

REDACTED FOR PUBLIC INSPECTION

ATTACHMENT F

September 21, 2004 letter from Madison to USAC requesting assistance in receiving Safety Valve Support and seeking clarification on controversial issues with the rules



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HAMEL, ILLINOIS 62046
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September 21, 2004

VIA OVERNIGHT MAIL

Ms. Lisa Zaina
Universal Service Administrative Company
2000 L Street, N.W.
Suite 200
Washington, D.C. 20036

Dear Ms. Zaina:

This letter is to ask for your assistance in getting USAC to pay the Safety Valve support that is due to Madison Telephone Company (SAC 341049) in accordance with the FCC rules Part 54.305.

Notification

Madison Telephone Company acquired the Staunton and Livingston exchanges in May 2001. In accordance with Part 54.305(f), on July 2, 2004 Madison Telephone Company provided notification to USAC, NECA, and the FCC that it had acquired the lines and that it was establishing its index period expense adjustment for the period July 1, 2001 through June 30, 2002.

Data for Index Period Expense Adjustment

Part 54.305 requires that the index period expense adjustment be calculated using the existing rules in Part 36.611 and 36.612. Under these rules, the expense adjustment is calculated using data from a prior period. Under Part 36.611, annual data is collected and is used for the expense adjustment starting twenty-four (24) months after the start of the data period. Under Part 36.612, a company may use updated information on a rolling quarterly basis to change the expense adjustment for the remainder of the calendar year. Under these procedures, the Index Period Expense Adjustment would be calculated using the quarterly update procedures in 36.612 for the initial six months (July 1, 2001 through December 31, 2001). Then the required submission of annual data for calendar year 2000 would be used for the index period expense adjustment for the first six months of 2002. The data for the initial period was sent to USAC and NECA on April 9, 2002. We note that the information submitted was for the period July 1, 1999 through June 30, 2000. We now recognize that the lag period is shorter under the quarterly procedures and ask that the dates on the original filing be changed to October 1, 1999 through September 30, 2000. Note that there will be no change to the data.

Subsequent Year Expense Adjustment

The first subsequent year expense adjustment for Madison Telephone Company is the period from July 1, 2002 through June 30, 2003. Under the current rules as administered by NECA, the expense adjustment for the first six months of this period was the annual data submission for the year 2000 data. The company could opt to file quarterly updates under Part 36.612 as follows:

- By September 30, 2001 the company could file a quarterly update using data from the period April 1, 2000 through March 31, 2001. This data would be used for the expense adjustment starting January 1, 2002 and would remain in place throughout the calendar year or until updated by way of another quarterly update. (This would cover the expense adjustment for the July 1, 2002 through December 31, 2002 portion of the first subsequent years expense adjustment.)
- By December 30, 2001 the company could file a quarterly update using data from the period July 1, 2000 through June 30, 2001. This data would be used for the expense adjustment starting April 1, 2002 and would remain in place for the remainder of the calendar year unless updated with another quarterly update. (This again would cover the expense adjustment for the July 1, 2002 through December 31, 2002 portion of the first subsequent years expense adjustment.)

The data for the last six months of the first subsequent years expense adjustment (January 1, 2003 through June 30, 2003) would be computed using the calendar year 2001 data as submitted under Part 36.611. The company could opt to file quarterly update information in September or December 2002 to change the monthly expense adjustment amounts affecting the first half of calendar year 2003.

Controversial Issues

In discussions with NECA and with USAC there seems to be some controversy regarding a couple of issues related to the Safety-valve computations. Specifically, there seems to be a disagreement over what data should be used to calculate the index period expense adjustment, and secondly there appears to be a disagreement about how the quarterly update process should be administered with regards to the Safety-valve computations. Following is a brief discussion of each of these issues.

Data Period vs. Expense Adjustment Period

There has been a clearly established lag between the expense adjustment provided in the Part 36 rules and the data period used to calculate the expense adjustment. Under NECA's consistent application of Part 36.611 there is a twenty-four (24) month lag between the beginning of the data period and the beginning of the expense adjustment period. In the early 1990's our consultant (GVNW) contested this lag with regards to acquisitions. They believed it was not equitable to use zero cost for the acquiring company for submission of USF data for the first two years. It was argued that either the

lag period should be removed, or at a minimum the acquiring company should use the selling company's costs in the submission of data. The FCC did not agree and required NECA to administer the fund using zero costs until the acquiring company had costs in the data periods used for the expense adjustment. NECA has been consistently using this methodology except when a company has a waiver approved by the FCC. We have no evidence that the FCC intended to remove the lag period in conjunction with the Safety-valve computation, and clearly the FCC rejected the idea of using the selling company's cost data. (See Paragraph 103 of the RTF order).

Application of Quarterly Updates

There also seems to be some notion that the quarterly updates should be administered differently for Safety-valve computations compared to the way it is administered for all other USF recipients. We find no evidence in the FCC rules or orders that support a different application of Parts 36.611 and 36.612. We ask that USAC administer this process consistent with the way NECA has administered these rules from the beginning, and if there is a desire to change these rules that it go through the FCC's rule changing process.

Conclusion

Based on the FCC rules, Madison Telephone Company's Index Period Expense Adjustment is \$0. Under the applicable rules, the company is entitled to one half of its calculated expense adjustment for subsequent periods. Using data submitted to NECA and subsequently to USAC and the FCC, Madison's computed expense adjustment for 2004 was \$293,517, which entitles Madison to Safety-valve support in the amount of \$146,758 for 2004.

Please assist in the resolution of this issue, so Madison can receive the Safety-valve support to which it is entitled.

If you have any questions concerning the above, please contact our consultant Ken Burchett at GVNW. His telephone number is 503 612-4408.

Sincerely



Michael Guffy

Director of Financial & Regulatory Affairs

cc: Roberta Alvir, NECA
Irene Flannery, USAC
Ken Burchett, GVNW

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ATTACHMENT G

NECA Disbursement Notifications, May 4, 2005 and May 31, 2005



Company Code: 000001049

Statement No.: PS0591328

Date: May 4, 2005

Disbursement Notification

Madison Tel Co
Attn: Ms. Mary J. Schwartz
P.O. BOX 158
Hamel, IL 62046-0000

THIS IS NOT A NECA BILL

This notification is to advise you of the current month's disbursement which is being made to your company by NECA.

Direct questions to your NECA Regional Industry Relations Office

Total Amount Due NECA From Last Bill

[REDACTED]

Past Due Amount

[REDACTED]

Current Net Balance For Apr 2005 Data Month (AS3000/EC3050)

[REDACTED]

- Global Crossing Settlement Payment
- * High Cost Loop Fund (USAC)
- * Safety Valve Support (USAC)
- * Local Switching Support (USAC)
- * Lifeline (USAC)
- * Link Up (USAC)

[REDACTED]

Current Net Balance

[REDACTED]

Total Amount Due Exchange Carrier

[REDACTED]

You Will Receive Above Payment By May 31, 2005

THIS IS NOT A BILL - DO NOT REMIT PAYMENT

* NECA estimates of Universal Service payments reflected on this statement are derived from prior month payments plus any known changes available to NECA. True-ups to these estimates will be provided in a second statement from NECA after actual payment information is available from USAC.



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Company Code: 000001049
Statement No.: PS0591328
Date: May 31, 2005

Disbursement Notification:

THIS IS NOT A NECA BILL
This notification is to advise you of the current month's disbursement which is being made to your company by NECA.

Madison Tel Co
Attn: Ms. Mary J. Schwartz
P.O. BOX 158
Hamel, IL 62046-0000

Direct questions to your NECA Regional Industry Relations Office

Total Balance From May 2005 Statement

[REDACTED]

Adjustments applied to NECA estimates of Universal Service Payments:*

Lifeline (USAC)

Link Up (USAC)

Local Switching Support (USAC)

Safety Valve Additive (USAC)

[REDACTED]

[REDACTED]

Current Net Balance

Total Amount due Exchange Carrier

[REDACTED]

You Will Receive Above Payment By May 31, 2005

THIS IS NOT A BILL - DO NOT REMIT PAYMENT

* These adjustments reflect actual payments received from USAC

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