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September 30th, 2020

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
400 North Street, 2nd Floor
Harrisburg, PA 17120

RE: Pennsylvania Universal Service Fund 1/2019 -12/2019 Period Report
Docket No. M-00001337

Dear Ms. Chiavetta:

Enclosed for filing in Docket No. M-00001337 is a summary of the activity for the Pennsylvania Universal Service Fund (PUSF) for the 1/2019 - 12/2019 period of operations.

In accordance with the terms of the contract between GVNW Consulting, Inc. and the Pennsylvania Public Utility Commission (PPUC), this report details the financial activities of the PUSF for the period ending December 31, 2019 and includes Balance Sheets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows. Also included is a list of recommendations pertaining to the PUSF, the **proposed** assessment rate for the 2021 calendar year, and additional analysis.

Please contact me if you have any questions or comments regarding the enclosed materials.

Sincerely,

Dennis C. Smith, Consultant
dennis.smith@vantagepnt.com

Cc: Pa Office of Consumer Advocate
Pa Office of Small Business Advocate
Chief Counsel, PPUC
Assistant Counsel, Colin W. Scott, PPUC
Director of the Bureau of Technical Utility Services, PPUC
Director of the Bureau of Audits, PPUC
PaUSF Participating Carriers

Attachments

Pennsylvania Universal Service Fund

Annual Report

October 2020

GVNW Consulting, A Vantage Point Company [GVNW], as Administrator of the Pennsylvania Universal Service Fund [PUSF or Fund], hereby submits the following report to the Pennsylvania Public Utility Commission [PPUC] on the Fund Activities.

A. PUSF Financial Activities

As shown in the attached financial statements, PUSF Assessments during the 1/2019 – 12/2019 period were \$34.07 million and Operating Expenses were \$33.92 million. The corresponding fund balance as of 12/31/19, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$3.02 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$67 thousand for the period, resulting in an average investment earnings rate of 1.59%.

B. GVNW Recommendations for the Administration of PUSF

1. Retain Annual Funding Contingency at 5%

- For the past fifteen years, the PPUC has approved an assessment factor that utilized a 5% funding contingency. This percentage contributes to the rate factor and is intended to account for uncollectible revenues and bad debt. Although actual uncollectible revenue has averaged less than \$200,000 per year over the last twelve years, recent bankruptcies and abandonments by contributing carriers makes a 5% contingency a prudent decision.

2. Carryover Balance

- The fund balance is projected to decrease due to a combination of decreasing assessable gross revenues and decreases in the reported revenues from Access Charges, Toll or Local Services, and Unbundled Network Elements (UNE), resulting in an anticipated year-end fund balance greater than \$1.5 million. GVNW believes it would be prudent to utilize a conservative cash balance of \$1.5 million as of December 31, 2020 for calculation purposes, providing a further cushion for any unforeseen variances. However, due to the decrease in assessable reported revenue from Access Charges, Toll or Local Services, and UNEs, a slight increase in the assessment rate for 2021, as is discussed below, is advised.

3. Carrier Data Collection Reports of Prior Year Revenues

- During the current Fund Year, carriers are required to report annual revenues from the prior year (by March 31) that are used in calculating the next year's PUSF assessment rate. GVNW maintains a web-based portal for online reporting, whereby carriers can fulfill this requirement with the Administrator. Carriers are given unique User IDs and Passwords to use when filing online. The online filing system is available 24x7.

4. Provide a new numbering mechanism for VoIP providers that want to voluntarily participate in the Fund.

- It was recently brought to GVNW's attention that a VoIP provider, ViaSat Carrier Services, was granted ETC status in Pennsylvania but does not hold a certificate for a regulated service. As such, this company does not have a Utility Code assigned by the Commission. However, the ETC designation order for ViaSat Carrier Services directs ViaSat to remit state TRS, USF and similar regulatory fees. Therefore, ViaSat has requested to register with the Pennsylvania USF. Historically, a provider must be assigned a Utility Code by the Commission in order to be tracked as a PUSF participant. GVNW requests that a new numbering system be developed to allow for tracking of VoIP and/or wireless providers that voluntarily participate in the Fund. GVNW can collaborate with Staff to develop the new numbering system for non-regulated providers.

C. GVNW Recommendations for Ensuring Carrier Compliance

GVNW has had the opportunity to evaluate the operations of the Fund and, as a result, offers one recommendation for the future operations of the Fund:

1. GVNW recommends that the Commission authorize a certain number of Carrier Audits each year to ensure that the Carrier filings are compliant with the PPUC regulations.

- The practice of the Administrator conducting Carrier Audits is used in other states to not only confirm the compliance of the auditees, but also as a motivation to all contributing carriers to be compliant with the PPUC regulations.

D. Proposed Assessment Rate for Calendar Year 2021

In accordance with the PPUC’s rules for calculating the annual assessment factor, the PUSF assessment rate for 2021 has been calculated at 2.1673586% (0.021673586) of 2019 average monthly intrastate end-user retail telecommunications revenue. The assessment calculation is based on data submitted by carriers during the annual data collection process as well as projections of the fund carryover balance and administrative auditing fees:

1. For Support Recipients, reported 2018/2019 annual access line growth rate = (7.08%)
2. Projected PUSF fund balance as of 12/31/2020 =\$1,500,000.00
3. Projected 2021 annual support due to recipient carriers =\$33,828,568.72
4. Projected 2021 annual administration and audit fees =\$119,874.00
5. Projected 2021 5% allowance for uncollectibles =\$1,616,428.44
6. Projected 2021 total annual fund size = \$34,064,871.16 [(Line 3 + Line 4 + Line 5 – Line 2)]
7. Reported 2019 intrastate retail revenues (contributing carriers) = \$1,571,722,920.84
8. Recommended 2021 Assessment Rate = \$34,064,871.16 / \$1,571,722,920.84 = **0.021673586**

E. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2021 Assessment Rate and the approved 2020 Assessment Rate. Please note the decrease in Net Intrastate Operating Revenue from 2018 to 2019.

Items Compared	2020 Rate Calculation	2021 Rate Calculation	Percent Difference
Monthly Support Amount	\$2,818,897.54	\$2,819,047.39	+0.01%
# of Contributors	225	205	-8.89%
# of Carriers with <\$120 assessment/year	138	107	-22.46%
Assessment Rate	0.020838055	0.021673586	+4.01%

Items Compared	2018	2019	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$1,634,652,686.92	\$1,571,814,279.72	-3.84%
Support Carriers Annual Intrastate Revenue	\$174,059,422.87	\$157,929,945.20	-9.27%
Support Carriers Access Lines	439,764	408,612	-7.08%

Assessment Rate Growth		
2003	2004	+0.67%
2004	2005	+6.14%
2005	2006	+3.30%
2006	2007	+3.48%
2007	2008	+1.97%
2008	2009	+2.71%
2009	2010	+5.02%
2010	2011	+7.55%
2011	2012	+0.32%
2012	2013	+19.88%
2013	2014	+2.67%
2014	2015	+7.35%
2015	2016	+4.48%
2016	2017	+5.23%
2017	2018	+7.17%
2018	2019	+8.23%
2019	2020	-1.61%
2020	2021	+4.01%