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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of

Centennial Communications Corp.

Request Pursuant to Section 54.722(a) of the
Commission's Rules for Review of Universal
Service Administrative Company Decision on
High Cost Support Mechanism Beneficiary
Appeal

CC Docket 96-45

CENTENNIAL REQUEST FOR REVIEW OF ADMINISTRATOR'S DECISION

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September 8, 2008

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SUMMARY

Centennial Communications Corp. ("Centennial") requests that the Commission review and overturn the decision of the Universal Service Administrative Company ("USAC") to retroactively claw back \$1,630,797 in Interstate Common Line Support ("ICLS") for Puerto Rico for 2004 and 2005. USAC erroneously concluded that the identical support rule requires it to ignore the deadlines applicable to ICLS by accepting late-filed data and conducting an out-of-time true-up. Centennial has been denied access to the underlying data, but USAC's action is plainly based on late-filed data showing that the incumbent, Puerto Rico Telephone Company ("PRTC") had undercharged its customers the subscriber line charge ("SLC"). This had the effect of increasing its ICLS payments from USAC, which, in turn, affected Centennial's ICLS under the "identical support rule."

After protecting itself by backbilling its customers for the SLC, PRTC submitted revised data after the applicable ICLS deadlines. USAC not only accepted the late-filed data, it totally ignored the true-up period for 2004 funding, imposing a 2004 true-up a year beyond the period contemplated by the rules. In so doing, USAC acted inconsistently with the rules governing the ICLS program. Not only is this result not required under the language of the identical support rule, it is contrary to the underlying policy goals of the rule – competitive neutrality and sufficient and predictable universal service support to competitive eligible telecommunications carriers ("ETCs"). Finally, even if the Commission were to find that this result were somehow required under the literal terms of the rule, in this case a waiver is appropriate to remedy the obvious inequities and anti-competitive effects arising from allowing the carrier at fault to recover financially, while the innocent carrier—Centennial—has no means of redress.

CENTENNIAL REQUEST FOR REVIEW OF ADMINISTRATOR'S DECISION

Centennial Communications Corp. ("Centennial"), pursuant to Section 54.722(a) of the Commission's rules,¹ hereby requests that the Commission review and overturn the July 10, 2008, decision by the Universal Service Administrative Company ("USAC"), to take back from Centennial Interstate Common Line Support ("ICLS") for Puerto Rico in the amounts of \$457,020 for 2004 and \$1,173,777 for 2005 (the "July 10 ICLS Ruling").² USAC's decision was wrong under the applicable rules because it was based on late-filed data submitted by the Puerto Rico Telephone Company ("PRTC") the incumbent local exchange carrier ("ILEC"), and on true-ups that were untimely. Moreover, even if USAC's action is not literally foreclosed by the applicable rules, it should still be reversed because applying the rules in the manner that USAC did is unfair and will have a serious, negative impact on the competitive landscape in Puerto Rico.³

I. INTRODUCTION

Centennial provides a variety of telecommunications services in Puerto Rico, including both business and residential service, using both landline and wireless technology. Both Centennial operations (landline and wireless) have been certified by the Telecommunications

¹ See 47 C.F.R. § 54.722. Pursuant to 47 C.F.R. § 1.1105 of the rules, no filing fee applies to this request.

² USAC's July 10 decision arose from Centennial's challenge, within USAC, of a letter dated June 5, 2007 from USAC's High Cost and Low Income Division (the "Division"). Centennial promptly sought internal USAC review of the Division's action on July 3, 2007, which led to the ICLS Ruling under challenge here. A copy of Centennial's July 3, 2007 appeal is also attached.

³ Letter from the Universal Service Administrative Company to Mr. Christopher Savage, counsel to Centennial, dated July 10, 2008 ("July 10 ICLS Ruling"); Letter from Craig Davis, Director, High Cost, to Katherine Dourthe, Centennial, dated June 5, 2007 ("June 2007 Letter"). Copies of both letters are attached to this request.

Regulatory Board of Puerto Rico as competitive eligible telecommunications carriers ("ETCs") for more than a decade. Pursuant to those ETC designations, Centennial receives high-cost support from USAC. Based on the "identical support rule," 47 C.F.R. § 54.307, the specific amounts Centennial receives are derived from the amounts that PRTC receives for the same time period.

Based on data that USAC refuses to provide to Centennial, and that was apparently late-filed by PRTC (months late for certain data, and over a year late for other), USAC clawed back \$1,630,797 of Centennial's ICLS support. The Division's June 2007 letter states that this occurred because PRTC filed corrected subscriber line charge ("SLC") revenue data for calendar years 2004 and 2005.⁴ Such revenue information is subject to very specific reporting deadlines in the Commission's rules that provide reporting carriers with ample time and opportunity to get the data right. The rules also provide for definite deadline for implementing all true-ups, which USAC has simply chosen to ignore for 2005. In any event, both the true-up of 2004 and 2005 are the result of underreporting by PRTC that should have been caught by USAC in any event, and that, if allowed to stand, will have effects that are competitively unfair and inequitable for Centennial.

II. THE NEGATIVE ADJUSTMENTS AGAINST CENTENNIAL ARE UNTIMELY TRUE-UPS AND BASED ON LATE-FILED DATA, IN VIOLATION OF THE COMMISSION'S RULES.

A. ICLS Rules Provide Carriers and USAC with Ample Time and Opportunity to Correctly Calculate ICLS.

The key problem with USAC's handling of this matter is its willingness to retroactively adjust PRTC's 2004 and 2005 ICLS support based on late-filed data, and then flow those

⁴ June 2007 Letter at 1. The SLC is one of the key pieces of revenue data used to calculate ICLS.

adjustments through to Centennial via the identical support rule. As described in this section, adjustments based on late-filed data are inappropriate given the extremely long time ILECs are allowed under the Commission's rules to submit historical data, as well as the multiple opportunities ILECs have to correct their projected data filings prior to filing the historical data at all. If the ILEC (and USAC) somehow fail to get the data right despite these extensive filing opportunities, then whatever might be done to the ILEC itself, it is inappropriate to visit the results of those errors on competitive ETCs.

Section 54.903 of the Commission's rules sets up a detailed process for carriers to report projections of cost and revenue data, as well as a true-up procedure to calculate ICLS support using historical data. 47 C.F.R. § 54.903. These detailed procedures provide generously long reporting periods in which the ILEC is to finalize cost and revenue data. Specifically, the rule provides a *full year* to report historical data – carriers have until December 31 to report their cost and revenue data for the calendar year ending the *previous* December 31. This is the data used to true-up any differences between the carrier's projections and the actual revenues received.

Moreover, it is evident that the Commission wanted the December 31 deadline – again, a full year after the close of the reporting period – to be a final, hard cut-off date. This is shown by the fact that the Commission provided no opportunity in the rules for a carrier to correct the historical data filing. This is reasonable because, by the time historical data is finally submitted, the ILEC will have had multiple opportunities to correct its initially-submitted projected data, including a backward-looking correction to be made *after* the carrier already has historical information available. Indeed, the rules actually permit carriers to correct “projections” at the *end* of the funding year.⁵

⁵ Indeed, one reason that corrections to historical data are not warranted is that § 54.903 of

These multiple opportunities to correct already-submitted data can be made clear with a concrete example. Projections are made on a funding year basis (July 1 through June 30), while filing of historical data occurs on a calendar year basis. Calendar year 2004 revenues would have been subject to the following projections and historical reports:

- Projections for 2004
 - First half of 2004 (as part of the 03-04 funding year)
 - March 31, 2003: projection of funding year (includes first half of 2004)
 - June 30, 2003: corrections
 - June 30, 2004: corrections (note that the carrier would have historical data for all or nearly all of first half of 2004)
 - Second half of 2004 (as part of the 04-05 funding year)
 - March 31, 2004: projection of funding year (includes second half of 2004)
 - June 30, 2004: corrections
 - June 30, 2005: corrections (note that the carrier would already have historical data for the second half of 2004)
- Historical Data for 2004
 - December 31, 2005 (12 months after the end of the affected period)

The example shows that the last of the “projections” for 2004 is actually submitted in June 2005 – six months *after* the end of the year, when the ILEC already has all the needed historical data for the entire year. This means that the carrier has, in effect, two opportunities to report accurate historical data – the first, six months after the close of the year, in the form of a final “corrected projection” for the year; and the second, twelve months after the close of the year, in the form of the “official” filing of historical data, due on December 31. By the time that deadline arrives, the carrier has had multiple opportunities to examine and correct its data using *actual, historical data*. As a result, once the December 31 deadline has passed, there is neither the need nor the opportunity to provide further corrections. In the specific case here, therefore,

the Commission’s rules provide several other opportunities for a carrier to correct submitted data.

PRTC had many chances to review its data for 2004 and 2005, including multiple opportunities to provide reports based on actual, historical data.

Under the Commission's rules, USAC uses the final December 31 historical filing to implement a true-up, *i.e.*, a retroactive adjustment in the amount of ICLS support the ILEC receives, in order to conform to the actual, historical data. The very existence of a true-up process for ICLS is significant, because this is one of the few high cost disbursement mechanisms that has a true-up. As far as Centennial is aware, the Commission's rules only provide a true-up for ICLS, for switching support, and for interstate access charges. This shows that the ICLS true-up is not some artifact of the rulemaking process, but, rather, is an indication of a conscious effort on the Commission's part to have a definite date for finalizing the cost and revenue data submitted by carriers in connection with ICLS support.

B. USAC's Adjustments were Based on Late-Filed Data and an Untimely True-Up for 2004.

The June 2007 letter from the Division stated that USAC would take back \$457,020 in Centennial's ICLS for 2004 and \$1,173,777 in its ICLS for 2005, based on data that had been "[r]ecently" filed by PRTC. Concerned that it was being penalized in a manner not contemplated by the Commission's rules, Centennial contacted USAC to inquire, among other things, the date on which PRTC submitted the data on which the Division was relying. The Division replied that it could not share information about PRTC's data with Centennial. It did not, however, refute Centennial's assertion that it received the information on which it relied after the December 31, 2005 deadline for data relevant to 2004.⁶

⁶ See attached email from Craig Davis, High Cost and Low Income Division, to Dave Rolka, consultant to Centennial, dated June 19, 2007 ("June 19, 2007 Email") at question #1.

For the funding at issue here, the reporting and true-up periods were as follows:

2004

Date	Item
March 31, 2003	Projection for 7/1/2003 to 6/30/2004
June 30, 2003	Interim revision of 7/1/2003 to 6/30/2004 data
March 31, 2004	Projection for 7/1/2004 to 6/30/2005
June 30, 2004	Interim revision of 7/1/2003 to 6/30/2004 data
June 30, 2004	Interim revision of 7/1/2004 to 6/30/2005 data
June 30, 2005	Interim revision of 7/1/2004 to 6/30/2005 data
December 31, 2005	Actual data for calendar 2004
July 1 - December 31, 2006	True up for calendar 2004

2005

Date	Item
March 31, 2004	Projection for 7/1/2004 to 6/30/2005
June 30, 2004	Interim revision for 7/1/2004 to 6/30/2004 data
March 31, 2005	Projection for 7/1/2005 to 6/30/2006
June 30, 2005	Interim revision of 7/1/2004 to 6/30/2005 data
June 30, 2005	Interim revision of 7/1/2005 to 6/30/2006 data
June 30, 2006	Interim revision of 7/1/2005 to 6/30/2006 data
December 31, 2006	Actual data for calendar 2005.
July 1 - December 31, 2007	True-up of calendar 2005

The last date on which relevant data could have been submitted by PRTC for 2004 was December 31, 2005, and the last date on which relevant data could have been submitted by PRTC for 2005 was December 31, 2006. Given that the Division's letter was sent in June 2007, it is evident that USAC was relying on data that was filed much, much later than December 31, 2005 for 2004 historical data, and was also very likely filed months after the December 31, 2006 deadline for submitting 2005 historical data. In fact, the Division had informally told Centennial that it was notified by PRTC of the revisions only a *few weeks* prior to sending its June 2007 letter. USAC, therefore, was clearly relying on late-filed historical data, in violation of section 54.903(a)(4) of the rules. USAC may or may not be permitted to rely on such information to seek some sort of redress from or take enforcement action against PRTC, but there is no provision in the Commission's rules to rely on such data to conduct any sort of "true-up" contemplated by the rules themselves and, therefore, no provision in the rules for retroactively reducing *Centennial's* ICLS support based on late-filed data.

To compound the problem, USAC also ignored the proper true-up period for the 2004 funding. The true-up period for 2004 funding ended on December 31, 2006—*over five months* before the Division notified Centennial of its decision to true-up funding for that year. When asked how it could conduct a true-up for 2004 ICLS funding, the Division had the following to say in its June 19, 2007 email:

While there is *no specific rule* citation covering the present scenario, USAC would refer you to 54.903(a)(4) and 54.903(b)(3). USAC has a fiduciary obligation to the USF to recover funds where corrections to data are made.⁷

This is telling language, because in it the Division admits that it acted outside of the scope of Commission's rules, as well as outside the specific deadlines and processes contained in those

⁷ June 19, 2007 Email at question #1 (emphasis added).

rules, in clawing back the 2004 amounts. Moreover, while USAC may have fiduciary obligations with respect to the universal service fund, those duties are bounded and defined by the Commission rules that establish and govern that fund. Clearly, USAC's "fiduciary obligations" to properly administer the fund cannot empower USAC to disregard the deadlines and procedures established by the Commission in its rules. USAC is not empowered to simply bend or ignore the rules when a carrier or USAC realizes, long after reporting for some period has ended, that there may have been an error made. It may be empowered to exact fines or other penalties on carriers who report inaccurate information. But the rules simply do not contemplate out-of-time true ups based on late-filed data.

In an effort to justify its reach beyond the scope of the rules, in the July 10 ICLS Ruling, USAC mostly cites to the mechanisms in 47 C.F.R. § 54.903(a), which have been extensively discussed above. It also relies on three additional authorities dealing with the technical aspects of carrier data filings: 47 C.F.R. § 54.903(b)(3); the 2001 *MAG Order*,⁸ and the identical support rule, 47 C.F.R. § 54.307, discussed in Section IV below.⁹

⁸ *In Re Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers; Federal-State Joint Board on Universal Service; Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation; Prescribing the Authorized Rate of Return for Interstate Services of 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*").

⁹ In a footnote, USAC made a passing reference to 47 C.F.R. §§ 36.611 and 36.612 of the Commission's July 10 ICLS Ruling at n.7 (citing 47 C.F.R. §§ 36.611-36.612). These rules are incorporated by reference into 54.903(a), which governs how carriers report line counts. The issue here – although Centennial has not been given access to the actual data – appears to arise from PRTC's revenue data, not its line counts. The Part 36 rules are therefore irrelevant. Of course, USAC's refusal to share with Centennial the data on which USAC relied to make the underlying adjustments to PRTC's support for 2004 and 2005 greatly complicates our ability to provide a focused explanation of what USAC did wrong.

Paragraph (b) of § 54.903 was adopted, in conjunction with the reporting requirements in paragraph (a), in the *MAG Order*. Paragraph (b) provides that, upon receiving the information required under paragraph (a), USAC perform a list of functions, enumerated in subparagraphs (1) through (6) of paragraph (b). Specifically, § 54.903(b)(3) states that USAC shall “[p]erform periodic reconciliation of the Interstate Common Line Support provided to each carrier based on projected data *filed pursuant to paragraph (a)(3)* of this section and the Interstate Common Line Support for which each carrier is eligible based on actual data *filed pursuant to paragraph (a)(4) of this section.*”¹⁰ In other words, the two paragraphs cannot be read separately. Instead, they work together. The point of paragraph (b) is to lay out the steps that USAC must take in order receive data and distribute funds. These steps are: calculate the support; publish the results of these calculations; conduct the true-up; collect the funds necessary to provide the support; and make quarterly reports to the Commission on the collection and distribution of funds.¹¹ What subparagraph (b)(3) does *not* do is somehow give USAC an extra power to conduct out-of-period true-ups to the calculations, over and above the detailed true-up provisions of (a)(4). Subparagraph (b)(3) also cannot possibly be read to eviscerate the detailed time-frames for submission of data and true-ups provided in subparagraphs (a)(3)-(4).

USAC argues in its denial that the specific processes laid out in the Commission’s rules are not, in fact, deadlines for USAC, but rather, only deadlines for carriers.¹² This reading of the rules is not sustainable, however, because it is USAC, not the carriers, that conducts the true-ups called for by the rules. Section 54.903(a)(4) provides that the December 31 historical data “*shall be used by the Administrator* to make adjustments to . . . [ICLS] . . . in the final two quarters of

¹⁰ 47 C.F.R. § 54.903(b)(3) (emphasis added).

¹¹ 47 C.F.R. § 54.903(b).

¹² July 10 ICLS Ruling at 3.

the following calendar year. . .”¹³ This is not a deadline for carriers to do anything; it is a mandate for USAC to act within a certain timeframe.

USAC also discusses a “long-standing practice” of making subsequent adjustments to ICLS that was formerly reconciled.¹⁴ Centennial has no basis to judge the extent to which USAC has violated the Commission’s specific deadlines in § 54.903 in other cases. To the extent, however, that USAC has been acting outside the purview of the very specific timeframes established in the Commission’s rules, it is acting outside of its authority. This specifically violates the prohibition in 47 C.F.R. § 54.702 against USAC making its own policy or simply making up rules where the actual rules are not to its satisfaction.¹⁵

USAC also cited the *MAG Order* for the proposition that it has a duty to conduct true-ups “based on complete funding year cost data.”¹⁶ While those words do appear in the *MAG Order*, they do not mean what USAC apparently thinks they mean. The *MAG Order* adopted a true-up mechanism for ICLS. However, due to a mis-match between reporting and true-up dates relating to the initial implementation of the ICLS system, the first true-up would only be a partial one. The point of the language quoted by USAC was to indicate that this problem – that is, the problem of the initial, partial true-up – would not be an issue for subsequent true-ups (such as those at issue in this appeal). Specifically, the Commission stated that:

Because the July 1, 2003, filing will only include cost data for the first six months that Interstate Common Line Support is available (July 1, 2002, through December 31, 2002), true-up support amounts distributed in the calendar year 2004 will be based on a prorated share of the 2002 annual cost data (i.e., 50 percent of the 2002 actual costs will be attributed to the final six months of 2002).

¹³ 47 C.F.R. § 54.903(a)(4) (emphasis added).

¹⁴ July 10 ICLS Ruling at 3.

¹⁵ 47 C.F.R. § 54.702(a).

¹⁶ July 10 ICLS Ruling at 2 (quoting paragraph 167 of the *MAG Order*).

Trued-up support amounts distributed in *subsequent calendar years* will be *based on complete funding year cost data*.¹⁷

This language does not remotely support USAC's claim that it can ignore the specific deadlines in § 54.903. Those deadlines lay out precisely *how* USAC will use "complete funding year cost data" to conduct true-ups for "subsequent calendar years." As explained in detail above, that process involves basing true-ups on "complete funding year cost data" submitted to USAC by December 31 of the following calendar year. USAC is grasping at straws in relying on this language. It is seeking to stretch this language – and the language of § 54.903 – to create its own policies regarding out-of-time adjustments to true-ups, in direct contradiction to the policies clearly set forth in Commission rules. This violates both the underlying Commission rules in § 54.903, as well as USAC's own mandate in § 54.702(c),¹⁸ which forbids USAC from making policy on its own,

II. USAC IGNORED WHAT SHOULD HAVE BEEN A RED FLAG IN THE DATA IT RECEIVED FROM PRTC.

PRTC's initial submissions of historical cost and revenue data should have raised a red flag within USAC. ICLS is calculated by starting with a carrier's Common Line Revenue Requirement, and then subtracting the maximum SLC allowable under § 69.104 of the Commission's rules.¹⁹ Section 69.104(n) and (o) provide for a SLC of \$6.50 for residential and single-line business customers, and \$9.20 for multi-line business lines. Apparently, however, PRTC was undercharging the SLC. It has made multiple filings with the Securities and

¹⁷ MAG Order at ¶ 167 (emphasis added).

¹⁸ 47 U.S.C. § 54.702(c).

¹⁹ 47 C.F.R. § 54.901(a)(1) (referring to 47 C.F.R. §§ 69.104(n)&(o)). The rules refer to the "end user common line charge," or EUCL, rather than the SLC ("subscriber line charge"), but the two terms refer to the same charge.

Exchange Commission ("SEC") stating that it underbilled the SLC for the years 2000-2004.²⁰ In fact, this discovery was apparently prompted by an inquiry from the Commission, which had noticed irregularities in PRTC's annual reports submitted to the Commission.²¹ Had USAC conducted its own, cursory comparison of the number of lines in the residential and multi-line categories with the maximum rates, it would have discovered that there was also a problem with the data it had received. For 2004, for example, a check by USAC would have shown that PRTC should have reported a total of \$101,780,430 in SLC revenues, but PRTC only reported \$94,144,109 on its FCC Form 509. This \$7,636,321 difference should have raised a red flag within USAC.

III. CENTENNIAL NEEDS ACCESS TO PRTC'S REVISED DATA, AND ANY OTHER DATA UPON WHICH USAC RELIES, IN ORDER TO FULLY AND FAIRLY DEFEND ITSELF AGAINST THE NEGATIVE ADJUSTMENTS.

In its Form 10Q filings, PRTC notes that it met with the Commission and USAC in September 2006 to discuss its SLC underbilling. Its Form 10Q filings, however, are unclear as to whether or when PRTC may have filed any revised revenue data with USAC for purposes of ICLS calculations.²² It apparently filed some sort of revised data with USAC at some point, but as Centennial has had no access to such information, Centennial cannot determine whether such filings comport with the requirements of § 54.903. Centennial's request for this data was denied

²⁰ See e.g., Form 10Q Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended: September 30, 2006, filed by Telecommunicaciones de Puerto Rico, Inc. on Nov. 14, 2006 ("November 2006 10Q") at 42; Form 10Q Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended: March 31, 2007, filed by Telecommunicaciones de Puerto Rico, Inc. on May 15, 2007 ("May 2007 10Q") at 36. A copy of the relevant pages from these 10Q reports are attached.

²¹ *Id.*

²² May 2007 10Q at 36.

by the Division.²³ Centennial therefore renews its request for the underlying data and otherwise requests the right to conduct discovery on USAC (and, if need be, on PRTC) to obtain the data upon which USAC relies. Otherwise both Centennial and Commission will be prejudiced in their ability to fully understand USAC's negative adjustments.²⁴

IV. NEITHER THE LANGUAGE NOR PURPOSE OF THE IDENTICAL SUPPORT RULE JUSTIFY USAC'S ANTICOMPETITIVE AND INEQUITABLE ADJUSTMENT AGAINST CENTENNIAL.

When PRTC met with the Commission and USAC in 2006, it was apparently to discuss how PRTC could make itself financially whole, given that it had undercharged the SLC for years. In this regard, PRTC disclosed in its May 2007 Form 10Q, filed with the SEC, that in June 2006, it began backbilling customers for the SLC undercharges. (PRTC had reported in another Form 10Q that it started backbilling in October 2006.) PRTC stated in both reports that it would backbill customers for the same six month period (December 2005 through May 2006), but it is unclear when this backbilling started, and whether PRTC may have backbilled for more than six months, given the conflicting start dates.²⁵ Either way, by virtue of its ability to backbill its customers, PRTC was not substantially harmed by virtue of its error in calculating the SLC.

The situation is very different for Centennial. Centennial did not underbill the SLC in the first place. Instead, it charged its customers the correct SLC. It therefore, has no mechanism for recouping any of the losses it incurs when USAC claws back the ICLS payments for 2004 and 2005 based on PRTC's apparent out-of-period reporting of its SLC-related errors. Given that

²³ June 19, 2007 Email.

²⁴ Centennial, of course, would have no objection to signing an appropriate confidentiality agreement or otherwise being obliged to treat the information as confidential. *Cf.* 47 C.F.R. § 1.731 (governing confidential material in complaint cases).

²⁵ November 2006 10Q Report at 42; May 2007 10Q at 36.

these clawbacks arise from the failures of its biggest competitor in Puerto Rico to properly report revenues and otherwise comply with § 54.903 of the Commission's rules, it is particularly unfair that at the end of the day, the party at fault – PRTC – is able to recoup at least some of its lost revenues via backbilling, while the innocent party – Centennial – can recoup none.

In this regard, ICLS reporting issues do not reflect a new problem for PRTC. PRTC's projections routinely result in substantial true-up clawbacks. Indeed, based on Centennial's review of publicly available data, it appears that PRTC has consistently had the largest annual ICLS true-up take-back adjustments among all incumbent carriers: \$1.2 million in 2002; \$1.2 million in 2003; \$17.9 million in 2004; \$9 million in 2005; and \$2.4 million in 2006. It would seem from these numbers that PRTC has a pattern of underreporting its data with respect to ICLS. The effect of this pattern of behavior is that PRTC gets away with submitting erroneous data year after year, while Centennial gets punished – even as PRTC is allowed, through backbilling, to recover at least some of its losses. This is not the efficient, effective and competitively neutral administration of the fund mandated under the Commission's rules.²⁶

It may be that as part of an *enforcement* action, USAC or the Commission should take back funds from PRTC due to its failure to properly report its data. Conceivably, this enforcement-related penalty on PRTC could even include funds distributed to Centennial based on PRTC's flawed information. This approach would remedy any ill effects that PRTC's erroneous reporting had on the fund, but it would not constitute a true-up within the meaning of § 54.903 of the rules.

Moreover, nothing in the rules suggests that correcting an ILEC's erroneous data submissions based on late-filed information is contemplated under, or otherwise required by, the

²⁶ 47 54.701(a).

identical support rule. USAC makes two brief mentions of the identical support rule in its Denial Letter, wrongly asserting that that rule *requires* it to make negative adjustments against Centennial when PRTC submits late-filed data, but neither point is valid. First, the purpose of the identical support rule is to ensure that competitive ETCs get sufficient funding to provide supported services in the affected area, and are put on a competitively equal footing with the ILEC. This purpose is not fulfilled by applying the identical support rule here, where PRTC is allowed to make itself whole (or at least partially so) by backbilling its customers for undercharged SLCs, while its competitor, Centennial, has no opportunity to do so. To the contrary, the effect of allowing PRTC to backbill its customers, while clawing back ICLS support from Centennial, is to harm Centennial competitively by means of the universal service system – the exact opposite of the purpose of the identical support rule.²⁷ Centennial does not believe that the identical support rule has ever been interpreted in this fashion. To the contrary, if that rule can even properly be applied in this situation, this is clearly a new and novel interpretation, outside the competence of USAC under § 54.702(c) of the Commission's rules.²⁸

In fact, as just noted, USAC's interpretation is contrary to the policy goal of the identical support rule. In its most recent pronouncement on the rule, a notice of proposed rulemaking ("NPRM"), the Commission found that the policy goal behind the rule is that there should be

²⁷ Centennial determines its rates for its business services based on, among other things, the amounts that the customers would have to pay PRTC for equivalent services. If PRTC's rate for an ISDN Primary Rate Interface service (equivalent to 24 voice lines) is, say, \$500 per month including the SLC, Centennial will try to ensure that its rates are at or below that level. PRTC may be able, based on its tariffs, to backbill customers to recover undercharges of the SLC so that its effective rate charged to those customers becomes (say) \$550 per month. Centennial, however, cannot go back and retroactively compete for those customers based on a lower price, and certainly cannot go back and retroactively charge its own customers something extra today, based on the fact that PRTC is retroactively charging its own customers.

²⁸ 47 C.F.R. § 54.702(c).

specific and predictable federal universal service support mechanisms for competitive ETC.²⁹

Taking back funding from Centennial based on late-filed data to which Centennial has been refused access, and taking back those funds based on untimely true-ups not contemplated in the rules, hardly makes for specific and predictable mechanisms. While the NPRM just cited is questioning the overall utility of the equal support rule, it is not questioning the policy goals behind it, which include competitive neutrality. The NPRM described the Commission's view of what constitutes competitive neutrality, first announced in 1997: "that universal service support mechanisms and rules neither unfairly advantage *or disadvantage* one provider over another."³⁰

It is hard to think of a situation in which a carrier would be more disadvantaged by universal service rules if those rules are interpreted to allow Centennial's largest competitor to file secret revisions to faulty data that result in Centennial losing over \$1.6 million, while its competitor, PRTC can recoup some or all of its losses – all in the name of keeping the playing field level. In this regard, moreover, while the Commission has called this rule into question, it continues to stand firmly behind the underlying policy goal of competitive neutrality.³¹

For these reasons, even if the Commission were to conclude that USAC's negative adjustment to Centennial's 2004 and 2005 ICLS payments is permissible under the identical

²⁹ *In Re High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, 23 FCC Rcd 1467 (FCC rel. Jan. 29, 2008) ("*Identical Support NPRM*") at ¶ 2.

³⁰ *Identical Support NPRM* at ¶ 7 (quoting *In re Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776, 8801 (FCC rel. May 8, 1997) (emphasis added; subsequent history omitted) at ¶ 48.

³¹ *In Re High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Alltel Communications, Inc., et al. Petitions for Designations as Eligible Telecommunications Carriers; RCC Minnesota, Inc. and RCC Atlantic, Inc. New Hampshire ETC Designation Amendment*, Order, 23 FCC Rcd 8834 (FCC rel. May 1, 2008) at ¶ 22. Note that while the Commission is considering changes to or elimination of the identical support rule going forward, the problem raised by this appeal relates entirely to 2004 and 2005, periods when the rule was clearly in place.

support rule, Centennial respectfully seeks a waiver of this rule in light of the obvious inequities and competitive injustice, pursuant to section 1.3 of the Commission's rules.³² Waivers of Commission rules are appropriate when applying the rule in a particular case would tend to defeat rather than advance the purpose of the rule or would otherwise be inconsistent with the public interest.³³ Here, the key purposes of the identical support rule are to ensure competitive neutrality in the operation of the universal service system, and to ensure that competitive ETC universal service payments are sufficient and predictable. As described above, in this case applying the identical support rule based on PRTC's late-filed changes to its SLC data for 2004 and 2005, while allowing PRTC to backbill customers for at least some of the undercharged SLCs, creates a unique competitive disadvantage for Centennial while making Centennial's ICLS payments completely unpredictable. As a result, a waiver of the rule – if indeed it properly applies here – is completely appropriate. Moreover, based on PRTC's conversion to price cap regulation, its ICLS funding going forward is frozen at the 2007 level. As a result, a waiver of the rule in this case would not lead to higher funding levels in the future for either entity, regardless of what happens with the identical support rule.³⁴

³² 47 C.F.R. § 1.3.

³³ *Northeast Cellular Telephone Co. v. FCC*, 897 F.2d 1164 (D.C. Cir. 1990); *WAIT Radio v. FCC*, 418 F.2d 1153 (D.C. Cir. 1969)..

³⁴ *In Re Petition of Puerto Rico Telephone Company, Inc., for Election of Price Cap Regulation and Limited Waiver of Pricing and Universal Service Rules; Consolidated Communications Petition for Conversion to Price Cap Regulation and for Limited Waiver Relief; Frontier Petition for Limited Waiver Relief upon Conversion of Global Valley Networks, Inc., to Price Cap Regulation*, Order, 23 FCC Rcd 7353 (WCB May 6, 2008).

V. CONCLUSION

For the foregoing reasons, Centennial respectfully requests that the Commission reverse USAC's decision to impose a negative ICLS adjustment against Centennial for 2004 and 2005, or to waive application of the identical support rule as it has been applied by USAC in this case.

Respectfully submitted,

Centennial Communications Corp.

By:



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Study area code: 639001

September 8, 2008

JULY 10 ICLS RULING



***Administrator's Decision on High Cost Support Mechanism
Beneficiary Appeal***

Via Email and Certified Mail

July 10, 2008

Mr. Christopher Savage
Davis Wright Tremaine LLP
Suite 200
1919 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

Re: Appeal Under 47 C.F.R. § 54.719(a) of Supplemental True-Up Of 2004 and 2005
ICLS for Centennial Communications Corp. in Puerto Rico

Dear Mr. Savage:

The Universal Service Administrative Company (USAC) has reviewed the appeal filed by you on behalf of Centennial Communications Corp. (Centennial), dated July 3, 2007, concerning USAC's decision to recover portions of Centennial's Interstate Common Line Support (ICLS) for 2004 and 2005 consistent with revisions filed by the Puerto Rico Telephone Company (PRTC). As discussed below, USAC hereby denies Centennial's appeal.

Background

On July 3, 2007 Centennial filed an appeal with USAC¹ concerning USAC's recovery of ICLS as a result of the PRTC's correction of subscriber line charge (SLC) revenue data for calendar years 2004 and 2005. The appeal was in response to USAC's letter of June 5, 2007 discussing the impact of the PRTC SLC corrections on Centennial.² The *June 5 Letter* informed Centennial that total recoveries of ICLS for 2004 and 2005 would be \$457,020 and \$1,173,777 respectively.³ Centennial's *July 3 Letter* stated that the ICLS recoveries were: (1) "...improper, out-of-period true-ups not contemplated or sanctioned

¹ Letter from Christopher W. Savage, Counsel for Centennial Communications Corp., to Karen Majcher (USAC), dated July 3, 2007 (*July 3 Letter*).

² Letter from Craig Davis, Director, High Cost Support Mechanism, to Katherine Dourthe (Centennial), dated June 5, 2007 (*June 5 Letter*).

³ *Id.*

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Davis Wright Tremaine LLP
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by 47 C.F.R. § 54.903(a)(4);⁴ and (2) "...particularly inappropriate...in light of the negative competitive effects...that PRTC's actions have caused."⁵

Analysis

In establishing the ICLS mechanism, the Commission mandated filing requirements and a reconciliation or "true up" process to enable USAC to calculate per line amounts of ICLS.⁶ Under the filing requirements, rate-of-return carriers are required to report projected common line revenue requirements for each study area in which they operate.⁷ The Commission also established a reconciliation process to ensure that carriers receive ICLS that accurately reflects actual costs.⁸ The Commission determined that reconciled support amounts would be "based on complete funding year cost data."⁹ The actual common line cost and revenue data for the prior calendar year upon which reconciled ICLS is based is submitted to USAC on December 31 each year.¹⁰ USAC recovers ICLS previously paid when adjustments to prior period ICLS are calculated based on actual ICLS filings to the extent that projected ICLS exceeds actual ICLS for a "relevant period."¹¹ Competitive eligible telecommunications carrier (CETC) per line support amounts also are subject to reconciliation to the extent the incumbent rate-of-return carrier's support amounts are subject to reconciliation.¹²

The True-Ups at Issue are Proper

Centennial alleges that the ICLS adjustments, "are improper, out-of-period true-ups not contemplated or sanctioned by 47 C.F.R. § 54.903(a)(4)."¹³ The rule establishes a requirement for "carriers to submit to [USAC] on December 31st of each year the data necessary to calculate a carrier's Interstate Common Line Support...."¹⁴ Centennial argues that this date as stated in the rule prohibits USAC from using data submitted by a carrier after this deadline, even if the data is germane to conduct the ICLS true-up required by the rule. Using Centennial's argument, the Universal Service Fund (USF)

⁴ July 3 Letter at 2.

⁵ Id. at 3.

⁶ 47 C.F.R. § 54.903.

⁷ 47 C.F.R. § 54.903(a); 47 C.F.R. §§ 36.611-.612.

⁸ Id.

⁹ *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, Second Report and Order and Further Notice of Proposed Rulemaking, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Fifteenth Report and Order, *Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation*, CC Docket No. 98-77, Report and Order, *Prescribing the Authorized Rate of Return From Interstate Services of Local Exchange Carriers*, CC Docket No. 98-166, Report and Order, 16 FCC Rcd 19613, FCC 01-304, ¶ 167 (2001) (*MAG Order*).

¹⁰ 47 C.F.R. § 54.903(a)(4).

¹¹ Id.

¹² 47 C.F.R. § 54.307; *MAG Order* at ¶ 167.

¹³ July 3 Letter at 2.

¹⁴ 47 C.F.R. § 54.903(a)(4).

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and High Cost Support Mechanism stakeholders would potentially be penalized through an ICLS annual true-up conducted without all relevant information as a result of one or more carriers filing required information after the deadline.

The clear language of the rule does not place a restriction on USAC's ability to use data necessary for the ICLS true-up submitted after December 31 of each year. Rather, the rule sets the requirement that carriers must submit data by December 31. The rule articulates a deadline imposed on the carriers, not a bar on USAC from using data that arrives after this date. In fact, Section 54.903(b)(3) specifically authorizes USAC to "[p]erform periodic reconciliation of [ICLS] provided to each carrier based on projected data filed pursuant to [Section 54.903(b)(3)] and the [ICLS] for which each carrier is eligible based on actual data filed pursuant to [Section 54.903(a)(4)]."¹⁵ Section 54.903(b)(3) does not restrict USAC as to when it may accept data from carriers nor as to what dates it may or may not perform such reconciliations. USAC is not prohibited from using all appropriate data, even data submitted after the deadline, to perform the rule required ICLS true-up.

In fact, USAC has a long-standing practice of making subsequent adjustments to ICLS that was formerly reconciled. For example, USAC frequently conducts in-depth validation (IDV) of incumbent carriers. In the IDV process, incumbent carriers are selected for review and must submit supporting documentation substantiating entries made on FCC Form 509. If the IDV fails to substantiate entries made on the form, USAC adjusts the incumbent carrier's ICLS.

Further, Centennial's proposed approach, if adopted, could result in waste, fraud and abuse of the USF, which the FCC has mandated that USAC guard against.¹⁶ Both PRTC and Centennial would have ICLS windfalls at the expense of USF contributors and High Cost Support Mechanism stakeholders. To avoid such an improper windfall and waste of the USF, USAC must, consistent with the requirements of 47 C.F.R. §§ 54.307 and 54.903, recover funds from Centennial if the true-up demonstrates such recovery is necessary.

USAC Cannot Consider Alleged Negative Competitive Effects of Recovering ICLS Based on Late-Filed PRTC SLC Data.

Centennial alleges that "it is particularly inappropriate to use PRTC's late-filed revised SLC figures for 2004 and 2005 to adjust Centennial's ICLS payments downward, in light of the negative competitive effects."¹⁷

As the administrator of ICLS, USAC is responsible for projecting, collecting, and disbursing funds.¹⁸ The equal support rule obligates USAC to recover funds from

¹⁵ 47 C.F.R. § 54.904(b)(3).

¹⁶ *MAG Order* at ¶ 59.

¹⁷ *See July 3 Letter* at 3

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incumbent and CETCs alike when the incumbent's support changes.¹⁹ The equal support rule is also consistent with USAC's obligation to administer the High Cost Support Mechanism in a competitively neutral manner.²⁰ USAC must correct competitive ETC support when it corrects incumbent ETC support. The competitive effects of the ICLS recovery and discussion thereof, are a policy matter outside the scope of USAC's mandated activities.²¹

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

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

Sincerely,

USAC

Universal Service Administrative Company

¹⁸ See *Mag Order* at ¶ 159.

¹⁹ See 47 C.F.R. § 54.307.

²⁰ See 47 C.F.R. § 54.701(a).

²¹ See 47 C.F.R. § 54.702(c).

CENTENNIAL DIVISION APPEAL



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July 3, 2007

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 Supplemental True-Up Of 2004 and 2005
ICLS for Centennial Communications Corp. in Puerto Rico**

Dear Ms. Majcher:

This appeal is being filed on behalf of Centennial Communications Corp. (Centennial). It is being filed in response to a letter from Mr. Craig Davis, Director of the High Cost program, to Centennial's Ms. Katherine Dourthe dated June 5, 2007 (June 5 Letter).¹ That letter states that the Universal Service Administrative Company (USAC) is implementing negative adjustments totaling \$1,630,797 to Centennial's payments under the Interstate Common Line Support (ICLS) program. According to the June 5 Letter, this figure reflects a downward adjustment of \$457,020 applicable to calendar year 2004, and \$1,173,777 applicable to 2005. In each case, the underlying issue appears to be revisions by the Puerto Rico Telephone Company to its "actual 2004 and 2005 SLC data."

As you may know, Centennial requested additional information regarding this matter earlier this month. On June 19, Mr. Davis, in an email, indicated that USAC could not release the data underlying USAC's calculation of the adjustment on the grounds that the data was, supposedly, confidential to PRTC.² While we respect USAC's concerns about the confidentiality of data submitted to it, as you can imagine this makes it difficult for Centennial to

¹ A copy of this letter is attached as Attachment A.

² A copy of this email is attached as Attachment B.

Ms. Karen M. Majcher

July 3, 2007

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fully develop its position in seeking meaningful review of the adjustment in question. Therefore, while the arguments set forth below represent our best understanding of the situation at this time, we reserve the right to supplement these arguments as additional data becomes available to us, whether as a result of obtaining access to the specific information underlying USAC's calculations or otherwise.³

Based on what Centennial knows now, there are at least two things wrong with these adjustments.

First, they are improper, out-of-period true-ups not contemplated or sanctioned by 47 C.F.R. § 54.903(a)(4). That rule, which governs ICLS true-ups, states that cost-of-service carriers receiving ICLS "shall" submit their actual data for a given calendar year on December 31 of the following calendar year and that USAC "shall" calculate any needed true-ups based on that information. "Shall" is the word of command. USAC, therefore, does not have the option under this rule to use data submitted after the deadline to make true-ups. The deadline is, in effect, a statute of limitations for these purposes. Just as a carrier cannot come back in 2007 and ask for upward adjustments to its 2004 or 2005 ICLS payments based on errors or omissions uncovered after the filing deadlines for those years have passed, neither may USAC make downward adjustments to ICLS payments based on such out-of-time submissions. There is simply no provision in the rules for such adjustments.

Conceivably, USAC's decision was motivated by a desire to correct a known error in past calculations. But the entire point of a rule requiring that true-ups be based on data submitted on a specific, certain date is to provide finality with respect to the periods being trued up. USAC's action converts this orderly system into, in effect, a rolling true-up with no end point ever possible.

USAC may also have been acting out of some concern that if the true-up is not made, then PRTC will have been unjustly enriched in the form of excessive ICLS payments. This concern, however, is irrelevant to the operation of the true-up rule. True-ups are to be made based on data filed as of a certain date. Permitting further true-ups if errors are later uncovered in the data means that the books on any particular year are never actually closed, which is clearly not at all what § 54.903(a)(4) contemplates.

This conclusion remains the same even if it is assumed that PRTC willfully failed to disclose its SLC underbillings. If a carrier willfully misstates the data needed to calculate its ICLS payments, that would provide a reasonable basis for enforcement action by the Federal

³ As a purely legal matter, Centennial's position is that any decision to withhold from Centennial funds to which it would otherwise be entitled is *per se* arbitrary and capricious, and, therefore, illegal, to the extent that it is based on secret data that Centennial is not permitted to review, analyze or contest. In addition to the other arguments made in this letter, Centennial therefore requests that USAC suspend any adjustment based on the SLC considerations discussed here until Centennial is fully apprised of the actual data submissions made regarding PRTC's SLC revenues on which USAC's adjustment is purportedly based.

Ms. Karen M. Majcher

July 3, 2007

Page 3

Communications Commission against that carrier. The Commission could, if appropriate in the circumstances, impose forfeitures in amounts based on any unjust enrichment the carrier may have received by virtue of the misstatement. Therefore, if and to the extent that PRTC may have willfully erred when it submitted its 2004 and 2005 SLC figures, the Commission is well-situated to prevent PRTC from obtaining any unjust enrichment as a result.

But enforcement of a carrier's obligation to carefully and truthfully provide necessary data to the Commission (and to USAC, implementing the Commission's universal service programs) is a legally and factually distinct question from the proper implementation, in accordance with binding, published rules, of the universal service programs themselves. For purposes of this appeal within USAC, Centennial takes no position as to whether any of PRTC's actions (or inactions) in connection with its handling of reported 2004 and 2005 SLC revenues are, or are not, subject to sanction by the Commission. The point here is that no matter why PRTC's data were wrong, corrections submitted in 2007 have no bearing, under the rules governing ICLS true-ups, on ICLS payments for 2004 and 2005.⁴ Those true-ups, under the rules, "shall" be based on data for the relevant period submitted on December 31 of the following calendar year. The currently pending \$1.6 million adjustments are plainly and admittedly not based on such data. They are therefore being made in violation of the rules governing the ICLS program, and should be reversed.

Second, it is particularly inappropriate to use PRTC's late-filed revised SLC figures for 2004 and 2005 to adjust Centennial's ICLS payments downward, in light of the negative competitive effects, described below, that PRTC's actions have caused. For USAC to adjust Centennial's payments downward in this regard simply penalizes Centennial for PRTC's errors.

Based on conversations with PRTC and other information, our understanding is that for an extended period of time (long preceding 2004), PRTC was failing to bill the multi-line SLC to a significant number of its multi-line business customers. As you may know, Centennial, in addition to performing its obligations as an ETC, also competes head-to-head with PRTC in competition for the business of such customers. So for an extended period of time, Centennial was being disadvantaged in the marketplace by virtue of PRTC's failure to properly charge the SLC. Specifically, by undercharging for the SLC on multi-line business lines, PRTC effectively lowered the retail price for those lines, giving it an advantage over Centennial.

This unfair PRTC advantage in the market for multi-line business customers, was, in effect, funded (at least on a current basis) by the ICLS program. So PRTC – whether intentionally or not – used ICLS to fund a program of illegally low prices in competing against Centennial. We assume that PRTC is being subjected to retroactive adjustments akin to those

⁴ Not having seen any of the underlying data, but based on the June 5 letter and some conversations with PRTC, we assume at this juncture that PRTC's original data were, in fact, wrong. However, we reserve the right to modify this and any other arguments made in this letter if additional information indicates that such revisions are appropriate.

Ms. Karen M. Majcher
July 3, 2007
Page 4

being imposed on Centennial.⁵ But even so, its conduct has generated a remarkable boon for PRTC. The spread between the single-line SLC and the multi-line SLC is \$2.70. See 47 C.F.R. § 54.901(b)(3)(i)(A). PRTC's retail business rate is more than \$33 per month. So, if PRTC's conduct allowed it to retain a single line serving a multi-line business customer, for even one additional month, that preserves enough revenue to "fund" more than a year of PRTC's SLC undercharges on that line. Two months additional service would allow PRTC to fully "fund" two years of undercharged SLCs. So PRTC is unequivocally better off than it would have been, even after taking USAC's now-pending SLC adjustments into account.

Centennial, by contrast, is worse off. It has been forced to deal with PRTC's unfair competition in the business market for several years; now, after having received ICLS funds in 2004 and 2005 and used them for the purposes contemplated by the universal service program, Centennial is being called upon to give that money back, even though it cannot "unspend" or "uninvest" it – leaving Centennial, again, hobbled in its ability compete with PRTC. In these circumstances, it is simply punitive – and completely divorced from competitive market reality – to ask *Centennial* to give money back to the ICLS program as a result of *PRTC's* effective manipulation of that program (whether willful, negligent, or simply random) in a manner that afforded *PRTC* a substantial and long-standing competitive advantage over Centennial, *funded by* that program. The operation of the ICLS program is supposed to be competitively neutral. By imposing the adjustments for 2004 and 2005, however, USAC is essentially rewarding PRTC – in the form of economic harm to its principal competitor – for PRTC's failure to properly charge the SLC and to properly calculate its SLC revenues for purposes of the ICLS program.

If the ICLS program rules clearly and unambiguously required USAC to take these steps, Centennial would at least understand why USAC was doing so; our concerns about competitive harm would amount, in effect, to an argument for a discretionary abeyance of otherwise applicable rules. But as discussed above, the program rules not only do not require the adjustments at issue here, they *forbid* them. USAC is reaching out, beyond what its governing rules permit or require, to impose unauthorized adjustments on Centennial that only serve to compound the harm done to Centennial by PRTC's handling of its SLC revenues under the ICLS program. We submit that this is entirely unwarranted on USAC's part.

For these reasons, we request that USAC reverse its decision to adjust Centennial's ICLS payments based on PRTC's SLC revenues for calendar years 2004 and 2005, and, while this matter is under consideration, suspend recovery of the amounts under review.

⁵ To the extent that PRTC has concluded that it wrongfully failed to provide accurate SLC data, PRTC itself may not be strongly motivated to challenge USAC's out-of-period adjustments for 2004 and 2005. But PRTC's failure to challenge the adjustments has no bearing on whether they are actually being properly imposed, in accordance with applicable program rules. Centennial obviously cannot be prevented from asserting its own right to have the ICLS program administered in accordance with binding, published rules simply because PRTC may have chosen not to do so.

Ms. Karen M. Majcher

July 3, 2007

Page 5

We believe that it would be helpful to have a meeting with you and appropriate USAC staff to discuss the issues raised in this appeal letter. Please contact me at your earliest convenience to find a mutually agreeable time to meet.

Very truly yours,

Davis Wright Tremaine LLP

/s/ Christopher W. Savage

Christopher W. Savage

cc: Mr. Craig Davis (USAC)
Mr. Tony Wolk (Centennial)

Attachment A



Craig Davis
Director, High Cost Support Mechanism

High Cost & Low Income Division

June 5, 2007

Ms. Katherine Dourthe
996 San Roberto St, Professional Office Park Tower II
5th Floor Finance Dept- Rep Loyola
San Juan, PR 00926

RE: Revisions of Puerto Rico ILECs' ICLS Form 509

Dear Ms. Dourthe:

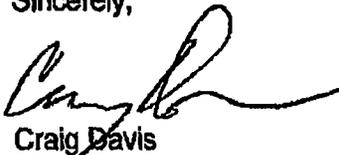
Recently the incumbent carriers operating in Puerto Rico corrected the subscriber line charge (SLC) revenue data provided to USAC on ICLS Form 509 for calendar years 2004 and 2005. As a result of corrections to the actual 2004 and 2005 SLC data reported, the incumbent carrier's ICLS was reduced. These corrections resulted in adjustments to ICLS Centennial Puerto Rico Operations Corp. (SAC 639001) received for 2004 and 2005. Below, you will find the amount of the adjustments.

Year	Original Support Received	Revised Support	Total Adjustment
2004	\$3,804,330	\$3,347,310	-\$457,020
2005	\$16,295,706	\$15,121,929	-\$1,173,777

The 2004 adjustment will be recovered in the May 2007 disbursements that will be paid out at the end of June. The 2005 adjustment will be recovered in the July through December 2007 disbursements consistent with 47 C.F.R. § 54.903(a)(4). Attached for your review is a revised calculation of the 2005 ICLS true-up with both the initial values as published in USAC's Third Quarter FCC Administrative Filing and the revised values as recalculated as a result of the SLC issue discussed above.

Please feel free to contact Elizabeth Pertsevoi at 202-776-0080 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Craig Davis', with a stylized flourish at the end.

Craig Davis
Director, High Cost

CC: Tony Wolk, SVP, General Counsel, Centennial Communications Corp.

2005 ICLS - REVISED

STATE	SAC	SIC/NA/TYPE	ANNUAL SUPPORT EXPENSES				MONTHLY SUPPORT		
			BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	
PR	639001	CENTENNIAL PUERTO RICO OPERATIONS CORP.	\$19,244,955	\$16,295,706	(\$2,949,249)	\$15,121,929	(\$4,123,026)	(\$491,542)	(\$687,171)

Attachment B

Savage, Christopher

From: Craig Davis [cdavis@usac.org]
Sent: Tuesday, June 19, 2007 4:17 PM
To: Dave Rolka
Cc: twolk@centennialcorp.com; broughton@centennialcorp.com; Savage, Christopher; bobloub@earthlink.net; Karen Majcher; David Capozzi; Sammy Khan
Subject: RE: Request for data regarding PR true-up adjustments etc.
Attachments: Centennial Line Counts & Rates PR ICLS.xls

Dave,

Regarding the requests enumerated in your memo of last Friday, please see the responses in red under each of your requests below. Upon review of your request, and subsequent review of the underlying data received from PRTC, it was determined that PRTC requested confidential treatment of its ICLS data. As such USAC will not be able to provide most of the data requested below. In an effort to provide some useful data for the time frames in question, I am providing the per-line rates based on the ILEC data that were used to pay projections, revisions, and true-ups (original and corrected) for Puerto Rico in 2004 and 2005. I believe you are familiar with the submission indexes referenced in the per-line rate tab of the attached file that represent initial projections, revised projections, subsequent revised projections, and true-ups. If you have any questions about the files etc. or require additional rates for other periods, let me know and USAC can assist.

1. A copy of the 2004 filing correction submitted by the incumbent carriers operating in Puerto Rico (referenced in your June 5, 2007 letter to Ms Dourthe) which resulted in the recalculation of their ICLS support and the corollary impact on Centennial for 2004. In this connection, we would also appreciate a citation to the rule that permits a (further) true up 2004 ICLS amounts based on data received by USAC after December 31, 2005. USAC is unable to provide a copy of the 2004 filing correction submitted by the Puerto Rico ILECs due to a request for confidential treatment of the data. While there is no specific rule citation covering the present scenario, USAC would refer you to 54.903(a)(4) and 54.903(b)(3). USAC has a fiduciary obligation to the USF to recover funds where corrections to data are made.
2. The data relied on by USAC to calculate the 2005 true-up of Centennial support published as part of the USAC third quarter 2007 projection as well as the interim 2005 true-up that resulted in the adjustments to the 1st half of calendar year 2007. In particular, we would need to review the data supplied to USAC pursuant to 54.903(a) for the two incumbent carriers operating in Puerto Rico (633200 & 633201). USAC is unable to provide both the Puerto Rico ILECa data relied on to calculate the 2005 true-up of Centennial support and the Puerto Rico ILEC data used for the interim 2005 true-up used for 1st half 2007 due to a request for confidential treatment of the data.
3. The line count data USAC used to make the true-up calculations, for both 2004 and 2005, including a designation of the time period for which the lines were tabulated. USAC cannot provide the customer class break down of the lines for the periods requested due to a request for confidential treatment of the data. Total lines are available in the USAC quarterly demand filing High Cost appendices.
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impact on Centennial for 2005. USAC is unable to provide a copy of the 2005 filing correction submitted by the Puerto Rico ILECs due to a request for confidential treatment of the data.

5. The data relied on by USAC to calculate the ICLS projection for the program years beginning July 1, 2005 and July 1, 2006 as well as any unpublished adjustments which could relate to the support levels available to the two incumbent carriers operating in Puerto Rico during calendar year 2006, including but not limited to subscriber line charge revenue changes or adjustments. USAC is unable to provide both the PR ILEC data used to calculate the ICLS projection for the 2005-6 program year and any unpublished adjustments relating the PR ILEC's ICLS support during 2006 due to a request for confidential treatment of the data.

6. In the absence of specific data necessary to support/calculate an adjustment, the identification of any emerging issue which could impact published support levels referenced in the preceding requests. Specifically, if USAC has been advised in any manner that PRTC's handling of the SLC or any other relevant issue for program years beginning July 1 of 2005, 2006, or 2007, that would materially affect the amount of ICLS Centennial has received or is projected to receive, please let us know so that we may understand what is likely to occur to ICLS amounts in the future. USAC is unaware of any emerging issue which could impact published support levels referenced in the preceding requests as related to the two PR ILECs.

Due to the anticipated prompt implementation of the adjustments identified in the June 5, 2007 letter to Ms. Dourthe, particularly those related to a period (2004) which we thought had been concluded by USAC in accordance with 54.903(a)(4), we request that you delay implementation of the announced adjustments until we have had sufficient opportunity to review the underlying data. USAC will not delay implementation of the announced adjustments. Corrections to ICLS for 2004 will occur for all Puerto Rico ETCs in May 2007 disbursements, and corrections to ICLS for 2005 will take place in the 2nd half of 2007.

Regards.

Craig

From: Dave Rolka [mailto:drolka@r-l-s-a.com]

Sent: Friday, June 15, 2007 12:21 PM

To: Craig Davis

Cc: twolk@centennialcorp.com; broughton@centennialcorp.com; chris.savage@crblaw.com; bobloub@earthlink.net

Subject: Request for data regarding PR true-up adjustments etc.

Good afternoon Craig:

Attached please find a memo requesting data and information from USAC offered on behalf of Centennial. If you have any questions about the data request, please contact me.

Dave

David W. Rolka

President, RLSA

1 S. Market Square

Harrisburg, PA 17101

(717) 231-6661 (voice)

(717) 231-6667 (fax)



Craig Davis
Director, High Cost Support Mechanism

High Cost & Low Income Division

June 5, 2007

Ms. Katherine Dourthe
996 San Roberto St, Professional Office Park Tower II
5th Floor Finance Dept- Rep Loyola
San Juan, PR 00926

RE: Revisions of Puerto Rico ILECs' ICLS Form 509

Dear Ms. Dourthe:

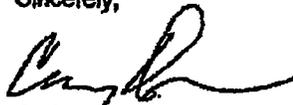
Recently the incumbent carriers operating in Puerto Rico corrected the subscriber line charge (SLC) revenue data provided to USAC on ICLS Form 509 for calendar years 2004 and 2005. As a result of corrections to the actual 2004 and 2005 SLC data reported, the incumbent carrier's ICLS was reduced. These corrections resulted in adjustments to ICLS Centennial Puerto Rico Operations Corp. (SAC 639001) received for 2004 and 2005. Below, you will find the amount of the adjustments.

Year	Original Support Received	Revised Support	Total Adjustment
2004	\$3,804,330	\$3,347,310	-\$457,020
2005	\$16,295,706	\$15,121,929	-\$1,173,777

The 2004 adjustment will be recovered in the May 2007 disbursements that will be paid out at the end of June. The 2005 adjustment will be recovered in the July through December 2007 disbursements consistent with 47 C.F.R. § 54.903(a)(4). Attached for your review is a revised calculation of the 2005 ICLS true-up with both the initial values as published in USAC's Third Quarter FCC Administrative Filing and the revised values as recalculated as a result of the SLC issue discussed above.

Please feel free to contact Elizabeth Pertsevoi at 202-776-0080 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Craig Davis', with a stylized flourish extending to the right.

Craig Davis
Director, High Cost

CC: Tony Wolk, SVP, General Counsel, Centennial Communications Corp.

JUNE 2007 LETTER



Craig Davis
Director, High Cost Support Mechanism

High Cost & Low Income Division

June 5, 2007

Ms. Katherine Dourthe
996 San Roberto St, Professional Office Park Tower II
5th Floor Finance Dept- Rep Loyola
San Juan, PR 00926

RE: Revisions of Puerto Rico ILECs' ICLS Form 509

Dear Ms. Dourthe:

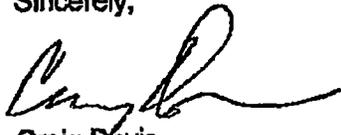
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Craig Davis
Director, High Cost

CC: Tony Wolk, SVP, General Counsel, Centennial Communications Corp.

2005 ICLS - REVISED

STATE	SAC	AGENCY NAME	FINANCIAL SUPPORT ACTIONS				MONTHLY CHANGE		
			2005 ACT	2005 REV	VARIANCE	2005 REV	2004 REV		
PR	639001	CENTENNIAL PUERTO RICO OPERATIONS CORP.	\$19,244,955	\$16,295,706	(\$2,949,249)	\$15,121,829	(\$4,123,026)	(\$491,542)	(\$687,171)

JUNE 19, 2007 EMAIL

Savage, Christopher

From: Craig Davis [cdavis@usac.org]
Sent: Tuesday, June 19, 2007 4:17 PM
To: Dave Rolka
Cc: twolk@centennialcorp.com; broughton@centennialcorp.com; Savage, Christopher; bobloub@earthlink.net; Karen Majcher; David Capozzi; Sammy Khan
Subject: RE: Request for data regarding PR true-up adjustments etc.
Attachments: Centennial Line Counts & Rates PR ICLS.xls

Dave,

Regarding the requests enumerated in your memo of last Friday, please see the responses in red under each of your requests below. Upon review of your request, and subsequent review of the underlying data received from PRTC, it was determined that PRTC requested confidential treatment of its ICLS data. As such USAC will not be able to provide most of the data requested below. In an effort to provide some useful data for the time frames in question, I am providing the per-line rates based on the ILEC data that were used to pay projections, revisions, and true-ups (original and corrected) for Puerto Rico in 2004 and 2005. I believe you are familiar with the submission indexes referenced in the per-line rate tab of the attached file that represent initial projections, revised projections, subsequent revised projections, and true-ups. If you have any questions about the files etc. or require additional rates for other periods, let me know and USAC can assist.

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Dave
David W. Rolka
President, RLSA
1 S. Market Square
Harrisburg, PA 17101
(717) 231-6661 (voice)
(717) 231-6667 (fax)

EXCERPTS OF PRTC 10-Q REPORTS

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: September 30, 2006

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 333-85503

Telecomunicaciones de Puerto Rico, Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Commonwealth of Puerto Rico
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

66-0566178
(IRS EMPLOYER IDENTIFICATION NO.)

1515 FD Roosevelt Avenue
Guaynabo, Puerto Rico
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

00968
(ZIP CODE)

Registrant's telephone number, including area code: 787-792-6052

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

At November 14, 2006, 25 million shares of no par common stock of the registrant were outstanding.

Table of Contents

It adopts the principle that once a municipal fee is shown to be a potential barrier to providing service under Section 253(a), the burden of proof shifts to the municipality to show that the fee meets the definition of "fair and reasonable compensation" as specified in Section 253(c) of the federal law. PRTC has filed or is in the process of filing a corresponding motion to dismiss in all pending cases based on this Opinion. So far, for the following pending cases at the federal court, to wit, *PRT v. Municipality of Caguas*, *PRTC v. Municipality of Ponce* and *PRTC v. Municipality of Utuado*. In all cases, the Court has declared the municipality ordinance null and void based on the Guayanilla Opinion. *PRT v. Municipality of Cidra*, *PRT v. Municipality of Vega Baja* and *PRT v. Municipality of Cataño* are still pending.

Despite the favorable outcome in the Guayanilla case and its potential impact on the remaining right of way cases, Puerto Rico municipalities may continue to adopt ordinances intended to charge for the use of their rights of way. To the extent such fees are upheld under the newly adopted standard, PRTC will either pass the costs along to its customers, which will negatively impact its ability to compete, or absorb them, which will negatively impact its profitability.

INTERCONNECTION DISPUTE

In October 2004, the TRB arbitrated an interconnection contract between WorldNet Telecommunications Inc. ("WorldNet") and the Company. Among its conclusions, the TRB adopted the arbitrator's decision to approve a provision that established performance parameters under the contract but rejected the imposition of liquidated damages for failure to meet the performance parameters. Both WorldNet and the Company cross-appealed certain aspects of the TRB's rulings in the U.S. District Court for the District Court of Puerto Rico pursuant to the Federal Communications Act and moved for summary judgment. In early February 2006, the District Court affirmed in part and reversed in part the disputed TRB rulings. Both the Company and the TRB filed notices of appeal in the U.S. Court of Appeals for the First Circuit, which remain pending and their timing and outcome are unknown. PRT filed its brief on Appeal on September 15, 2006. The TRB and WorldNet also filed their corresponding briefs. Reply briefs for WorldNet were due on October 20, 2006 and for PRTC and the TRB on November 20, 2006. In addition, WorldNet has also requested immediate further proceedings before the TRB with respect to the ruling of the District's Court. PRTC opposed on the grounds that said petition is premature, improper and unnecessary. That request is pending.

SUBSCRIBER LINE CHARGE (SLC)

On December 14, 2005, the FCC sent PRTC a letter questioning PRTC's relative percentages of single line and multiline business access lines in the Company's annual reports submitted to the FCC for the years 2000-2004. As result of this inquiry, PRTC discovered that the Company had been under billing some customers for the multiline subscriber line charge (SLC). Effective June 1, 2006, PRTC implemented a prospective correction for the single/multiline customers to amend the error.

Since PRTC is a member of the NECA Common Line Pool, any SLC under billing has been recovered from the NECA pool. As a result, PRTC, in conjunction with NECA, have been discussing the back-billing issue taking into consideration the NECA Administration Procedures and FCC orders and opinions issued in connection with back-billing controversies. On June 1, 2006 PRT started billing the SLC correctly to all its customers. On July 28, 2006 members of NECA and PRTC agreed to jointly approach the FCC during the month of August 2006 to seek a determination of the proper back-billing period and to inform USAC of the situation, as deemed necessary. On September 15, 2006 PRTC representatives met with FCC and USAC to discuss PRTC's petition regarding a six (6) month term for back billing and for the devolution of funds to USAC. On September 27, 2006 PRTC submitted a letter expressing the reasoning behind the petition that the FCC should determine that the six (6) month period is reasonable under the specific circumstances. On October 1, 2006, PRTC started back billing customers a six (6) month period from December 2005 until May 2006, inclusive.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q, the Company has made forward-looking statements. These statements are based on the Company's estimates and assumptions and are subject to certain risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations, as well as those statements preceded or followed by such words as "anticipates," "believes," "estimates," "expects," "hopes," "targets" or similar expressions.

Future results could be affected by subsequent events and could differ materially from those expressed in the forward-looking statements. If future events and actual performance differ from the Company's assumptions, the actual results could vary significantly from the performance projected in the forward-looking statements.

Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELECOMUNICACIONES DE PUERTO RICO, INC.

By: /s/ Cristina M. Lambert
Name: Cristina M. Lambert
Title: President and Chief Executive Officer
Date: November 14, 2006

By: /s/ Héctor Houssay
Name: Héctor Houssay
Title: Vice President Finance and Chief Financial Officer
Date: November 14, 2006

48

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2007

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 333-85503

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(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

00968
(ZIP CODE)

Registrant's telephone number, including area code: 787-792-6052

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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SUBSCRIBER LINE CHARGE (SLC)

On December 14, 2005, the FCC sent PRTC a letter questioning PRTC's relative percentages of single line and multiline business access lines in the Company's annual reports submitted to the FCC for the years 2000-2004. As result of this inquiry, PRTC discovered that the Company had been under billing some customers for the multiline subscriber line charge (SLC). Effective June 1, 2006, PRTC implemented a prospective correction for the single/multiline customers to amend the error.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELECOMUNICACIONES DE PUERTO RICO, INC.

By: /s/ Cristina M. Lambert
Name: Cristina M. Lambert
Title: President and Chief Executive Officer
Date: May 15, 2007

By: /s/ Héctor Houssay
Name: Héctor Houssay
Title: Vice President Finance and Chief Financial Officer
Date: May 15, 2007

By: /s/ Angel O. Vega
Name: Angel O. Vega
Title: Controller
Date: May 15, 2007