WEST TENNESSEE TELEPHONE COMPANY INC

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August 11, 2004

Ms Darlene Standley
Chief, Telecommunications Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re TRA Docket No 04-00193
Certification of Eligibility of West Tennessee Telephone Company, Inc to Receive Federal Universal Service Funds in the First through Fourth Quarters of 2005

Dear Ms Standley:

Pursuant to your letter dated July 23, 2004, West Tennessee Telephone Company, Inc ("Company") hereby provides the required certification and requested information regarding the amount and allocation of support received

CERTIFICATION

On behalf of the Company, I, Lera Roark, an officer of the Company with substantial knowledge of the Company's operations, do hereby certify under penalty of perjury that the following is true and accurate to the best of my knowledge and belief:

1 I am the Vice President of the Company,

2 The Company is a "rural telephone company" as that term is defined in 47 U S C § 153(37), subject to the jurisdiction of the Tennessee Regulatory Authority,

3 **The Company is eligible for disbursements from the federal Universal Service Fund as prescribed by the Federal Communications Commission**, and

4 The Company will utilize all federal high cost support, including high cost loop support, local switching support, high cost support received pursuant to the purchase of exchanges, high cost model support, and hold harmless support, only for the provision, maintenance, and upgrading of facilities and services for which the support is intended, consistent with 47 U.S C § 254(e) of the Telecommunications Act of 1996

Respectfully submitted,

Lera Roark

Lera Roark
Vice President

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REQUESTED INFORMATION

1. Amount of Support the Company Received for Fiscal Year 2003

The federal universal service support ("USF") received by the Company and other rural incumbent local exchange companies ("ILECs") is divided into five categories: High Cost Loop Support ("HCLS"), Local Switching Support ("LSS"), Long Term Support ("LTS"); Interstate Common Line Support ("ICLS"); and Safety Net Additive Support. Each of these mechanisms has been created by the FCC in conjunction with the Federal-State Joint Board on Universal Service. This means that representatives from State Commissions have also been involved in the development of these mechanisms through their representation in the Joint Board process.

All of these programs are administered through the Universal Service Administrative Company ("USAC") USAC, as a private, not-for-profit corporation, is responsible for providing every state and territory of the United States with access to affordable telecommunications service through the federal USF. USAC has contracted with the National Exchange Carrier Association, Inc. ("NECA") to assist in data collection necessary for the remittance of universal service funds. What this means is that each company submits, no less frequently than annually, detailed information requested by NECA in the USF data collection process USF data used in the USF calculations by NECA must also be filed with the Federal Communications Commission ("FCC") by November 1st of each year. This data contains the regulated financial inputs into the algorithm as well as the number of loops that will receive universal service support.

In order for rural ILECs to receive HCLS and LSS, a State that has jurisdiction over the carriers must certify annually that "all federal high-cost support provided to such carriers within that State will be used only for the provision, maintenance and upgrading of facilities and services for which the support is intended."[1] The certification must be filed with the FCC and USAC [2] Section 54 314 (d)(1) of the FCC's Rules provides that "carriers for which certifications are filed on or before October 1 shall receive [USF] . . . in the first, second, third and fourth quarters of the succeeding year."[3] On September 24, 2002, the Tennessee Regulatory Authority ("Commission") filed a certification with the FCC and USAC on behalf

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[1] 47 C.F.R. § 54 314(a).

[2] *Id.* To be eligible to receive ICLS and LTS, rural ILECs must certify annually with the FCC and USAC that the support received will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended *See 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: Report and Order and Second Further Notice of Proposed Rulemaking*, CC Docket Nos. 00-256, 96-45, FCC 04-31 (rel. Feb 26, 2004) ("MAG II Order") at para. 176.

[3] 47 C F R. § 54 314(d)(1). In promulgating its certification requirements, the FCC noted that the October 1st deadline was necessary to allow sufficient time for USAC to process the certifications and provide the FCC with an estimate of the level of high-cost support that will be required by USAC's November 1st deadline *See In the Matter of Federal-State Joint Board on Universal Service*, CC Docket Nos 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45 and Report and Order in CC Docket No 00-256, FCC 01-157 (released May 23, 2001) ("Fourteenth R&O") at para. 192.

of the Company and other rural ILECs [4] Accordingly, the Company was eligible for receipt of USF for the first through fourth quarters of 2003 ("Fiscal Year 2003"). For Fiscal Year 2003, the Company received a total of $272,965 in disbursements from the federal Universal Service Fund. Of that amount, $74,412 was received for HCLS and $198,553 was received for LSS, the categories subject to state certification

2. How Those Funds Were Allocated

The Company receives its interstate recovery based on interstate "average schedules" The average schedules are a series of formulas developed by NECA that calculate the costs representative of the subset of ILECs that utilize the interstate average schedules. The formulas are derived from the actual costs (using FCC Part 32 accounts) of companies that are statistically representative of the universe of average-schedule companies Once the formulas are developed, they are presented by NECA to the FCC for approval. Once approved, each average schedule company is required to provide information to NECA for input into the formula, which information is attested to by the company. This information is then used by NECA to establish that company's interstate recovery

In developing this response, the Company has compiled information regarding the extent to which checks and balances currently exist governing the Company and all other interstate average schedule rural incumbent local exchange carriers receiving universal service support The operation of these processes, as described below, ensure that the USF directed to the Company is both properly quantified and utilized in accordance with the provision and maintenance of the facilities and services for which the support is intended.

a. HCLS

HCLS is provided to the Company to defray the costs the Company has incurred associated with the loop that connects an end user to the Company's central office. A rural ILEC is eligible for HCLS only if its embedded unseparated loop cost exceeds 115 percent of the national average loop cost.[5] Average schedule companies qualify for HCLS upon application of the average schedule formula rather than company-specific cost studies.[6] The formula is calculated using a set of complex algorithms approved by the FCC, the inputs for which are scrutinized by NECA Further, HCLS is subject to an indexed cap, which limited the total support to the previous year's total, increased by a "rural growth factor."[7] For

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[4] *See* Letter to Irene Flannery, USAC from Sara Kyle, Chairman of the Commission (File 02-00879) dated Sept 24, 2002.

[5] In its Fourteenth R&O, the FCC "froze" the national average loop cost at $240 for purposes of calculating rural HCLS. *See* Fourteen R&O at para. 56

[6] *See Federal-State Joint Board on Universal Service; National Exchange Carrier Association, Inc. Proposed 2004 Modification of Average Schedule Formulas: Order*, 18 FCC Rcd 26619 (2003) at para 3 & n. 9 ("Average schedule companies have been permitted by the [FCC] to estimate their access settlements and universal service support through the use of average schedules to avoid the difficulties and expenses involved with conducting company-specific cost studies.")

[7] The "rural growth factor" is based on the GDP-CPI for the year in which costs are incurred and the difference between the total number of working loops of rural ILECs for the cost year and the preceding calendar year. *Id.* at para 49 The FCC provides the following example, "for support disbursed in year 2001, the rural growth factor shall be based on the percentage change in the GDP-CPI for calendar year 1999 and the percentage change in the total number of rural ILEC working loops between calendar years 1998 and 1999" *Id.*

Fiscal Year 2003, it was determined that the Company's cost per loop exceeded the national average. Accordingly, the Company was eligible to receive HCLS for that year.

b. LSS

LSS is provided to the Company to "cover some of the intrastate switching costs of carriers serving study areas with 50,000 or fewer lines, in recognition of such carriers' high average fixed switching costs compared to larger carriers with greater economies of scale"[8] The remainder of the costs of providing switching access is recovered through the switching rate, which is charged to interexchange carriers The number of access lines in the Company's study area is below the 50,000-line threshold Accordingly, the Company qualified to receive LSS for Fiscal Year 2003

The LSS rules established by the FCC use the embedded costs of the rural ILECs associated with switching investments, depreciation, maintenance, expenses, taxes and an FCC established rate of return. Again, for average schedule companies, a formula developed by NECA is applied rather than utilizing company-specific cost studies. The formula is calculated using a set of complex algorithms approved by the FCC, the inputs for which are scrutinized by NECA.

c. LTS & ICLS

After the divestiture of AT&T, the FCC created a capped flat-rated end-user charge called the "Subscriber Line Charge" or "SLC" to enable rate-of-return carriers to recover part of their non-traffic sensitive interstate loop costs The FCC also created a "common carrier line charge" or "CCL" to be charged to interexchange carriers to recover any residual interstate common line costs not recoverable by the SLC. Subsequently, NECA developed the "common line pool" to enable ILECs to maintain a nationwide average CCL charge. Initially, all ILECs were required to participate in the pool

In 1987, the FCC eliminated mandatory pooling, but required non-pooling carriers to continue to contribute to the pool through a mechanism called LTS to maintain a nationwide average CCL rate. Subsequent to the passage of the Telecommunications Act of 1996, the FCC removed LTS from the access rate structure and made it recoverable through USF. The FCC also ruled that LTS for each qualifying carrier would remain at the level of LTS for 1997 plus growth based on nationwide average loop costs[9] According to the FCC, "[t]he combination of SLCs, LTS and CCL charges . enable rate-of-return carriers to recover all of their allowed interstate common line revenues based on their imbedded costs"[10]

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[8] *See Federal-State Joint Board on Universal Service· Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order*, 18 FCC Rcd 22559 (2003) at para. 103.

[9] *See* MAG II Order at para. 56

[10] *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 I Order") at para. 132.

In 2001, the FCC reformed its interstate access charge system for rate-of-return carriers by increasing the SLC and replacing the CCL with a new USF mechanism, ICLS.[11] Subsequently, the FCC ruled that LTS would be merged into the ICLS effective July 1, 2004.[12] Accordingly, the ICLS and LTS advanced to the Company for Fiscal Year 2003 provided the Company with its "allowable common line revenues" to the extent they cannot be recovered through end user charges[13]

The Company is a member of the common line pool. For common line pool participants, LTS is calculated pursuant to Section 54.303 of the FCC's Rules and ICLS is calculated pursuant to Section 54.901 of the FCC's Rules.[14]

d. Safety Net Additive Support

Safety Net Additive Support is support above the HCLS cap for carriers that make significant investment in rural infrastructure in years in which HCLS is capped. To receive this support, a rural ILEC must show that growth in telecommunications plant in service (TPIS) per line is at least 14 percent greater than the study area's TPIS in the prior year[15] Carriers seeking to qualify for safety net additive support must provide written notice to USAC that a study area meets the 14 percent TPIS trigger. The Company surpassed this threshold and was eligible to receive Safety Net Additive Support in Fiscal Year 2003.

<u>THE COMPANY RESPECTFULLY SUBMITS THAT IT QUALIFIES FOR THE NEEDED §54.314 CERTIFICATION</u>

The Company respectfully submits that, given the number and nature of the checks and balances already in place, the Commission may lawfully and appropriately rely upon this self-certification by the Company. The requirements, procedures, and processes to which the Company adheres, as set forth above, provide the necessary and sufficient basis for the Commission to provide its certification to USAC and the FCC, and to thereby ensure that the Company and its customers will not be deprived of the USF funding to which the Company and its customers are entitled pursuant to all applicable rules and regulations. Essentially, under the existing rules and processes discussed above, the federal support funds received by the Company and other incumbent rural telephone companies are, in fact, an integral part of the rural ILEC's recovery of expenditures incurred in the provision, maintenance and upgrading of its provision of universal service. The processes described above constitute the Company's plan with respect to the receipt and utilization of federal universal service support, upon which the Company depends to provide rural telephone customers with affordable and quality telecommunications services. Furthermore, the Company attests, per the above certification, that it is using federal universal service support for its intended purposes

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[11] *Id* at para. 15

[12] MAG II Order at paras. 54 & 67

[13] *Id.* at para. 58.

[14] The Company made the required certification in 2002 with the FCC for LTS and ICLS. Accordingly, it received these funds for Fiscal Year 2003

[15] Fourteenth R&O at para. 82.

In many respects, the certification process is very similar to the self-certifications that were involved in the designation of the rural ILECs as eligible telecommunications carriers ("ETCs") in the initial instance. The Commission, consistent with the practices of other state utility authorities throughout the nation, utilized this process in the initial designation of ETCs, thereby fulfilling its right, as established by the Telecommunications Act of 1996, to designate a carrier as an ETC

Accordingly, the grant of this request for certification is consistent with past practice and procedure. The very same procedure and process undertaken by the Commission that is valid for designation of eligibility to receive funds is also rationally valid as the basis for the necessary certification that the Company will use those funds, once received, for the purposes for which they are intended. Again, for the Company and other rural ILECs, there are processes and safety mechanisms in place that include audits of the information that is submitted to USAC and FCC to ensure that the basis for the calculation of the funds is appropriate.

The proposed grant of certification for the Company, as requested herein, is also consistent with the certification mechanism the FCC has established for carriers that are not regulated by state commissions The FCC in its Fourteenth R&O set out a self-certification mechanism for those carriers (tribal entities and others that are not regulated by state commissions).[16] The Company, as discussed above and pursuant to the above certification, represents to the Commission that it adheres to and complies with all required processes, and that its expenditures of USF funds will be consistent with the applicable rules and foster the provision of facilities and services for which the funding is intended. This representation and affirmation by the Company to the Commission is consistent with that required by the FCC with respect to certification of a carrier not subject to the authority of the State.

Please contact the undersigned with any questions or if further information is required.

Respectfully submitted,

Lera Roark

Lera Roark
Vice President

[16] *See* Fourteenth R&O at para. 189