Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Quarterly Contribution Base for the Third Quarter 2008

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May 30, 2008

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BEFORE THE FEDERAL COMMUNICATIONS COMMISSION WASHINGTON, D.C.

FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS FUND SIZE QUARTERLY CONTRIBUTION BASE FOR THE THIRD QUARTER 2008

INTRODUCTION

The Universal Service Administrative Company (USAC) is the not-for-profit corporation appointed by the Federal Communications Commission (FCC or Commission) to administer the Universal Service Fund (USF) and the four federal universal service support mechanisms: High Cost, Low Income, Rural Health Care, and Schools and Libraries.[1] USAC submits the contribution base amount to be used for the third quarter of calendar year 2008 (3Q2008) in accordance with Section 54.709 of the Commission's rules.[2] USAC is filing this contribution base report pursuant to the Commission's order of December 13, 2002, updating the *Contribution Methodology*

[1] *See* 47 C.F.R. § 54.701(a). *See also, Changes to the Board of Directors of the National Exchange Carrier Association, Inc., CC Docket No. 97-21, Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Fourth Report and Order in CC Docket No. 97-21, Fourth Order on Reconsideration in CC Docket No. 97-21 and Eighth Order on Reconsideration in CC Docket No. 96-45*, FCC 98-306, 63 Fed. Reg. 70564 (rel. Dec. 21, 1998); *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, CC Docket No. 96-262, 94-1, 99-249, 96-45, *Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45*, FCC 00-103 (rel. May 31, 2000) (*CALLS Order*); *Federal-State Joint Board on Universal Service, Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas*, CC Docket No. 96-45, *Twelfth Report and Order and Further Notice of Proposed Rulemaking*, FCC 00-208 (rel. June 8, 2000) (*Tribal Lands Order*); *Federal-State Joint Board on Universal Service, Petition for Reconsideration filed by AT&T*, CC Docket No. 96-45, *Report and Order and Order on Reconsideration*, FCC 01-85 (March 14, 2001) (*Contribution Methodology Order*).

[2] *See* 47 C.F.R. § 54.709(a)(3).

Order issued on March 14, 2001.[3] In the December 13, 2002 order, the Commission changed the universal service contribution base methodology to projected collected revenues rather than actual contributor revenues billed.[4] On March 14, 2003, the Commission released an *Order and Second Order on Reconsideration*, which, *inter alia*, directed the Wireline Competition Bureau to announce the universal service contribution factor as a percentage rounded up to the nearest tenth of one percent.[5] The Commission also directed the Wireline Competition Bureau to account for contribution factor rounding when calculating the "circularity" discount factor.[6]

On June 27, 2006, the Commission released the *Second Interim Contribution Methodology Order* making further modifications to the method for calculating the

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[3] *See Contribution Methodology Order* ¶¶ 10-13; *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review–Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, NSD File No. L-00-72, *Report and Order and Second Further Notice of Proposed Rulemaking*, FCC 02-329, 17 FCC Rcd 24952 (2002) (*Projected Collected Contribution Methodology Order*).

[4] *Projected Contribution Methodology Order* at ¶¶ 1, 29-30.

[5] *See Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format,* CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, *Order and Second Order on Reconsideration, FCC 03-58,* ¶ 22 (rel. Mar. 14, 2003) *(Second Order on Reconsideration*) ("Although the Second Order on Reconsideration has not yet been published in the Federal Register and accordingly has not yet become effective, we expect it will be published before the start of the second quarter of 2003. Absent release of this Public Notice, the six-digit contribution factor announced on March 7, 2003 would be deemed approved by the Commission on March 21, 2003. However, the six-digit contribution factor would be inconsistent with the Second Order on Reconsideration. Therefore, the Bureau takes this limited action today to ensure the implementation of the Second Order on Reconsideration for the second quarter of 2003.").

[6] *Id.*

contribution base for the USF to be effective in the Fourth Quarter 2006 (4Q2006).[7] The *Second Interim Contribution Methodology Order* increased the wireless safe harbor percentage from 28.5% to 37.1% and broadened the scope of service providers obligated to contribute to the USF to include providers of interconnected voice over Internet Protocol (VoIP) services[8] with an optional safe harbor percentage of interstate revenue for interconnected VoIP providers of 64.9% of total VoIP service revenue.[9] The Commission simultaneously released a Notice of Proposed Rulemaking seeking additional comments on fundamental reform of the contribution methodology.[10] To ensure the stability and sufficiency of the USF, the Commission directed the order be effective upon publication in the Federal Register, which required contributors to comply

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[7] *See Universal Service Contribution Methodology, Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, IP-Enabled Services*, WC Docket No. 06-122, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, WC Docket No. 04-36, Report and Order and Notice of Proposed Rulemaking, FCC 06-94 (adopted June 21, 2006; released June 27, 2006) (*Second Interim Contribution Methodology Order*). The *Projected Contribution Methodology Order*, among other things, increased the wireless safe harbor to the current 28.5% and shifted monthly contribution obligations from being based on historical billed to projected collected revenue.

[8] *See* 47 C.F.R. § 9.3 ("An interconnected Voice over Internet Protocol (VoIP) service is a service that: (1) Enables real-time, two-way voice communications; (2) Requires a broadband connection from the user's location; (3) Requires Internet protocol-compatible customer premises equipment (CPE); and (4) Permits users generally to receive calls that originate on the public switched telephone network and to terminate calls to the public switched telephone network.").

[9] In addition, Interconnected VoIP providers will have the option of basing contributions on actual interstate revenues or using traffic studies to estimate those revenues. VoIP providers who wish to rely on traffic studies must submit and obtain advance FCC approval of proposed studies. *Second Interim Contribution Methodology Order* at ¶ 57.

[10] *Second Interim Contribution Methodology Order* at ¶¶ 65-70.

with the new contribution requirements on their August 1, 2006 Form 499-Q filing, thereby affecting the USF contribution base beginning in 4Q2006.[11]

Consistent with Commission regulations and orders, USAC filed the Federal Universal Service Support Mechanisms Fund Size and Administrative Cost Projections for 3Q2008 on May 2, 2008. On June 23, 2006, the Commission issued an order realigning oversight responsibilities within the FCC for the USF, the universal service support mechanisms and USAC.[12] Pursuant to that order, the FCC Office of the Managing Director is now responsible for calculating the quarterly contribution factor and issuing related public notices.[13]

Upon approval of the universal service support mechanisms quarterly funding requirements, projected administrative expenses, and the contribution base, the Commission will establish a quarterly contribution factor and a circularity factor. [14] USAC will then bill contributors on a monthly basis for their individual obligations based on the approved contribution factor and circularity factor.[15]

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[11] *Second Interim Contribution Methodology Order* at ¶ 82.

[12] *See In the Matter of Amendment of Part 54 of the Commission's Rules*, FCC 06-89, ¶ 4, released June 23, 2006.

[13] *Id.*

[14] *See* 47 C.F.R. § 54.709(a)(3).

[15] *Id.*

CONTRIBUTION BASE

USAC collects interstate and international projected revenue information from carriers on the FCC Form 499-Q four times each year and submits aggregate information on a quarterly basis to the FCC in March, June, September, and December of each year.[16]

Carriers also file FCC Form 499-A (Form 499-A) in April of each year to report actual annual revenues from the prior year. USAC uses revenue data provided by carriers on the FCC Form 499-A to perform annual true-ups of actual revenue to the quarterly projected revenue data submitted by carriers on FCC Form 499-Q (Form 499-Q) during the prior calendar year.[17] As necessary, USAC will refund or collect from carriers any over-payments or under-payments. As mandated by the Commission, if the combined quarterly revenues reported by a carrier on its Form 499-Qs are greater than those reported on its annual revenue report on Form 499-A, then a refund will be provided to the carrier based on an average of the two lowest contribution factors for the year.[18] If the combined quarterly revenues reported by a carrier are less than those reported on its annual revenue report on Form 499-A, then USAC will collect the difference from the carrier using an average of the two highest contribution factors from that year.[19]

[16] The Form 499-Q includes a box for each of the quarterly filing submissions. Carriers check the appropriate box to indicate the quarter for which revenue information is being reported. Data is due to USAC approximately one month before filing is due to the FCC.

[17] In addition, carriers may file a revised Form 499-Q within 45 days of the original filing due date for that current quarter. *See Projected Collected Contribution Methodology Order* at ¶ 36.

[18] *Projected Collected Contribution Methodology Order* at ¶ 36.

[19] *Id.*

Carriers were required to file the Form 499-Q with 3Q2008 projected collected revenue information on or before May 1, 2008.[20] By May 30, 2008, USAC is required to file revenue data with the FCC based on the May 1, 2008 carrier filings.[21] The Commission will use the program demand data and projected collected revenue information to calculate the universal service contribution factor for 3Q2008.[22] Following is the current Form 499-Q filing schedule:

Due Dates:	Projected Collected Revenue for:	Utilized to meet USF contributions:
August 1, 2008	4Q: October – December 2008	4Q: October – December 2008
November 1, 2008	1Q: January – March 2009	1Q: January – March 2009
February 1, 2009	2Q: April – June 2009	2Q: April – June 2009
May 1, 2009	3Q: July – September 2009	3Q: July – September 2009

Telecommunications providers qualifying for the *de minimis* exemption from contribution requirements do not need to complete the Form 499-Q.[23] However, for providers required to contribute to the universal service support mechanisms, the Form 499-Q must be submitted by the due date for each quarter listed above.[24]

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[20] *See* FCC Form 499-Q at http://www.USAC.org/fund-administration/forms/. *See also*, 47 C.F.R. § 54.711.

[21] *See* 47 C.F.R. § 54.709(a).

[22] *Id.* USAC files projected program demand data at least 60 days prior to the start of a quarter and total contribution base revenue data at least 30 days prior to the start of a quarter.

[23] *See* 47 C.F.R. § 54.708.

[24] 47 C.F.R. §§ 54.711, 54.713. The USAC Board of Directors adopted a late filing penalty, consistent with 47 C.F.R. § 54.713, at its October 1998 meeting and ratified at its October 26, 1999 meeting applicability of the penalty to the FCC Form 499-Q and 499-A data collections. Companies not submitting their FCC Form 499-Q or 499-A by the due date are subject to a late filing penalty calculated at a rate of .005 percent applied to their total contribution base revenue with a minimum penalty of $100 and a maximum penalty of $5,000. This penalty was effective beginning with the March 1, 1999, FCC Form 457 data collection. On August 29, 2007, the FCC released an order establishing financial penalties for contributors who fail to file or file late required forms or fail to make timely contribution. *See In the Matter of Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight, Report and Order*, FCC 07-150 (2007).

THIRD QUARTER 2008 PROJECTED COLLECTED REVENUE BASE TO BE USED FOR THIRD QUARTER 2008 CONTRIBUTIONS

The total projected collected interstate and international end-user revenue base to be used in determining the contribution factor for the Universal Service Support Mechanisms for 3Q2008 is: $19,039,352,830.74. This amount was derived from FCC Form 499-Q notifications that were distributed to 6,400 carriers in early April 2008. Interstate telecommunications service providers were required to complete this form reporting July - September 2008 projected collected revenue information, and return it by May 1, 2008.[25] USAC has included complete revenue data from 3,276 carriers (2,570 contributors and 706 *de minimis* carriers).

The funding base for 3Q2008 is developed from the projected collected revenues for 3Q2008 that were reported by carriers in May 2008. As of May 20, 2008, USAC has yet to receive information from 259 non-*de minimis* telecommunications service providers that had previously submitted information to USAC. For the FCC's review of the 3Q2008 funding base for the support mechanisms, USAC includes estimated revenues based on prior submissions for those carriers that failed to submit a Form 499-Q.[26]

Appendix M05 provides a list of non-*de minimis* companies that have or should have filed the May 1, 2008 Form 499-Q data as of May 20, 2008.

[25] 47 C.F.R. § 54.711(a).

[26] *See* 47 C.F.R. § 54.709(d).

On April 29, 2008, USAC's Board of Directors adopted a resolution authorizing the filing of the 3Q2008 contribution base requirement described herein.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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May 30, 2008