PUBLIC NOTICE

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Proposed Fourth Quarter 2014 Universal Service Contribution Factor

CC Docket No. 96-45

In this Public Notice, the Office of Managing Director (OMD) announces that the proposed universal service contribution factor for the fourth quarter of 2014 will be 0.161 or 16.1 percent.[1] This increase of .4 percent in the contribution factor is primarily attributed to a $315.3 million decrease in the revenue base from the last quarter.[2] The total program collection (revenue requirement) for the fourth quarter is $2.156 billion, which is approximately the same amount as the prior quarter, which was $2.155 billion.[3]

Rules for Calculating the Contribution Factor

Contributions to the federal universal service support mechanisms are determined using a quarterly contribution factor calculated by the Federal Communications Commission (Commission).[4] The Commission calculates the quarterly contribution factor based on the ratio of total projected quarterly cost of the universal service support mechanisms to contributors' total projected collected end-user interstate and international telecommunications revenues, net of projected contributions.[5]

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[1] *See* 47 C.F.R. § 54.709(a).

[2] *See Proposed Third Quarter 2014 Universal Service Contribution Factor*, CC Dkt. No. 96-45, Public Notice, 29 FCC Rcd 6084 (2014).

[3] *See id*. While the contribution requirement remains largely unchanged, compared to the third quarter 2014 filing, projected program demand decreased by $4.9 million (0.23 percent). The reduction is primarily as a result of a $13.4 million (3.2%) decrease in Low Income (Lifeline Support) mainly due to anticipated reduction of duplicate Lifeline subscribers which resulted from the implementation of the National Lifeline Accountability Database (NLAD). Program demand continues to drop as duplicate Lifeline subscribers are eliminated.

[4] *See id.*

[5] *See* 47 C.F.R. § 54.709(a)(2).

USAC Projections of Demand and Administrative Expenses

Pursuant to section 54.709(a)(3) of the Commission's rules,[6] the Universal Service Administrative Company (USAC) submitted projections of demand and administrative expenses for the fourth quarter of 2014.[7] Accordingly, the projected demand and expenses are as follows:

($ millions)

Program Demand	Projected Program Support	Admin. Expenses	Application Of Interest Income	Application of True-Ups & Adjustments	Total Program Collection (Revenue Requirement)
Schools and Libraries	591.76	11.69	(4.43)	(3.56)	595.46
Rural Health Care	58.96	2.07	(0.31)	(0.26)	60.46
High-Cost	1,125.00	2.30	(1.52)	(5.84)	1,119.94
Low Income	400.00	1.71	(0.14)	(20.50)	381.07
TOTAL	2,175.72	17.77	(6.40)	(30.16)	2,156.93

USAC Projections of Industry Revenues

USAC submitted projected collected end-user telecommunications revenues for October through December 2014 based on information contained in the Fourth Quarter 2014 Telecommunications Reporting Worksheet (FCC Form 499-Q).[8] The amount is as follows:

Total Projected Collected Interstate and International End-User Telecommunications Revenues for Fourth Quarter 2014: $15.708767 billion.

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[6] *See* 47 C.F.R. § 54.709(a)(3).

[7] *See* Federal Universal Service Support Mechanisms Fund Size Projections for the Fourth Quarter 2014, available at <http://www.universalservice.org/overview/ filings> (filed August 1, 2014) (*USAC Filing for Fourth Quarter 2014 Projections*). *See also* Federal Universal Service Support Mechanisms Quarterly Contribution Base for the Fourth Quarter 2014, available at <http://www.universalservice.org/overview/ filings> (filed August 29, 2014) (*USAC Filing for Fourth Quarter 2014 Contribution Base*).

[8] *USAC Filing for Fourth Quarter 2014 Contribution Base* at 5.

Adjusted Contribution Base

To determine the quarterly contribution base, we decrease the fourth quarter 2014 estimate of projected collected interstate and international end-user telecommunications revenues by the projected revenue requirement to account for circularity, and decrease the result by one percent to account for uncollectible contributions. Accordingly, the quarterly contribution base for the fourth quarter of 2014 is as follows:

Adjusted Quarterly Contribution Base for Universal Service Support Mechanism

Fourth Quarter 2014 Revenues - Projected Revenue Requirement - 1%

($15.708767 billion – $2.15693 billion) * 0.99

$13.416320 billion.

Unadjusted Contribution Factor

Using the above-described adjusted contribution base and the total program collection (revenue requirement) from the table above, the proposed unadjusted contribution factor for the fourth quarter of 2014 is as follows:

Contribution Factor for Universal Service Support Mechanisms

Total Program Collection / Adjusted Quarterly Contribution Base

$2.156930 billion / $13.416320 billion

0.160769

Unadjusted Circularity Factor

USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter. Accordingly, the proposed unadjusted circularity factor for the fourth quarter of 2014 is as follows:

Unadjusted Circularity Factor for Universal Service Support Mechanisms

1 - ((Fourth Quarter 2014 Revenues - Total Program Collection) / Fourth Quarter 2014 Revenues)

1 – (($15.708767 billion - $2.156930 billion) / $15.708767 billion)

0.137307

Proposed Contribution Factor

The Commission has directed OMD to announce the contribution factor as a percentage rounded up to the nearest tenth of one percent.[9] Accordingly, the proposed contribution factor for the fourth quarter of 2014 is as follows:

16.1

Proposed Circularity Factor

The Commission also has directed OMD to account for contribution factor rounding when calculating the circularity discount factor.[10] Accordingly, the proposed circularity factor for the fourth quarter of 2014 is as follows:

0.138544[11]

Conclusion

If the Commission takes no action regarding the projections of demand and administrative expenses and the proposed contribution factor within the 14-day period following release of this Public Notice, they shall be deemed approved by the Commission.[12] USAC shall use the contribution factor to calculate universal service contributions for the third quarter of 2014. USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter.[13] USAC includes contribution obligations less the circularity discount in invoices sent

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[9] *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, 18 FCC Rcd 4818, 4826, para. 22 (2003) (*Second Order on Reconsideration)*.

[10] *Id*.

[11] The proposed circularity discount factor = 1 + [(unadjusted circularity discount factor – 1) * (unadjusted contribution factor / proposed contribution factor)]. The proposed circularity discount factor is calculated in a spreadsheet program, which means that internal calculations are made with more than 15 decimal places.

[12] *See* 47 C.F.R. § 54.709(a)(3).

[13] USAC will calculate each individual contributor's contribution in the following manner: (proposed contribution factor * contributor's projected collected revenues) – (proposed circularity discount factor * proposed contribution factor * contributor's projected collected revenues).

to contributors. Contribution payments are due on the dates shown on the invoice. Contributors will pay interest for each day for which the payments are late. Contributors failing to pay contributions in a timely fashion may be subject to the enforcement provisions of the Communications Act of 1934, as amended, and any other applicable law. In addition, contributors may be billed by USAC for reasonable costs of collecting overdue contributions.[14]

We also emphasize that carriers may not mark up federal universal service line-item amounts above the contribution factor.[15] Thus, carriers may not, during the fourth quarter of 2014, recover through a federal universal service line item an amount that exceeds 16.1 percent of the interstate telecommunications charges on a customer's bill.

In addition, under the limited international revenues exception (LIRE) in section 54.706(c) of the Commission's rules, a contributor to the universal service fund whose projected collected interstate end-user telecommunications revenues comprise less than 12 percent of its combined projected collected interstate and international end-user telecommunications revenues shall contribute based only on projected collected interstate end-user telecommunications revenues, net of projected contributions.[16] The rule is intended to exclude from the contribution base the international end-user telecommunications revenues of any entity whose annual contribution, based on the provider's interstate and international end-user telecommunications revenues, would exceed the amount of its interstate end-user revenues.[17] The proposed contribution factor exceeds 12 percent, which we recognize could result in a contributor being required to contribute to the universal service fund an amount that exceeds its interstate end-user telecommunications revenue. Should a contributor face this situation, the contributor may petition the Commission for waiver of the LIRE threshold.[18]

For further information, contact Kim Yee in Financial Operations, Office of Managing Director, at (202) 418-0805, TTY (202) 418-0484.

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[14] *See* 47 C.F.R. § 54.713.

[15] *See* 47 C.F.R. § 54.712.

[16] *See* 47 C.F.R. § 54.706.

[17] *See Federal-State Joint Board on Universal Service*, Sixteenth Order on Reconsideration, CC Docket No. 96-45, Eighth Report and Order, CC Docket No. 96-45, Sixth Report and Order, Docket No. 96-262, 15 FCC Rcd 1679, 1687-1692, paras. 17-29 (1999) (*Fifth Circuit Remand Order*).

[18] Generally, the Commission's rules may be waived for good cause shown. 47 C.F.R. § 1.3. The Commission may exercise its discretion to waive a rule where the particular facts make strict compliance inconsistent with the public interest. *Northeast Cellular Telephone Co. v. FCC*, 897 F.2d 1164, 1166 (D.C. Cir. 1990) (*Northeast Cellular*). In addition, the Commission may take into account considerations of hardship, equity, or more effective implementation of overall policy on an individual basis. *WAIT Radio v. FCC*, 418 F.2d 1153, 1159 (D.C. Cir. 1969); *Northeast Cellular*, 897 F.2d at 1166. Waiver of the Commission's rules is therefore appropriate only if special circumstances warrant a deviation from the general rule, and such deviation will serve the public interest. *Northeast Cellular*, 897 F.2d at 1166; 47 C.F.R. § 54.802(a).