/31/2003	639001	633201	256099	43512	\$5.401645	\$2.701645	\$1,500,910	\$4,502,730
<b>Annual Total</b>								<b>\$10,078,638</b>

Centennial PR's 2004 ICLS After Line Count and ILEC 2003-04 Revisions to Projected ICLS

For 2004 ICLS reconciliation purposes and third quarter 2006 projection purposes, USAC recalculated Centennial PR's 2004 ICLS subject to line count revisions and incumbent carrier ICLS 2003-04 program year revisions. The 2004 ICLS total for Centennial PR was recalculated as \$10,330,311. The ICLS increase was the result of Centennial PR line count revisions and per line rate changes resulting from the incumbent carrier's 2003-2004 ICLS program year revision.<sup>98</sup> The table below illustrates the lines and rates used to calculate Centennial PR's 2004 ICLS amount of \$10,330,311. The highlighted cells show line counts and per line rates that changed relative to the initial 2004 ICLS payment calculation of \$10,078,638 discussed above.

<sup>97</sup> Amounts in column H are rounded to the nearest whole dollar.

<sup>98</sup> See 47 C.F.R. § 54.903(a)(3). Rate-of-return carriers are permitted to submit corrections to the projected data filed on March 31 until June 30 for the upcoming ICLS funding year. On June 30 each year, rate-of-return carriers are also able to submit updates to the projected data for the ICLS funding year ending on that date.

**Centennial PR 2004 ICLS After Line Count and ILEC 2003-4 ICLS Revisions**

Date As Of	CETC SAC	ILEC SAC	Res & SLB Lines	MLB Lines	Res Rate Per Line	MLB Rate Per Line	Monthly ICLS <sup>99</sup>	Quarterly Eligible and USE Cert Support
<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	$H=(D*F)+(E*G)$	$I=H*3$
3/31/2003	639001	633200	45046	4373	\$0	\$0	\$0	\$0
3/31/2003	639001	633201	233197	39484	\$0	\$0	\$0	\$0
6/30/2003	639001	633200	46629	4532	\$0	\$0	\$0	\$0
6/30/2003	639001	633201	243538	41411	\$0	\$0	\$0	\$0
9/30/2003	639001	633200	48609	4630	\$4.200006	\$1.500006	\$211,103	\$633,309
9/30/2003	639001	633201	253733	42774	\$5.322987	\$2.622987	\$1,462,813	\$4,388,439
12/31/2003	639001	633200	50523	4741	\$4.245287	\$1.545287	\$221,811	\$665,433
12/31/2003	639001	633201	264763	43512	\$5.401645	\$2.701645	\$1,547,710	\$4,643,130
							<b>2004 TOTAL</b>	<b>\$10,330,311</b>

Centennial PR's 2004 Final Projected ICLS Before 2004 ICLS Reconciliation and after ILEC 2004-05 Revisions to ICLS

The \$10,330,311 ICLS amount calculated above does not, however, include incumbent carrier revisions to the 2004-05 ICLS program year.<sup>100</sup> Overall, the revisions resulted in less ICLS for the PRTC incumbent carriers and less ICLS for Centennial PR for the 2004-05 ICLS program year. The 2004-05 ICLS program year support adjustments were made in January through June of 2006 for Centennial PR resulting in total 2004 projected ICLS of \$9,185,973. The following table illustrates the final and correct calculation of Centennial PR's 2004 projected ICLS. Highlighted cells below show the rate changes resulting from the 2004-05 ICLS program year revisions. See Attachment H, Centennial PR Final Projected 2004 ICLS Disbursed Prior to Calendar Year 2004 ICLS Reconciliation, for further details.

<sup>99</sup> Amounts in column H are rounded to the nearest whole dollar.

<sup>100</sup> See 47 C.F.R. § 54.903(a)(3).

**Centennial PR Actual 2004 ICLS Before 2004 ICLS Reconciliation**

Date As Of	CETC SAC	ILEC SAC	Res & SLB Lines	MLB Lines	Res Rate Per Line	MLB Rate Per Line	Monthly ICLS <sup>101</sup>	Quarterly ICLS
<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	$H=(D*F)+(E*G)$	$I=H*3$
3/31/2003	639001	633200	45046	4373	\$0.000000	\$0.000000	\$0	\$0
3/31/2003	639001	633201	233197	39484	\$0.000000	\$0.000000	\$0	\$0
6/30/2003	639001	633200	46629	4532	\$0.000000	\$0.000000	\$0	\$0
6/30/2003	639001	633201	243538	41411	\$0.000000	\$0.000000	\$0	\$0
9/30/2003	639001	633200	48609	4630	<b>\$4.971276</b>	<b>\$2.271276</b>	\$252,165	\$756,495
9/30/2003	639001	633201	253733	42774	<b>\$4.560535</b>	<b>\$1.860535</b>	\$1,236,741	\$3,710,223
12/31/2003	639001	633200	50523	4741	<b>\$5.028010</b>	<b>\$2.328010</b>	\$265,067	\$795,201
12/31/2003	639001	633201	264763	43512	<b>\$4.624119</b>	<b>\$1.924119</b>	\$1,308,018	\$3,924,054
							<b>TOTAL</b>	<b>\$9,185,973</b>

Additional Adjustment Due to Line Count Revisions

In addition to the correction of projected 2004 calendar year ICLS due to the revisions to the 2003-04 and 2004-05 ICLS program year ICLS projections made by the PRTC carriers, there was a small adjustment to the ICLS owed to Centennial PR based on actual 2004 ICLS. Due to line count revisions filed by Centennial PR subsequent to the September 2006 meeting, the actual 2004 ICLS for which Centennial was eligible was \$3,804,332, a decrease of \$234. The reduction was the result of line count revisions reducing residential and single line business line counts for lines filed in September 2003 that were used for first quarter 2004 ICLS payments. Centennial PR also revised its multi-line business line counts for the same period; however, the multi-line business per line rate is \$0.00. See Attachment I, *Centennial PR Line Count Revisions Resulting in Changes to ICLS Owed for Calendar Year 2004*, for more details.

Decision on Appeal: Denied except for adjustment to ICLS amounts to be recovered as discussed in item 4 above.

After Adjustment for USAC's Overstatement of Centennial PR's Projected ICLS Paid for 2004, Centennial Was Over-Paid ICLS in the Amount of \$5,381,641 of Which USAC Has \$4,294,017 Remaining to Recover

With the corrected ICLS paid for 2004 and revised ICLS owed for 2004 as discussed above, USAC calculated that \$5,381,641 must be recovered from Centennial PR. See

<sup>101</sup> Amounts in column H are rounded to the nearest whole dollar.

Mr. Christopher Savage

March 28, 2007

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*Attachment J, Centennial PR 2004 ICLS Reconciliation Calculation - Corrected.* The initial recovery amount calculated for Centennial PR was \$6,525,745. *See Attachment D, Centennial PR 2004 ICLS Reconciliation Calculation.* The adjusted 2004 ICLS recovery reduces Centennial PR's payment obligation by \$1,144,104. *See Attachment K, Pre- and Post-Form 508 Revision Adjustment – 2004 Annual ICLS Reconciliation Amount.* As \$1,087,624 was recovered by adjusting the July 2006 disbursements, the remaining 2004 ICLS to be recovered from Centennial PR is \$4,294,017.

**Centennial PR 2004 ICLS Recovery Payment Obligation**

Revised 2004 ICLS Recovery Amount Calculated For Centennial PR	\$5,381,641
2004 ICLS Recovered From Centennial PR To Date	\$1,087,624
2004 ICLS Remaining for Recovery	<b>\$4,294,017</b>

*USAC Will Recover the Over-Paid ICLS From Scheduled ICLS Payments in the Disbursement Months Immediately Following Issuance of this Appeal Decision.*

Consistent with this Administrator's decision, USAC will restart recovery of the outstanding ICLS owed, which had been suspended pending USAC's decision on this appeal. Recovery will occur over the next five disbursement months immediately following the issuance of this appeal decision by subtracting the monthly amount owed from High Cost Support Mechanism benefits payable to Centennial PR. After adjustment to the remaining amount to be recovered as set forth above, USAC will recover \$4,294,017 of ICLS paid to Centennial PR.

If after netting support to be paid against ICLS there is a remaining balance of ICLS to be recovered, USAC will continue monthly netting until all remaining ICLS associated with this matter is recovered. If necessary, USAC reserves the right to invoice and collect from Centennial PR any remaining amounts owed.

Process for Further Appeals

If you wish to further appeal this decision, you may file an appeal with the Commission. Detailed instructions for filing appeals are available at:

<http://www.usac.org/hc/about/filing-appeals.aspx>

Sincerely,

USAC

Universal Service Administrative Company

**Attachment A  
PRTC Disbursements - 2004**

State	Spin	Study Area Code	Study Area Name	HCL	HCM	IAS	ICLS	LSS	LTS	SNA	SVS	Year	Month
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$5,301,772	\$0	\$0	\$0	\$0	2004	Dec
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$5,301,772	\$0	\$0	\$0	\$0	2004	Nov
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$5,301,772	\$0	\$0	\$0	\$0	2004	Oct
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$5,301,772	\$0	\$0	\$0	\$0	2004	Sep
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$5,301,772	\$0	\$0	\$0	\$0	2004	Aug
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$5,301,772	\$0	\$0	\$0	\$0	2004	Jul
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$0	\$0	\$6,258,312	\$0	\$0	2004	Jun
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$0	\$0	\$6,258,312	\$0	\$0	2004	May
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$0	\$0	\$6,258,312	\$0	\$0	2004	Apr
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$0	\$0	\$6,258,312	\$0	\$0	2004	Mar
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$0	\$0	\$6,258,312	\$0	\$0	2004	Feb
PR	143012431	633201	PRTC	\$0	\$0	\$0	\$0	\$0	\$6,258,312	\$0	\$0	2004	Jan

Source - USAC

**Attachment A - PRTC Disbursements - 2004**

State	Spin	Study Area Code	Study Area Name	HCL	HCM	IAS	ICLS	LSS	LTS	SNA	SVS	Year	Month
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$503,263	\$0	\$0	\$0	\$0	2004	Dec
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$503,263	\$0	\$0	\$0	\$0	2004	Nov
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$503,263	\$0	\$0	\$0	\$0	2004	Oct
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$503,263	\$0	\$0	\$0	\$0	2004	Sep
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$503,263	\$0	\$0	\$0	\$0	2004	Aug
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$503,263	\$0	\$0	\$0	\$0	2004	Jul
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$32,427	\$0	\$1,172,557	\$0	\$0	2004	Jun
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$32,427	\$0	\$1,172,557	\$0	\$0	2004	May
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$32,427	\$0	\$1,172,557	\$0	\$0	2004	Apr
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$32,427	\$0	\$1,172,557	\$0	\$0	2004	Mar
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$32,427	\$0	\$1,172,557	\$0	\$0	2004	Feb
PR	143002711	633200	PRTC - CENTRAL	\$0	\$0	\$0	\$32,427	\$0	\$1,172,557	\$0	\$0	2004	Jan

Source - USAC

**ATTACHMENT B**  
**Centennial PR (639001) 2004 Support**

Date As Of	CEIC SAC	ILEC SAC	Zone ID	Res & SLB Lines	MLB Lines	Res Rate Per Line	MLB Rate Per Line	Monthly ICLS	Quarterly Eligible and USE Cert Support
A	B	C	D	E	F	G	H	J = (E*G)+(F*H)	K = J*3
3/31/2003	639001	633200	zone 1	45046	4373	\$0.000000	\$0.000000	\$0	\$0
3/31/2003	639001	633201	zone 1	233197	39484	\$0.000000	\$0.000000	\$0	\$0
6/30/2003	639001	633200	zone 1	46629	4532	\$0.000000	\$0.000000	\$0	\$0
6/30/2003	639001	633201	zone 1	243538	41411	\$0.000000	\$0.000000	\$0	\$0
9/30/2003	639001	633200	zone 1	48609	4630	\$4.200006	\$1.500006	\$211,103	\$633,309
9/30/2003	639001	633201	zone 1	253733	42774	\$5.322987	\$2.622987	\$1,462,813	\$4,388,439
12/30/2003	639001	633200	zone 1	50523	4741	\$4.245287	\$1.545287	\$221,811	\$665,433
12/30/2003	639001	633201	zone 1	264763	43512	\$5.401645	\$2.701645	\$1,547,710	\$4,643,130
								<b>2004 TOTAL</b>	<b>\$10,330,311</b>

**ATTACHMENT C**  
**PRTC ILEC 2004 ICLS Reconciliation**  
**Calculation**

**508 Data**

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup	Program Year
A	B	C	D	E	F	$G = B - (C + D + E + F)$	H
633200	\$ 21,338,083	\$ 11,916,845	\$ 34,454	\$ 54,319	\$13,991,862	\$0	2003-2004
633200	\$ 22,993,066	\$ 12,959,927	\$ 1,500	\$ 49,412	\$0	\$9,982,227	2004-2005
633201	\$ 163,795,417	\$ 88,257,221	\$ 1,218,000	\$ 180,411	\$74,139,786	\$0	2003-2004
633201	\$ 134,566,667	\$ 79,726,555	\$ 355,435	\$ 609,193	\$0	\$53,875,484	2004-2005

**Calendar Year 2004 Projected ICLS Based on 508 Data**

ILEC SAC	Interst Com Line Sup 2003-4 Program Year	Calendar Year 2004 Portion of the Interst Com Line Sup 2003-4 Program Year	Interst Com Line Sup 2004-5 Program Year	Calendar Year 2004 Portion of the Interst Com Line Sup 2004-5 Program Year	Calendar Year 2004 Projected ICLS
I	J	K	L	$M = L * 0.5$	$N = M$
633200	\$0	\$0	\$9,982,227	\$4,991,114	\$4,991,114
633201	\$0	\$0	\$53,875,484	\$26,937,742	\$26,937,742

**509 Data**

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup	Calendar Year
O	P	Q	R	S	T	$U = P - (Q + R + S + T)$	V
633200	\$21,674,011	\$12,400,432	\$1,500	\$52,135	\$7,035,342	\$2,184,602	2004
633201	\$132,104,069	\$81,743,677	\$377,925	\$634,626	\$37,549,872	\$11,797,969	2004

ILEC SAC	Calendar Year 2004 Projected ICLS	2004 Actual ICLS	Amount for Payment Recovery	ICLS Monthly Recovery Amount
W	X	Y	$Z = Y - X$	$AA = Z / 6$
633200	\$4,991,114	\$2,184,602	(\$2,806,512)	(\$467,752)
633201	\$26,937,742	\$11,797,969	(\$15,139,773)	(\$2,523,296)

**ATTACHMENT D**  
**CENTENNIAL PR 2004 ICLS Reconciliation CALCULATION**

**ICLS July 2006 Payment - 639001**

ST	SACCODE	Num Lines	Final Paym	Monthly Support	PPA	ICLS Reconciliation
A	B	C	D = E + F + G	E	F	G
PR	639001	420713	\$363,262.00	\$1,450,886.00	\$0.00	(\$1,087,624.00)

**ICLS 2004 Reconciliation - 639001**

SAC CODE	ICLS Paid in 2004	ICLS Owed Based on Actuals in 2004	Annual Reconciliation	Monthly Reconciliation
E	F	G	H = G - F	I = H / 6
639001	\$10,330,311.00	\$3,804,566.00	(\$6,525,745.00)	(\$1,087,624.00)

**ICLS 2004 Reconciliation Calculation - 639001**

Date As Of	CETC SAC	ILEC SAC	Zone ID	Res & SLB Lines	MLB Lines	Res Rate Per Line	MLB Rate Per Line	Monthly ICLS Support	Quarterly Eligible and USE Cert Support
J	K	L	M	N	O	P	Q	S = (P * N) + (Q * O)	T = S * 3
3/31/2003	639001	633200	zone 1	45046	4373	\$1.12	\$0.00	\$50,531.04	\$151,593.12
6/30/2003	639001	633200	zone 1	46629	4532	\$1.12	\$0.00	\$52,320.33	\$156,961.00
9/30/2003	639001	633200	zone 1	48609	4630	\$1.13	\$0.00	\$54,892.85	\$164,678.55
12/31/2003	639001	633200	zone 1	50523	4741	\$1.14	\$0.00	\$57,577.88	\$172,733.63
3/31/2003	639001	633201	zone 1	233197	39484	\$1.05	\$0.00	\$244,749.88	\$734,249.63
6/30/2003	639001	633201	zone 1	243538	41411	\$1.05	\$0.00	\$256,121.30	\$768,363.90
9/30/2003	639001	633201	zone 1	253733	42774	\$1.06	\$0.00	\$268,578.31	\$805,734.92
12/31/2003	639001	633201	zone 1	264763	43512	\$1.07	\$0.00	\$283,416.99	\$850,250.98
<b>2004 TOTAL</b>									<b>\$3,804,566.00</b>

**ICLS 2004 ILEC Per Line Rates (based on FORM 509)**

Date As Of	ILEC SAC	zone	Res & SLB Lines	MLB Lines	Company Monthly Support	Share	Zone's Monthly Share of Support	Res Rate Per Line	MLB Rate Per Line
U	V	W	X	Y	Z	AA	AB	AC	AD
31-Mar-03	633200	zone 1	162289	14627	\$182,050.17	1	\$182,050.17	\$1.12	\$0.00
30-Jun-03	633200	zone 1	162247	13703	\$182,050.17	1	\$182,050.17	\$1.12	\$0.00
30-Sep-03	633200	zone 1	161210	13399	\$182,050.17	1	\$182,050.17	\$1.13	\$0.00
31-Dec-03	633200	zone 1	159744	12310	\$182,050.17	1	\$182,050.17	\$1.14	\$0.00
31-Mar-03	633201	zone 1	936756	147746	\$983,164.08	1	\$983,164.08	\$1.05	\$0.00
30-Jun-03	633201	zone 1	934861	139946	\$983,164.08	1	\$983,164.08	\$1.05	\$0.00
30-Sep-03	633201	zone 1	928821	136360	\$983,164.08	1	\$983,164.08	\$1.06	\$0.00
31-Dec-03	633201	zone 1	918454	126075	\$983,164.08	1	\$983,164.08	\$1.07	\$0.00

**ICLS 2004 ILEC Support (based on FORM 509)**

ILEC_SAC	Data_Period	Common_Line_Rev_Req	Sub_Line_Charge_Rev	Access_Surcharge_Rev	Line_Port_Costs	Comm_Carrier_Line_Rev	Actual_LTS	Actual_ICLS	Monthly_ICLS
AE	AF	AH	AI	AJ	AK	AL	AM	AN = AH - (AI + AJ + AK + AL + AM)	AO = AN / 6
633200	2004	\$21,674,011	\$12,400,432	\$1,500	\$52,135	\$0	\$7,035,342	\$2,184,602	\$182,050.17
633201	2004	\$132,104,069	\$81,743,677	\$377,925	\$634,626	\$0	\$37,549,872	\$11,797,969	\$983,164.08

**Attachment E**  
**PRTC ILEC 2004 ICLS Reconciliation Calculation - USAC Methodology**

**508 Data**

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup	Program Year
A	B	C	D	E	F	$G = B - (C + D + E + F)$	H
633200	\$ 21,338,083	\$ 11,916,845	\$ 34,454	\$ 54,319	\$13,991,862	\$0	2003-2004
633200	\$ 22,993,066	\$ 12,959,927	\$ 1,500	\$ 49,412	\$0	\$9,982,227	2004-2005
633201	\$ 163,795,417	\$ 88,257,221	\$ 1,218,000	\$ 180,411	\$74,139,786	\$0	2003-2004
633201	\$ 134,566,667	\$ 79,726,555	\$ 355,435	\$ 609,193	\$0	\$53,875,484	2004-2005

**509 Data**

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup	Calendar Year
I	J	K	L	M	N	$O = J - (K + L + M + N)$	P
633200	\$ 21,674,011	\$ 12,400,432	\$ 1,500	\$ 52,135	\$ 7,035,342	\$ 2,184,602	2004
633201	\$ 132,104,069	\$ 81,743,677	\$ 377,925	\$ 634,626	\$ 37,549,872	\$ 11,797,969	2004

ILEC SAC	2004 Projected ICLS	2004 Actual ICLS	Amount for Payment Recovery	ICLS Monthly Recovery Amount
Q	R	S	$T = S - R$	$U = T / 6$
633200	\$ 4,991,114	\$ 2,184,602	\$ (2,806,512)	\$ (467,752)
633201	\$ 26,937,742	\$ 11,797,969	\$ (15,139,773)	\$ (2,523,296)

**ATTACHMENT F**  
**PRTC ILEC 2004 ICLS Reconciliation**  
**Calculation - Centennial PR Methodology**

508 Data

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup	Program Year	Half of 2003-4 and 2004-5 Program Year for Projection Reconciliation
A	B	C	D	E	F	G=B-(C+D+E+F)	H	I=G*.5
633200	\$ 21,338,083	\$ 11,916,845	\$ 34,454	\$ 54,319	\$ 13,991,862	\$ -	2003-2004	
633200	\$ 22,993,066	\$ 12,959,927	\$ 1,500	\$ 49,412	\$ -	\$ 9,982,227	2004-2005	4,991,114
633201	\$ 163,795,417	\$ 88,257,221	\$ 1,218,000	\$ 180,411	\$ 74,139,786	\$ -	2003-2004	
633201	\$ 134,566,667	\$ 79,726,555	\$ 355,435	\$ 609,193	\$ -	\$ 53,875,484	2004-2005	26,937,742

509 Data

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup	Calendar Year
J	K	L	M	N	O	P=K-(L+M+N+O)	Q
633200	\$ 21,674,011	\$ 12,400,432	\$ 1,500	\$ 52,135	\$ 7,035,342	\$ 2,184,602	2004
633201	\$ 132,104,069	\$ 81,743,677	\$ 377,925	\$ 634,626	\$ 37,549,872	\$ 11,797,969	2004

509 Data Using Centennial PR Methodology

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup Calculated Per 54.901(a)	Actual Interst Com Line Sup	Calendar Year
R	S	T	U	V	W	X=S-(T+U+V+W)	Y	Z
633200	\$ 10,837,006	\$ 6,200,216	\$ 750	\$ 26,068	\$ 7,035,342	\$ (2,425,370)	\$ -	First Half 2004
633201	\$ 66,052,035	\$ 40,871,839	\$ 188,963	\$ 317,313	\$ 37,549,872	\$ (12,875,952)	\$ -	First Half 2004
						\$ (15,301,322)		

ILEC SAC	Revenue Req	SLC Rev	Spec Access Surch	Line Port Excess Costs	Annual LTS	Interst Com Line Sup Calculated Per 54.901(a)	Interst Com Line Sup	Calendar Year
AA	AB	AC	AD	AE	AF	AG=AB-(AC+AD+AE+AF)	AH=AG	AI
633200	\$ 10,837,006	\$ 6,200,216	\$ 750	\$ 26,068	\$ -	\$ 4,609,972	\$ 4,609,972	Second Half 2004
633201	\$ 66,052,035	\$ 40,871,839	\$ 188,963	\$ 317,313	\$ -	\$ 24,673,921	\$ 24,673,921	Second Half 2004

ILEC SAC	2004 Actual ICLS
AJ	AK=AH+Y
633200	\$ 4,609,972
633201	\$ 24,673,921

ILEC SAC	Calendar Year 2004 Projected ICLS	2004 Actual ICLS	Amount for Payment Recovery	ICLS Monthly Recovery Amount
AL	AM	AN	AO+AN-AM	AP=AO/6
633200	\$ 4,991,114	\$ 4,609,972	\$ (381,142)	\$ (63,524)
633201	\$ 26,937,742	\$ 24,673,921	\$ (2,263,822)	\$ (377,304)

**Attachment G**

**Centennial PR 2004 ICLS Payments After Recovery of 2002 ICLS Reconciliation Dollars**

State	SAC	Name	Year	Month	2004 Projected ICLS Paid in Calendar Year 2004	2002 ICLS Reconciliation Dollars Recovered	ICLS Paid in Calendar Year 2004
A	B	C	D	E	F	G	H = F + G
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Dec	\$1,714,366	(\$25,744)	\$1,688,622
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Nov	\$1,714,366	(\$25,744)	\$1,688,622
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Oct	\$1,714,366	(\$25,744)	\$1,688,622
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Sep	\$1,628,151	(\$25,744)	\$1,602,407
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Aug	\$1,628,151	(\$25,744)	\$1,602,407
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Jul	\$1,628,151	(\$25,744)	\$1,602,407
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Jun	\$8,763	\$0	\$8,763
PR	639001	Centennial Puerto Rico Operations Corp.	2004	May	\$8,763	\$0	\$8,763
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Apr	\$8,763	\$0	\$8,763
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Mar	\$8,266	\$0	\$8,266
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Feb	\$8,266	\$0	\$8,266
PR	639001	Centennial Puerto Rico Operations Corp.	2004	Jan	\$8,266	\$0	\$8,266
					\$10,078,638	(\$154,464)	\$9,924,174

**Attachment I**

**Centennial PR Line Count Revisions Resulting in Changes to ICLS Owed for Calendar Year 2004**

Date As Of	CETC SAC	ILEC SAC	Zone ID	Res & SLB Lines	MLB Lines	Res Rate Per Line	MLB Rate Per Line	Monthly ICLS Support	Quarterly Eligible and Certified Support	Total Change
A	B	C	D	E	F	G	H	I = (E * G) + (F * H)	J = I * 3	L = (J:5) + (J:9)

Current	3/31/2003	639001	633200	zone 1	44983	4410	\$1.12	\$0.00	\$50,460	\$151,381	
Previous	3/31/2003	639001	633200	zone 1	45046	4373	\$1.12	\$0.00	\$50,531	\$151,593	
Difference					-63	37			(\$71)	(\$212)	

Current	3/31/2003	639001	633201	zone 1	233190	39447	\$1.05	\$0.00	\$244,743	\$734,228	
Previous	3/31/2003	639001	633201	zone 1	233197	39484	\$1.05	\$0.00	\$244,750	\$734,250	
Difference					-7	-37			(\$7)	(\$22)	(\$234)

Attachment J

CENTENNIAL PR 2004 ICLS Reconciliation CALCULATION - CORRECTED

ICLS July 2006 Payment - 639001

ST	SACCODE	Num Lines	Final Paym	Monthly Support	PPA	ICLS Reconciliation
A	B	C	D = E + F + G	E	F	G
PR	639001	420713	\$553,946.00	\$1,450,886.00	\$0.00	(\$896,940.00)

ICLS 2004 True-Up - 639001

SACCODE	ICLSPaid	ICLSOwed	Annual Reconciliation	Monthly Reconciliation
E	F	G	H = G - F	I = H / 6
639001	\$9,185,973.00	\$3,804,332.00	-\$5,381,641	(\$896,940.00)

ICLS 2004 True-Up Calculation - 639001

Date As Of	CETC SAC	ILEC SAC	Zone ID	Res & SLB Lines	MLB Lines	Res Rate Per Line	MLB Rate Per Line	Monthly ICLS Support	Quarterly Eligible and USE Cert Support
J	K	L	M	N	O	P	Q	S = (P * N) + (Q * O)	T = S * 3
3/31/2003	639001	633200	zone 1	44983	4410	\$1.12	\$0.00	\$50,460.37	\$151,381.10
6/30/2003	639001	633200	zone 1	46629	4532	\$1.12	\$0.00	\$52,320.33	\$156,961.00
9/30/2003	639001	633200	zone 1	48609	4630	\$1.13	\$0.00	\$54,892.85	\$164,678.55
12/31/2003	639001	633200	zone 1	50523	4741	\$1.14	\$0.00	\$57,577.88	\$172,733.63
3/31/2003	639001	633201	zone 1	233190	39447	\$1.05	\$0.00	\$244,742.53	\$734,227.59
6/30/2003	639001	633201	zone 1	243538	41411	\$1.05	\$0.00	\$256,121.30	\$768,363.90
9/30/2003	639001	633201	zone 1	253733	42774	\$1.06	\$0.00	\$268,578.31	\$805,734.92
12/31/2003	639001	633201	zone 1	264763	43512	\$1.07	\$0.00	\$283,416.99	\$850,250.98
<b>2004 TOTAL</b>									<b>\$3,804,332.00</b>

ICLS 2004 ILEC Per Line Rates (based on FORM 509)

Date As Of	ILEC SAC	zone	Res & SLB Lines	MLB Lines	Company Monthly Support	Share	Zone's Monthly Share of Support	Res Rate Per Line	MLB Rate Per Line
U	V	W	X	Y	Z	AA	AB	AC	AD
31-Mar-03	633200	zone 1	162289	14627	\$182,050.17	1	\$182,050.17	\$1.12	\$0.00
30-Jun-03	633200	zone 1	162247	13703	\$182,050.17	1	\$182,050.17	\$1.12	\$0.00
30-Sep-03	633200	zone 1	161210	13399	\$182,050.17	1	\$182,050.17	\$1.13	\$0.00
31-Dec-03	633200	zone 1	159744	12310	\$182,050.17	1	\$182,050.17	\$1.14	\$0.00
31-Mar-03	633201	zone 1	936756	147746	\$983,164.08	1	\$983,164.08	\$1.05	\$0.00
30-Jun-03	633201	zone 1	934861	139946	\$983,164.08	1	\$983,164.08	\$1.05	\$0.00
30-Sep-03	633201	zone 1	928821	136360	\$983,164.08	1	\$983,164.08	\$1.06	\$0.00
31-Dec-03	633201	zone 1	918454	126075	\$983,164.08	1	\$983,164.08	\$1.07	\$0.00

ICLS 2004 ILEC Support (based on FORM 509)

ILEC SAC	Data Period	Common_Line_Revenue Req	Sub_Line_Charge_Rev	Access_Surcharge_Rev	Line_Port_Costs	Comm_Carrier_Line_Rev	Actual_LTS	Actual_ICLS	Monthly_ICLS
AE	AF	AH	AI	AJ	AK	AL	AM	AN = AH - (AI + AJ + AK + AL + AM)	AO = AN / 6
633200	2004	\$21,674,011	\$12,400,432	\$1,500	\$52,135	\$0	\$7,035,342.00	\$2,184,602.00	\$182,050.17
633201	2004	\$132,104,069	\$81,743,677	\$377,925	\$634,626	\$0	\$37,549,872.00	\$11,797,969.00	\$983,164.08

**Attachment K**

**Pre- and Post-Form 508 Revision Adjustment - 2004 Annual ICLS Reconciliation Amount**

**Before 2004-2005 Form 508 Adjustments to 2004 ICLS or Line  
Count Revisions**

SAC CODE	ICLS Paid	ICLS Owed	2004 Annual ICLS Reconciliation
A	B	C	D = C - B
639001	\$10,330,311	\$3,804,566	(\$6,525,745)

**After 2004-2005 Form 508 Adjustments to 2004 ICLS & Line  
Count Revisions Impacting ICLS Owed**

SAC CODE	ICLS Paid	ICLS Owed	2004 Annual ICLS Reconciliation
E	F	G	H = G - F
639001	\$9,185,973	\$3,804,332	(\$5,381,641)

2004 Annual ICLS Reconciliation Difference Due to Corrections & Line Count Revisions
I = H - D
<b>\$1,144,104</b>

## EXHIBIT 2

COLE, RAYWID & BRAVERMAN, L.L.P.

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September 25, 2006

**VIA E-MAIL AND HAND DELIVERY**

Ms. Karen M. Majcher  
Vice President, High Cost and Low Income Division  
Universal Service Administrative Company  
2000 L Street N.W., Suite 200  
Washington, D.C. 20036

**Re: Appeal Under 47 C.F.R. § 54.719(a) of True-Up Of 2004 ICLS  
for Centennial Communications Corp. in Puerto Rico**

Dear Ms. Majcher:

This letter is being filed on behalf of Centennial Communications Corp. (Centennial). It follows up on a meeting held at USAC's offices on September 8, 2006, and my letter to you of that same date.

This letter provides a detailed explanation of the grounds for Centennial's appeal of USAC's action, in August 2006, to begin offsetting Centennial's current payments under the Interstate Common Line Support (ICLS) program, based on USAC's true-up calculations for Puerto Rico for calendar year 2004.<sup>1</sup> The information USAC provided at the September 8 meeting showed USAC's calculations and the data on which it relied. We have found several problems with the true-up figure. I summarize the problems briefly below, then provide more detail on each one. Attached to this letter is a spreadsheet showing the required corrections to USAC's calculations, as well as various supporting materials.

**Summary.**

1. *Erroneous Treatment of First-Half 2004 LTS Revenue.* The error with the largest dollar impact involves USAC's treatment of Long Term Support (LTS) revenue received by the Puerto Rico Telephone Company (PRTC) during the 1<sup>st</sup> half of 2004. USAC treated these first-half revenues as an annual amount, and, in effect, spread them over the entire year. This violates the specific Federal Communications Commission (FCC) ruling in February 2004 that Long Term Support "shall not be provided to any

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<sup>1</sup> The specific Centennial entity receiving support for Puerto Rico is Centennial Puerto Rico Operations Corp.

Ms. Karen M. Majcher  
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carrier beginning July 1, 2004.”<sup>2</sup> Because the FCC has legally confined LTS revenue to the 1<sup>st</sup> half of 2004, USAC’s decision to spread that revenue into the 2<sup>nd</sup> half is erroneous. The error is confirmed by March 2004 guidance from the Wireline Competition Bureau with respect to an analogous situation involving half-year revenue amounts in 2002. There, the Bureau confirmed that when relevant revenues relate only to half of a year, spreading them across the entire year “would not provide an accurate calculation of the final ICLS amount that carriers require to meet their common line revenue requirements.”<sup>3</sup> Correcting USAC’s error entails calculating calendar year 2004 true-up amounts in two parts – 1<sup>st</sup> half and 2<sup>nd</sup> half – before determining the correct annual figure. Our recalculation properly confines LTS revenue to the 1<sup>st</sup> half of 2004.

2. *High PRTC Line Counts.* Centennial is to receive the same ICLS payments as PRTC, on a per-line basis. 47 C.F.R. § 54.307(a). As a matter of arithmetic, this entails (a) determining PRTC’s total ICLS entitlement; (b) dividing that total by the applicable number of lines, to find PRTC per-line amounts; and then (c) multiplying these per-line amounts by Centennial’s number of lines. The number of PRTC lines is thus the denominator in a fraction (ICLS entitlement / PRTC lines), which means that if it is too large, the resulting quotient will be too small. In fact, PRTC has been losing lines each year for some time. The data from the September 8 meeting, however, shows that USAC used PRTC 2003 line data to calculate the true-up for 2004. Because PRTC had more lines in 2003 than in 2004, this lowers the per-line ICLS to which Centennial is entitled. We requested from Telcordia, and received, PRTC’s actual (lower) 2004 lines and have used those in our recalculation.

3. *Low Centennial Line Counts.* While PRTC’s lines are the denominator in a fraction, Centennial’s lines are a factor in a multiplication. So, if Centennial’s line count is too low, that lowers Centennial’s ICLS entitlement. The data from the September 8 meeting shows that USAC used Centennial’s 2003 line counts to calculate its ICLS entitlement for 2004. But Centennial had more lines in 2004 than in 2003. As a result, using 2003 line counts lowers Centennial’s 2004 ICLS entitlement. We have recalculated the true-up using our actual 2004 line counts (as submitted previously to USAC).

4. *Overstated Centennial 2004 ICLS Revenue.* The point of the ICLS true-up is to match the ICLS payments Centennial ultimately receives with the amount it should have received, based on actual data. This process, therefore, involves comparing two numbers – what Centennial actually received for 2004 (pre-true-up), and the amount it should have received. The true-up is the difference. The three corrections discussed

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<sup>2</sup> *In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers*, Report and Order and Second Further Notice of Proposed Rulemaking, 19 FCC Rcd 4122 (2004) (“*LTS Order*”) at ¶ 67.

<sup>3</sup> Letter from C. Matthey (Wireline Competition Bureau) to I. Flannery (USAC), dated March 2, 2004 (“*Matthey Letter*”).

Ms. Karen M. Majcher  
September 25, 2006  
Page 3

above relate to USAC's calculation of the amount that Centennial should have received. The data from the September 8 meeting also shows, however, that USAC overstated the amount that Centennial actually received, by about \$300,000. This error is translated dollar-for-dollar into an erroneously high true-up amount.

As noted above, we have attached back-up documentation for each of the corrections we have made to USAC's calculation. This includes: (a) copies of FCC materials relevant to the treatment of 2004 LTS revenue as a half-year amount; (b) data from USAC's contractor (Telcordia) showing PRTC's actual 2004 lines, on a quarterly basis; (c) copies of Centennial's own submissions to USAC showing Centennial's actual 2004 lines on a quarterly basis; and (d) information regarding Centennial's actual 2004 ICLS disbursements from USAC. Using the correct information, we have re-calculated Centennial's ICLS true-up for 2004, and have attached a spreadsheet showing the calculations. Our calculations are generally parallel to those USAC provided to us at the September 8 meeting, and so should be fairly straightforward to follow.

The accurate calculation shows that, rather than having over-recovered ICLS in the amount of \$6,525,745, in fact Centennial is actually owed another \$110,247 for 2004 – a modest *positive* true-up. Given this, we respectfully request that USAC make the corrections in its calculations as we have indicated, and adjust Centennial's ongoing support as needed to implement this correct true-up figure. In addition to implementing the modest positive true-up, this will, specifically, entail reversing the withholding of \$1,087,624 from Centennial's August 2006 ICLS payment. This withholding was based on USAC's original, erroneous true-up calculation, and so is inappropriate.

#### **Detailed Discussion Of Errors In Calculation.**

This section (a) provides a detailed discussion of the errors Centennial has identified in USAC's calculation of true-up amounts applicable to 2004; (b) explains how those errors should be corrected; and (c) quantifies the result of making the required corrections.

##### 1. Erroneous Treatment of First-Half 2004 LTS Revenue.

By 2004 the LTS program was an anachronism; indeed, one purpose of the ICLS program was to eliminate it. Thus, in the notice of proposed rulemaking accompanying the *MAG Order*, which created the ICLS program, the Commission proposed eliminating the LTS program.<sup>4</sup> The *LTS Order*, cited above, was issued in response to that proposed rulemaking. The FCC was quite clear not only *that* it wanted LTS to end; it was also

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<sup>4</sup> See *In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers*, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, 16 FCC Rcd 19613 (2001) ("*MAG Order*") at ¶¶ 274-76.

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clear *when* it wanted LTS to end. Specifically, in the *LTS Order*, the FCC stated as follows:

In order to effectuate this decision, we amend our rules to provide that ***LTS shall not be provided to any carrier beginning July 1, 2004.*** We note that overall support will not be reduced because our existing rules will operate to ***automatically increase ICLS by an amount to match any LTS reduction.*** For that reason, no further action by the Commission is necessary to implement the merger of LTS into ICLS.

*LTS Order* at ¶ 67 (emphasis added).

This ruling provides the basic legal directive for handling LTS support in 2004 – ***no such support shall be provided beginning July 1.*** It is clear, therefore, that in calculating ICLS amounts for 2004, it would be plain legal error to attribute any LTS revenues to any period on or after July 1. This conclusion is not based on any policy analysis or any “interpretation” of the FCC’s statements. To the contrary, it is based on applying those statements literally, in accordance with their plain, obvious meaning. Indeed, given the clarity of the FCC’s statement, only some (erroneous) policy-based argument could justify making a calculation that attributes LTS revenue to any period after the 1<sup>st</sup> half of 2004.

In this regard, the second emphasized portion of the quote is also significant. That language makes clear that under the FCC’s rules, the phase-out of LTS should occur in such a way that the loss of LTS payments – beginning in the 2<sup>nd</sup> half of 2004 – will be accompanied by a dollar-for-dollar increase in ICLS payments. The only way to do that, mathematically, is to confine the LTS payments to the first half of 2004. Attributing fictional LTS revenues from before the July 1, 2004, “drop-dead” date to periods after that date – which USAC did – necessarily, dollar-for-dollar, ***prevents*** the “automatic increase” in ICLS that the FCC said that the operation of its “existing rules” would produce.

A March 2, 2004 letter from the Wireline Competition Bureau to USAC relating to the ICLS true-up applicable to 2002 (the year ICLS first took effect) confirms that stopping LTS as of July 1, 2004, is the correct way to apply the FCC’s rules. Just as LTS ended on July 1, 2004, ICLS began on July 1, 2002. The FCC had specified that for these purposes carrier costs relevant to ICLS should be split 50-50 between the first and second halves of that year. Even so, an issue remained because, with the various changes in access charges and universal-service related payments that also took effect that year, the 2002 revenues relevant to ICLS were received in a “lumpy” fashion. This meant that simply taking half the yearly revenues and attributing them to the 2<sup>nd</sup> half of the year, for true-up purposes, would produce inaccurate results.

In these circumstances, the Bureau directed NECA to determine reasonable industry-wide factors for allocating revenues to the first versus second half of 2002, and

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to use the appropriate 2<sup>nd</sup>-half figures – not spread-out “actual” annual figures – in calculating the true up. As the Bureau succinctly noted, simply spreading 2002 revenues across the entire year to determine proper half-year amounts “would not provide an accurate calculation of the final ICLS amount that carriers require to meet their common line revenue requirements.” *See Matthey Letter, supra.*

This is significant to the issue at hand, involving LTS, for several reasons. First, it establishes clear precedent that, in making the relevant ICLS true-up calculations, USAC should avoid using a methodology that “would not provide an accurate calculation.” Second, it shows that when a relevant event takes effect mid-year, the FCC’s rules contemplate making half-year calculations in order to accurately determine true-up amounts. Third, and perhaps most significant, the *Matthey Letter* shows that making these accurate half-year calculations is what the FCC’s *existing rules* contemplate. There was no need to modify the existing rules to allow USAC to make the correct true-up calculation for 2002.

Consonant with these points, Centennial is not asking USAC to either modify or “interpret” the FCC’s rules and orders here. Those rules and rulings – notably, the *LTS Order* cited above – make perfectly clear that LTS simply ceased to exist as of July 1, 2004, and after that date any LTS amounts are to be replaced, dollar-for-dollar, by ICLS payments. USAC’s calculation of the 2004 true-up for Centennial in Puerto Rico manifestly fails to meet these directives, by mathematically pretending that LTS payments continued into the 2<sup>nd</sup> half of that year.

In this regard, it is also significant that the literal language of the FCC’s ICLS true-up rule, 47 C.F.R. § 54.903(a)(4), does not require that the cost and revenue items used in calculating a true-up must be annual amounts, applied unthinkingly to a unitary annual calculation. To the contrary, the rule as written recognizes that a period other than an entire year may be appropriate in some cases. Here is what the rule says (emphasis added):

Each rate-of-return carrier shall submit to the Administrator on December 31st of each year the data necessary to calculate a carrier’s Interstate Common Line Support, including common line cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line Interstate Common Line Support amounts in the final two quarters of the following calendar year to the extent of any differences between the carrier’s ICLS received based on projected common line cost and revenue data and the ICLS for which the carrier is ultimately eligible based on its actual common line cost and revenue data *during the relevant period.*

Note that the rule does *not* state that the “actual common line cost and revenue data” should relate to “the affected calendar year,” or the “the calendar year for which the true-up is being made,” or any similar language. It directs USAC to determine the ICLS “for

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which the carrier is ultimately eligible” with reference to cost and revenue data from “the relevant period.”

Centennial submits that it flatly violates this rule to try to determine the “ICLS for which [Centennial] is ultimately eligible” in 2004 by means of a calculation that attributes LTS revenue to the 2<sup>nd</sup> half of 2004. For LTS revenue, the 2<sup>nd</sup> half of 2004 is *not* a “relevant period.” Put another way, although the first sentence of the rule requires USAC to calculate the amount of true-up that is needed for each calendar year (that is, the amount needed for 2002, for 2003, for 2004, etc.), neither that sentence nor anything else in the rule requires USAC to determine those amounts by means of unitary, annual calculations.

To the contrary, the rule directs USAC to consider what period is “relevant” when considering the cost and revenue data that a carrier provides. Centennial submits that this language in the rule is precisely *why* it was not necessary to amend or change the rule to accommodate the 2002 true-up as contemplated by the *Mattey Letter*, and why, indeed, it was wrong for USAC to spread LTS revenues in 2004 over the entire year. Taking account of major, FCC-ordered, mid-year changes in carrier revenues is not any sort of “interpretation” of 47 C.F.R. §54.903(a)(4). It is what the rule *requires*.

On the attached spreadsheet, in the box headed “Calculation of PRTC Monthly ICLS, Attributing LTS Revenue Only to First Half of 2004,” Centennial has re-calculated PRTC’s monthly applicable ICLS amounts based on the correct application of the *LTS Order* (which, again, directs that LTS payments *stop* as of July 1, 2004) and 47 C.F.R. § 54.903(a)(5) (which requires revenue to be ascribed to “the relevant period”). We have taken 50% of the non-LTS amounts used by USAC in its own calculations to create two half-year figures for each of the affected PRTC study areas. We then attribute the actual LTS amounts PRTC received for each study area (again, from the data USAC provided) to the 1<sup>st</sup> half of the year. This results in no ICLS at all during the 1<sup>st</sup> half of the year, but substantial ICLS amounts for the second half.<sup>5</sup>

## 2. Overstated PRTC Line Counts.

Neither Centennial’s ICLS payments nor its true-up calculation is based on Centennial’s own cost or revenue data. Instead, the incumbent carrier’s cost and revenue data (that is, PRTC’s data) is used to determine the total ICLS to which PRTC was entitled. Then, using PRTC’s number of applicable lines (residence and single-line business, and multi-line business), PRTC’s ICLS amount is converted to per-line figures. These per-line figures, based on PRTC’s data, are then multiplied by the number of applicable *Centennial* lines during the relevant period. *See* 47 C.F.R. § 54.307(a).

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<sup>5</sup> As a detail, note that, once half-year ICLS amounts are determined, deriving the corresponding monthly amounts requires dividing the half-year amounts by *six*, not by twelve as would be the case with a full year calculation.