Report to the 80th Texas Legislature

Review and Evaluation of the Texas Universal Service Fund Pursuant to PURA Section 56.029

Public Utility Commission of Texas
January 2007

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Public Utility Commission of Texas

January 5, 2007

Honorable Members of the Eightieth Texas Legislature:

We are pleased to submit our report regarding our Review and Evaluation of the Texas Universal Service Fund (TUSF) pursuant to PURA Section 56.029.

Senate Bill 5, passed in 2005 in the second called session of the 79th Texas Legislature, instructed the Public Utility Commission of Texas (Commission) to conduct a review and evaluation of whether the TUSF accomplishes the fund's purposes as prescribed by Section 56.021 of PURA and the Commission's final orders in Docket Nos. 18515 and 18516. This report contains the results of that study.

The report reviews and evaluates each of the eleven programs supported through the TUSF. The report contains a history of each program's performance, identifies whether that program's purpose has been achieved, identifies whether entities receiving support pursuant to that program have spent the money for its intended purposes, and addresses what that program should look like in the future.

For a further high-level review of the report, please see the Executive Summary, which offers a very brief synopsis of what the Commission studied and its findings.

We look forward to continuing to work with you on this and other policy objectives. If you need additional information about any issues addressed in the report, please do not hesitate to call on us.

Sincerely,

Paul Hudson
Chairman

Julie Parsley
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Executive Summary

Senate Bill 5, passed in 2005 in the second called session of the 79th Texas Legislature, instructed the Public Utility Commission of Texas to conduct a review and evaluation of whether the Texas Universal Service Fund (TUSF) accomplishes the fund's purposes as prescribed by Section 56.021 of PURA and the Commission's final orders in Docket Nos. 18515 and 18516. The Commission conducted a review of the TUSF, including obtaining input from stakeholders, and this report contains the results of that study.

The report reviews and evaluates each of the eleven programs supported through the TUSF. It contains a history of each program's performance, identifies whether that program's purpose has been achieved, identifies whether entities receiving support pursuant to that program have spent the money for its intended purposes, and addresses what that program should look like in the future. These programs can generally be categorized as one of three types - - assistance for high-cost areas, assistance for low-income or disabled individuals, or assistance for schools and libraries. The eleven TUSF programs are:

Programs for high-cost assistance:
Texas High Cost Universal Service Plan (a/k/a Large Company Area High-Cost Program)
Small and Rural ILEC Universal Service Plan (a/k/a Small Company Area High-Cost Program)
PURA § 56.025 – Maintenance of Rates and Expansion of Fund for Certain Companies
Uncertificated Areas
Successor Utilities
Additional Financial Assistance (AFA)
Programs for low-income or disability assistance:
Lifeline
Relay Texas (Telecommunications Relay Service)
Specialized Telecommunications Assistance Program (STAP)
Audio Newspaper Program (ANP)
Program for schools and libraries assistance:
IntraLATA (Schools & Libraries for non-58/59 companies)

Of the above-listed programs, the Large Company Area High-Cost Program and the Small Company Area High-Cost Program were the programs that stakeholders focused on in their comments. While it appears that these two programs have worked as designed historically, these are also the programs that the Commission found to have potential need for changes, especially the Large Company Area High-Cost Program. The other programs were found to be generally working well and fulfilling their stated purpose effectively, given the legislative public policies for which they were established.

The Large Company Area High-Cost Program was the program receiving the most focus from stakeholders, probably due to the relative magnitude of the money involved. This program accounted for 75 % of the total disbursements from the TUSF. The Commission believes that the amount of support necessary to assist providers in providing basic local telecommunications service (BLTS) at reasonable rates in these high-cost rural areas of Texas may need to be updated, since the high-cost support amounts have not been reviewed or revised since the programs were initiated seven years ago, based on 1997 data. Due to the amount of elapsed time and other changes since this program was established, the Commission sees potential need to resize and/or retarget the support amounts to ensure that the appropriate amount of support is provided in the future. This can be accomplished through contested case and/or rulemaking proceedings. Existing law allows the Commission to implement any such resizing or retargeting after September 1, 2007 should the Legislature continue to find that to be the appropriate forum.

The Small Company Area High-Cost Program is the second-largest of the TUSF funds in magnitude of disbursements. The Commission does not believe that it is necessary to evaluate the forward-looking economic cost of providing BLTS in the rural areas served by small rural ILECs at this time. However, since the rates for BLTS in these areas have not been reviewed or changed for many years, the Commission believes that it is appropriate for the Commission to review policy issues such as the reasonableness of these rates, as well as what access lines should be eligible for support.

In summary, the Commission believes that most of the programs funded by the TUSF have been, and continue to work as planned, with no further review or changes necessary. The Small Company Area High-Cost Program should be reviewed further by the Commission from a policy perspective regarding such issues as reasonableness of BLTS rates and lines eligible for support. The Commission believes that the Large Company Area High-Cost Program is overdue for updating, and that the Commission should conduct a contested case and/or rulemaking under current law to consider, at a minimum, any appropriate resizing and retargeting of funding.

Chapter I. Background

In 2005, the 79th Legislature enacted Section 56.029 of the Public Utility Regulatory Act (PURA)[1], requiring the Public Utility Commission of Texas (Commission), to conduct a review and evaluation of whether the Texas Universal Service Fund (TUSF) accomplishes the fund's purposes as prescribed by Section 56.021 of PURA and the Commission's final orders in Docket No. 18515[2] and Docket No. 18516.[3]

For each of the eleven programs supported through the TUSF, the Commission provides in this report: (1) a history of the program's performance; (2) identifies whether that program's purpose has been achieved; (3) identifies whether entities receiving support pursuant to that program have spent the money for its intended purposes; and (4) what that program should look like in the future (see Table 1 – TUSF Programs).

The first chapter provides a history of the TUSF and a context for evaluating the fund today. Chapter II focuses on the program that provides support to telecommunications providers serving customers in the high-cost rural areas of the four largest incumbent local exchange carriers (ILECs) (*i.e.*, AT&T, Verizon, Embarq (f/k/a Sprint), and Windstream (f/k/a Valor). The majority of the stakeholders that participated in the Commission's proceeding (see Appendix A – Comments Received by the Commission) focused their comments on this program. Parties also provided some comments on the program that provides cost support to telecommunications providers serving customers in small, rural telephone company and cooperative study areas. This program is addressed in Chapter III. Very few comments were received on the other eight programs supported by TUSF (*e.g.*, Lifeline, Relay Texas, Audio Newspaper Program), covered in Chapters IV-VII. The report concludes with an analysis of the fund's administration, assessment mechanism, and a discussion of whether it should continue.

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[1] Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001 – 66.017 (Vernon 1998 & Supp. 2006)(PURA).

[2] Compliance Proceeding for Implementation of the Texas High Cost Universal Service Plan, Docket No. 18515, Order (Jan. 14, 2000).

[3] Compliance Proceeding for Implementation of the Small and Rural Incumbent Local Exchange Carrier Universal Service Plan, Docket No. 18516, Order (Jan. 14, 2000).

Table 1 — TUSF Programs

Texas Universal Service Fund Programs			
Program	**PURA §**	**P.U.C. Substantive Rule**	**Chapter in Report**
Texas High Cost Universal Service Plan (a/k/a Large Company Area High-Cost Program)	56.021(1)	26.403	Chapter II
Small and Rural ILEC Universal Service Plan (a/k/a Small Company Area High-Cost Program)	56.021(1)	26.404	Chapter III
PURA § 56.025 – Maintenance of Rates and Expansion of Fund for Certain Companies	56.025	26.406	Chapter IV
Uncertificated Areas	56.021(7)	26.421-423	Chapter IV
Successor Utilities	56.021(8)	n/a	Chapter IV
Additional Financial Assistance (AFA)	56.021(1)	26.408	Chapter IV
Lifeline	56.021(5)-(6)	26.412	Chapter V
Relay Texas (Telecommunications Relay Service)	56.021(2)	26.414	Chapter VI
Specialized Telecommunications Assistance Program (STAP)	56.021(3)	26.415	Chapter VI
Audio Newspaper Program (ANP)	56.021(9)	26.424	Chapter VI
IntraLATA (Schools & Libraries for non-58/59 companies)	56.028	26.410	Chapter VII

A. Universal Service Concept

Historically, one of the primary goals of telecommunications regulation has been to ensure universal service, *i.e.*, that all customers throughout the nation, in urban and rural areas, have access to affordable telephone service.

The concept has its foundation in the preamble of the Communications Act of 1934, which calls for a "rapid, efficient, nationwide and world-wide wire and radio communication service with adequate facilities at reasonable charges."[4] It was not until 1996, in legislation transitioning to a competitive local telephone environment, that Congress set forth explicit principles for universal service. In the Federal Telecommunications Act of 1996 (FTA), Congress identified six explicit goals for federal universal service in the new competitive environment.[5] In addition, the FTA provided direction for state USF programs, requiring state mechanisms to be "specific, predictable,

[4] 47 U.S.C. § 151.

[5] These principles are set forth in FTA § 254(b): (1) quality services at just, reasonable and affordable rates; (2) access to advanced services throughout the nation; (3) in rural and high-cost areas, "reasonably comparable" access to telecommunications, information and advanced services that are enjoyed by consumers in urban areas, at reasonably comparable rates; (4) an equitable and nondiscriminatory funding mechanism; (5) specific and predictable support mechanisms; and (6) access to advanced services for schools, health care and libraries.

and sufficient" and not "rely on or burden Federal universal service support mechanisms."[6]

In Texas, PURA contains several explicit policy directives that reflect an underlying universal service goal of enabling every person in the state to access high-quality telecommunications services at reasonable rates, regardless of geographic location.[7] The universal service fund specifically provides for a fund to assist telecommunications providers in providing basic local telecommunications service at reasonable rates in high-cost rural areas of Texas[8] and financial assistance for programs such as relay and lifeline services.[9]

At the same time, PURA also sets forth other general policy goals that warrant consideration in today's marketplace, including policy provisions that promote the diversity of providers and high quality services, encourage a competitive marketplace, and encourage cost-based pricing.[10]

B. History of the Texas Universal Service Fund

The TUSF was originally authorized in 1987 by the 70th Legislature's revisions to PURA. From then until 1995, the fund consisted of three programs: (1) Tel-Assistance, which provided discounted telephone service to low-income consumers; (2) Relay Texas, similar to the current Relay Texas program, which allows individuals that are hearing-impaired or speech-impaired to communicate via specialized telecommunications devices and operator translations; and (3) the High Cost Assistance Fund (HCAF) (the current PURA § 56.025 mechanism), created by P.U.C. SUBST. R. 23.53 in 1993, which replaced revenues lost by ILECs that reduced intrastate switched access rates.

In 1995 and 1996, wholesale changes in telecommunications regulation at both the state and federal level, which included opening local telephone markets to competition, impacted the structure of universal service and prompted a major restructuring. In 1995, the 74th Texas Legislature adopted House Bill 2128, which expanded the TUSF by adding a provision to provide support to companies with less than 5 million lines affected by reduced access rates, or by a state or federal rule, order or policy (the current PURA § 56.025 program). It also created a separate program with its own funding mechanism, the Telecommunications Infrastructure Fund (TIF),[11] to

[6] FTA § 254(f).

[7] PURA § 51.001(b)(3), § 51.001(c)(1), § 51.001(g), § 52.001(a), § 58.001(2) and § 58.202(3).

[8] PURA §56.021(1).

[9] PURA §56.021(2)-(9).

[10] §51.001(b)(2), §51.001(c)(2), §51.001(f)(2), §52.001(b)(2), §58.001(1), §58.001(5), §58.202(1), §58.202 (6) and §58.202 (9)

[11] The Board which was responsible for the administration of this program was dissolved in 2003.

promote the deployment of equipment and telecommunications infrastructure for distance learning, information sharing programs of libraries, and telemedicine services. HB 2128 also provided for competition in the local telephone market and established a means by which ILECs traditionally subject to rate-of-return regulation could elect incentive regulation and the ability to flexibly price certain services in the new competitive local market. One year later, in 1996, Congress enacted the FTA, which contained explicit universal service goals and federal guidelines for competition in local telephone markets.

To implement these wholesale changes made at both the federal and state levels, major changes were required for the TUSF program. Therefore, the Commission initiated a rulemaking proceeding (Project No. 14929) and on January 22, 1998, adopted rules implementing wholesale changes in the TUSF, including: (1) eligibility criteria for providers to receive federal and state USF; (2) a program (Large Company Area High-Cost Program) for providers to receive TUSF support in large ILEC wire centers based on a forward-looking cost model;[12] (3) a program for providers to receive TUSF support in small, rural ILEC study areas (Small Company Area High-Cost Program); (4) implementing PURA § 56.025, Maintenance of Rates and Expansion of Fund for Certain Companies; (5) Lifeline and LinkUp program parameters; (6) a mechanism for providers to seek additional financial assistance from the TUSF if needed; and (7) parameters for the administration of the fund.

In 1999, the Commission again expanded the TUSF and transitioned the way TUSF was funded from an implicit to an explicit support mechanism. Until 1999, the goal of universal service (affordable local phone rates) was implicitly subsidized by charges paid to ILECs by long-distance carriers to access the local telephone network ("switched access charges"). Long-distance carriers passed on the cost of these switched access charges to their retail customers in the form of long-distance charges. Thus, the restructuring of switched access rates, an embedded source of support for universal service, was crucial in the transition to a competitive marketplace.

In 1999, the 76th Legislature adopted Senate Bill 560 which required long-distance carriers to pass through these reductions to their customers in the form of lower long-distance rates. SB 560 also established a state Lifeline program with automatic enrollment and a support mechanism for small, rural companies that do not elect incentive regulation to receive reimbursement for providing high-speed services to schools and libraries (PURA § 56.028). In addition, SB560 made TUSF support portable to competitive telecommunications providers, further expanded pricing flexibility for electing companies, and adopted additional requirements to address customer protection in a competitive market. The Legislature also adopted SB 1441, which required the Commission and Department of Assistive and Rehabilitative Services (DARS, formerly the Texas Commission for the Deaf and Hard of Hearing) to establish a specialized

[12] In establishing support amounts for high-cost rural areas, the Commission recognized that small ILECs (those with less than 100,000 access lines), were on a different competitive footing than large ILECs (*e.g.*, AT&T, Verizon, Sprint and Windstream) and evaluated TUSF support in two bifurcated proceedings (Docket Nos. 18515 and 18516), which resulted in final orders issued on January 14, 2000.

telecommunications assistance program (STAP) to provide TUSF support to individuals with disabilities to access the telephone network.

In 2001, the 77th Legislature again expanded the fund to support providers serving customers outside of ILEC certificated areas, and in 2003, the 78th Legislature added provisions for successor utilities inheriting provider of last resort obligations (POLR) to receive funding.

The TUSF was most recently expanded in 2005 by Senate Bill 5, adopted by the 79th Legislature during the Second Called Session. SB 5 established the Audio Newspaper Program, required recipients of TUSF to file an annual affidavit attesting to the proper use of the funds, required the Commission to submit a review and evaluation of the fund's performance, and, as of September 1, 2007, allows the Commission to revise the per monthly support amounts received by providers serving large ILEC high-cost, rural wire centers and small ILEC study areas.

C. Overview of TUSF Today

The current TUSF consists of eleven programs and reimburses state agencies for the cost of administering the fund and its programs. The TUSF is funded by a statewide uniform charge, or "assessment," payable by each telecommunication provider that has access to the customer base. In most cases, telecommunications providers choose to recover their assessment via a fee that is flowed through to end users as part of the package of surcharges assessed on their local bills.

Support is disbursed to telecommunications providers serving high-cost lines and low-income consumers, and to support the nine other TUSF programs, such as Relay Texas and the Audio Newspaper Program (ANP). Disbursement methodologies differ for each program; the particular methodology used for a program is discussed in the chapter covering that program.

1. Assessment of Taxable Receipts

Currently, P.U.C. SUBST. R. 26.420(f) has established an assessment methodology based on assessing a Commission-ordered percentage of a telecommunications provider's total intrastate taxable telecommunications receipts pursuant to Chapter 151 of the Texas Tax Code. Receipts exempt from assessment include payphone service providers, interstate and international receipts, and the TUSF surcharge on the customer bill.

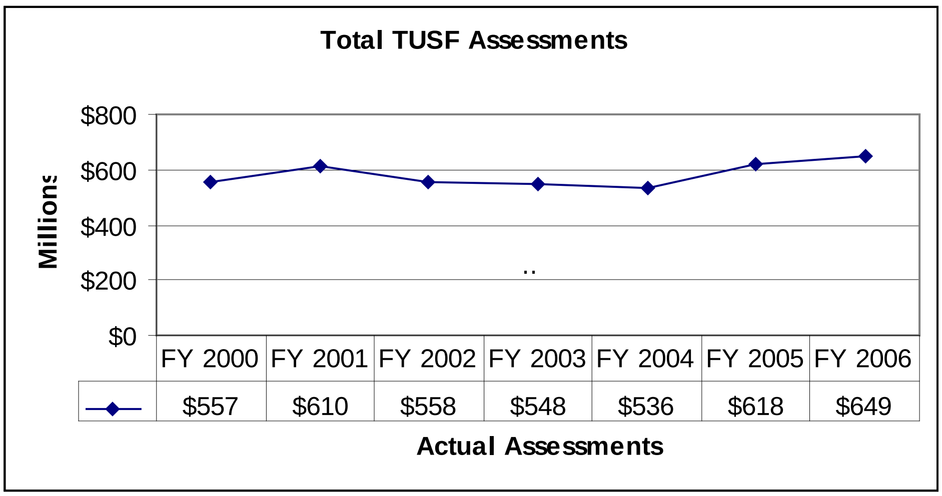
The assessment rate remained under 4% until 2004, when the Commission was required to change the assessment methodology supporting the TUSF because of a lawsuit brought by the former AT&T, prior to its purchase by SBC Texas.[13] Prior to the Court's decision, providers were assessed 3.6% of their total taxable telecommunications receipts, including intrastate, interstate and international receipts. As a result of the Court's decision, only intrastate receipts may be assessed. As of September 1, 2004, the

[13] AT&T Corp. v. Public Utility Commission of Texas, 373 F.3d 641 (5th Cir. 2004).

assessment rate changed from 3.6% of total taxable telecommunications receipts to 5.65% of intrastate taxable telecommunications receipts to accommodate this ruling, and collect the same amount of support for the fund. Subsequently, the Commission reduced the rate to 5% as of October 1, 2006.

While over 1,600 telecommunications providers pay into the fund, the majority (about 1,200) contribute less than $500/month into the fund (or 1.1% of the total). The largest contributors are wireless carriers, which account for 43% of the TUSF assessment. The four largest ILECs (AT&T, Verizon, Embarq and Windstream) constitute 37% (or $240M) of the fund's assessment base. In fiscal year 2006, $649 million was assessed, and $572 million disbursed, leaving the fund with a balance of $83 million to remain solvent in the event of unexpected contingencies (see Figure 1 – Total TUSF Assessment, FY 2000-2006).

Figure 1 — Total TUSF Assessment, FY 2000-2006



SOURCE: Solix, Inc.

2. Disbursements

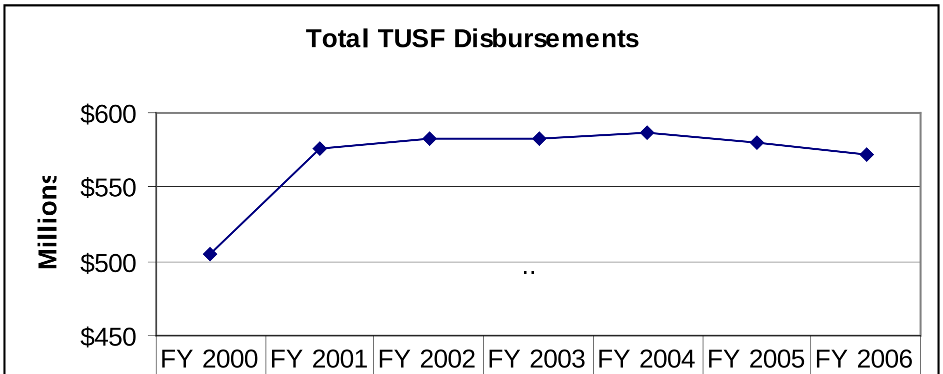
The fund's disbursement total in fiscal year 2006 was $572 million. Disbursement methodologies vary by program. For example, under some programs, such as Relay Texas and ANP, the TUSF reimburses a Commission-selected third-party vendor who provides the service. In the case of high-cost, rural areas in AT&T's service territory, providers eligible to receive TUSF support receive fixed monthly amounts, determined by a cost model, for each residential line served and the first five business lines.

Support from the Large Company Area High-Cost Program and Small Company Area High-Cost Programs is available to eligible telecommunications providers (ETPs), including ILECs and wireless providers, on a technology-neutral basis, as long as the provider meets the Commission's eligibility criteria in P.U.C. SUBST. R. 26.417 (see

Appendix B – Eligibility for TUSF Support for a description of the requirements and a list of providers eligible to receive TUSF support).

Disbursement totals have remained relatively flat since 2001, even though the number of providers receiving support has increased (see Figure 2 – Total TUSF Disbursement, FY 2000-2006). As of September 2006, 85 providers were eligible to receive TUSF support: 61 ILECs, 22 competitive local exchange carriers (CLECs) and 2 wireless providers (see Appendix B – Eligibility for TUSF Support for a list of ETPs).

Figure 2 — Total TUSF Disbursement, FY 2000-2006



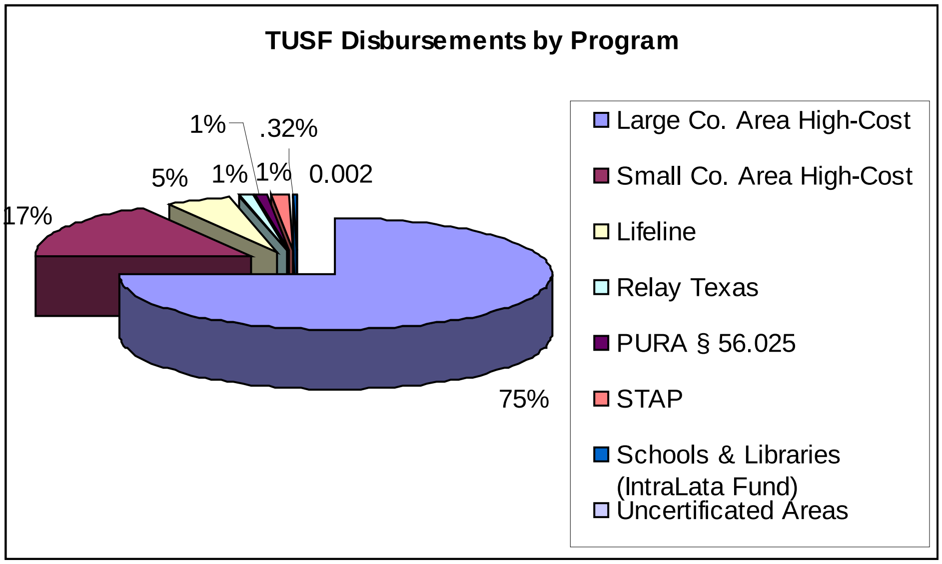
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Actual Disbursements	$505	$576	$583	$583	$586	$580	$572

SOURCE: Solix, Inc.

As of FY 2006, disbursements from the Large Company Area High-Cost Program accounted for 75% of the fund's total disbursements (see Figure 3 –TUSF Disbursements by Program, FY 2006 and Table 2 – TUSF Disbursements by Program, FY 1999-2006). Disbursements from the Small Company Area High-Cost Program to providers serving the small ILEC study areas accounted for 17% of the fund's total. The four large ILECs (AT&T, Verizon, Embarq and Windstream) received approximately 80% of the fund's total disbursements. In total, 15 competitive providers received $19 million (or 3.6%) from the Large Company Area High-Cost and Small Company Area High-Cost Programs combined.

The remaining nine programs and administration costs account for the remaining 9% of the fund's disbursement. The cost to administer the TUSF was approximately $4.3 million, or about 0.75% of the total fund. After the two high-cost programs, the remainder of TUSF disbursements for all other programs combined, totals approximately $47 million (see Figure 3 – TUSF Disbursements by Program, FY 2006).

Figure 3 — TUSF Disbursements by Program, FY 2006



SOURCE: Solix, Inc.

Table 2 — TUSF Disbursements by Program FY 1999-2006

TUSF Program Disbursements	FY 1999 (Actual)	FY 2000 (Actual)	FY 2001 (Actual)	FY 2002 (Actual)	FY 2003 (Actual)	FY 2004 (Actual)	FY 2005 (Actual)	FY 2006 (Actual)
Texas High Cost Universal Service Plan (THCUSP)	$0	$382,226,565	$443,890,245	$445,002,169	$443,032,847	$440,643,128	$431,880,066	$425,383,884
Small and Rural ILEC Universal Service Plan (High Cost)	38,084,091	94,208,534	99,991,670	100,594,768	100,447,214	99,514,307	98,239,843	95,440,073
Texas Relay Service	6,816,004	10,034,792	13,151,162	12,670,839	11,514,114	10,631,171	8,375,622	6,969,244
Lifeline	276,624	8,718,136	9,224,641	15,829,769	17,664,460	21,529,197	27,459,478	26,034,089
Specialized Telecommunications Assistance Program	322,420	578,403	761,023	1,344,227	2,338,080	3,315,463	3,589,626	7,126,452
Implementation of PURA § 56.025	2,965,448	4,486,954	4,448,176	4,448,772	4,683,495	4,680,411	4,728,275	4,699,968
USF Reimbursement for Certain IntraLATA Services	0	739,452	1,152,476	1,656,968	1,694,250	1,984,816	1,998,737	1,844,331
Additional Financial Assistance (AFA)	0	0	0	0	0	0	0	0
Service to Uncertificated Areas	0	0	0				12,507	372
Tel-Assistance	2,210,432	2,921,877	2,210,733	1,465	0	0	0	0
TCDHH	148,242	267,931	286,414	455,181	488,222	592,599	578,048	685,166
PUC	103,872	149,330	203,505	166,769	358,760	466,964	342,537	429,930
TDHS	286,870	397,389	277,438	9,275	0	0	0	0
Other	186,350	0	0	0	398,607	2,112,874	2,312,245	2,321,585
NECA	652,104	729,475	751,359	773,900	740,550	780,000	804,000	828,000
ANP	0	0	0	0	0	0	0	0
TOTAL USF	$52,052,457	$505,458,838	$576,348,842	$582,954,102	$583,360,599	$586,250,930	$580,320,984	$571,763,094

SOURCE: Solix, Inc.

3. Surcharge Recovery from Customers

Pursuant to P.U.C. SUBST. R. 26.420(f)(5), telecommunications providers may recover their assessment through a surcharge on customers' bills, except for Lifeline and LinkUp customers. Currently, the surcharge is 5%, and is assessed on intrastate telecommunications services provided to end-user customers. If a provider chooses to pass through the assessment to its customers, it must explicitly identify the surcharge on the customer's bill as "Texas Universal Service."

Chapter II. Large Company Area High-Cost Program

A. Background/Program Totals 2000-2006

1. History

Section 56.021(1) of the Public Utility Regulatory Act (PURA) directs the Commission to adopt rules requiring local exchange companies to establish a universal service fund to "assist telecommunications providers in providing basic local telecommunications service at reasonable rates in high cost rural areas."[14] As part of its restructuring of the Texas Universal Service Fund (TUSF), on January 22, 1998, in Project No. 14929, the Commission adopted what is now P.U.C. SUBST. R. 26.403 which established the Texas High Cost Universal Service Plan, hereafter referred to as the large company area high-cost program. The large company area high-cost program provides financial support to eligible telecommunications providers (ETPs)[15] that serve high-cost, rural areas of Texas where a large carrier (AT&T Texas, Verizon, Embarq, or Windstream Communications Southwest) is the incumbent.[16]

The support amounts available to ETPs from the large company area high-cost program were developed in a contested proceeding, Docket No. 18515, that was completed on January 14, 2000.[17] That proceeding determined the cost-based support

[14] Basic local telecommunications service (BLTS) is defined in PURA § 51.002(1) as consisting of the following components: flat rate business and residential service, including directory listings, lifeline service, tone dialing, access to 911, operator and directory assistance services, and the ability to report service problems seven days a week. BLTS does not include any features (such as Caller ID or call waiting) or any additional services (such as DSL or long distance calling) beyond basic access to the telephone network.

[15] An ETP is a telecommunications provider designated by the Commission to receive support from the TUSF pursuant to P.U.C. SUBST. R. 26.417.

[16]

Currently Known As	Formerly Known As, Doing Business As or Also Known As
AT&T Texas (AT&T)	Southwestern Bell Telephone Co. or SBC Texas
Verizon	General Telephone Co. of the Southwest or GTE
Embarq	Sprint, Central Telephone Co. of Texas and United Telephone Co. of Texas
Windstream Communications Southwest (Windstream) Windstream SugarLand (Sugarland) Texas Windstream (Alltel) Windstream Communications Kerrville (Kerrville)	Valor Telecommunications of Texas Sugarland Telephone Co. Texas Alltel Kerrville Telephone Co.

[17] Compliance Proceeding for Implementation of the Texas High Cost Universal Service Plan, Docket No. 18515, Order (Jan. 14, 2000).

amounts for the high-cost wire centers[18] of the four large incumbent local exchange carriers (ILECs): Southwestern Bell Telephone Co. (now AT&T Texas, and hereafter referred to as AT&T), GTE (now Verizon), and the two Sprint companies (now Embarq). Valor Telecommunications of Texas (now Windstream Communications Southwest) is included in this category because it receives large company area high-cost support for some of the exchanges it purchased from GTE in 2000.[19]

The costs to provide basic local telephone service (BLTS) in urban and rural environs of Texas vary dramatically. These cost differences are attributable to a few critical cost drivers. The primary cost drivers involve distance, terrain and density. Unlike a highly populated urban environment, access lines in rural areas are much, much longer and traverse a myriad of obstacles such as creeks, hills and valleys, all of which increase the relative costs of an access line considerably. At the same time, there are fewer end-user customers upon which to recover the substantial common costs associated with central office switching equipment and gear. The combination of higher access line costs and lower subscriber density significantly increases the costs of providing wire-line based BLTS in rural areas of Texas. Therefore, the high-cost program was created to help maintain reasonable rates for BLTS in rural areas in spite of the higher costs of providing BLTS in those areas.

Support amounts were determined for each wire center by comparing the cost of providing service by access line in the wire center and the average revenues a company could expect to receive for that line.[20]

The cost was determined by using a forward-looking economic cost model referred to as the HAI Proxy or "Hatfield Model." The forward-looking economic cost model quantifies the cost of building the telecommunications network anew given today's technology and cost, along with existing wire-center locations. The primary cost drivers noted above were taken into account in determining the support amounts for the large company area high-cost program. This model determined a monthly cost per access line.

Each wire center was evaluated and support amounts were established for those wire centers where the forward-looking economic costs exceeded the revenue benchmarks. The Commission based the revenue benchmark on the statewide average amount of revenues associated with an individual access line, and represents the amount above which high-cost support is provided. Each wire center was evaluated and support amounts were established for those wire centers where the forward-looking economic costs exceeded the revenue benchmarks ($38 for residential lines and $52 for business

[18] A wire center is the location where the telephone company terminates subscriber outside cable plant (*i.e.*, their local lines); usually the same location as a central office switch.

[19] Windstream's other local exchange properties (Sugarland, Alltel and Kerrville) receive high-cost support from the small rural ILEC area high-cost fund.

[20] PURA § 56.026(a) permits a carrier to receive disbursements from the universal service fund without a revenue requirement showing, i.e., a rate case or cost-based justification of the revenue levels it was receiving from existing rates.

lines). Support is provided for all flat-rate residential lines and the first five flat-rate single-line business lines at a business customer's location.[21] So, high-cost support recovers a portion of the costs to provide BLTS in high-cost rural areas of Texas.

Each ILEC eligible to receive support pursuant to this program has elected incentive regulation under Chapter 58 of PURA. Incentive regulation permits an electing company certain pricing and earnings flexibility in return for capping its rates for basic network services such as BLTS, making certain infrastructure commitments and providing rate discounts to certain qualifying entities. Consequently, except for enforcement of competitive safeguards under Chapter 60, the Commission is prohibited from ascertaining the reasonableness of an electing company's rates, revenues, and return on invested capital or net income.[22] However, as a quid pro quo, these electing companies voluntarily reduced certain rates in return for receiving high-cost support when this program was initially implemented. So, at its inception, the large company high-cost program was implemented on a revenue-neutral basis: in return for receiving high-cost support, each ILEC was required to reduce its intrastate switched access charges and intraLATA toll rates by an amount equal to the high-cost support it would receive from this program.

The large company area high-cost program does not operate like a reimbursement system; providers do not submit receipts from the purchase of equipment/gear, such as a central office switch, for reimbursement from the large company area high-cost program. Rather, support is provided on a monthly, per access line basis, as predetermined by the cost model and revenue benchmarks, and is designed to recover the cost of operations and depreciation of plant.

2. Support Amount Calculations

Using hypothetical average cost, Table 3 - Large Company Area High-Cost Support Calculation illustrates the calculation of high-cost support from the large company area high-cost program for a hypothetical wire center. Essentially, high-cost support is available in any given wire center where the forward-looking economic cost exceeds the revenue benchmark(s). If the forward-looking economic cost does not exceed the revenue benchmark(s) for any wire center, no high-cost support is provided.

[21] High-cost support is competitively neutral, portable across local service providers and generally follows the end-user customer. Generally speaking, the ETP that provides BLTS to an end-user customer is entitled to any applicable high-cost support, except where pure resale of the ILEC's services are involved, and where some of the unbundled network elements (UNEs) or facilities are leased from the ILEC. Basically, if a competitor uses its own facilities to serve customers, it will receive all of the available support; however, the more network facilities the competitor leases from the ILEC, the less support the competitor is entitled to receive. The high-cost support sharing mechanism ensures that the carrier that actually provides, maintains and operates the local telecommunications network shares the associated high-cost support with its competitor on an equitable basis.

[22] PURA § 58.025.

Table 3 — Illustration of Large Company Area High-Cost Support Calculation

Forward-looking Economic Cost Model Support Per Line/Month for Hypothetical Wire Center A	$64
LESS: Statewide Average Revenue Benchmark	$38
Per Line Support/Month for Hypothetical Wire Center A	$26

Again, using hypothetical figures, Table 4 - Large Company Area High-Cost Support Disbursement illustrates the calculation of the disbursements from the large company area high-cost program. Each month, ETPs report the number of lines serving end-user customers in each wire center. The support amount for each wire center is multiplied by the number of lines served in that wire center to determine the total support for each wire center. Then, the support amounts for each wire center are added together to determine the gross support amount available to that ETP. Federal universal service fund (FUSF) support is then deducted from the gross support amount in recognition of the fact that FUSF support recovers some of the costs of providing BLTS.

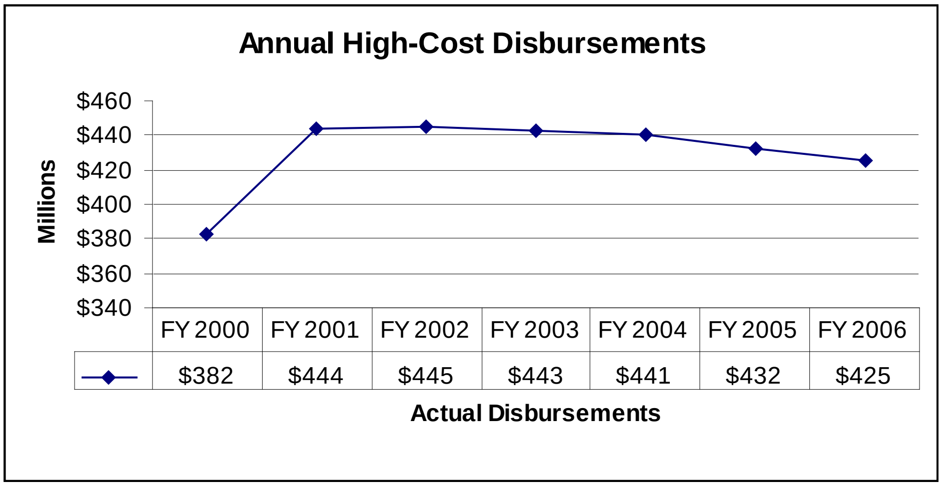
Table 4 — Illustration of Large Company Area High-Cost Support Disbursement for One Hypothetical ETP

Wire Center Name	Number of End-Use Customer Access Lines	Per Line Support Per month	Total Wire Center Support for One Month
Wire Center A	1,000	$26	$26,000
Wire Center B	5,000	$0.02	$100
Wire Center C	100	$500	$50,000
Subtotal	6,100		$76,100
Less: Federal High-Cost Support			$10,000
TOTAL			$66,100

3. Disbursements and Eligible Lines

The large company area high-cost program disbursements, as well as the number of high-cost lines, have remained fairly static since 2000. In fiscal year 2006, fifteen competitive ETPs and the five largest ILECs received $425 million from this program. Of that amount, the five largest ILECs received $408 million, or 96%, of the total disbursements from this program. CLECs received the remaining $17 million.

Figure 4 — Large Company Fund Disbursements, FY 2000-2006



SOURCE: Solix, Inc.

High-cost support varies dramatically by wire center. The high-cost support by wire center ranges from a low of $0.02 per line per month to a high of $1,119 per line per month. The table below sets forth the dispersion of residential access lines and associated high-cost support. Among other things, the table shows that 58% of the supported lines in the $.02 to $10 and $10 to $20 ranges receive 18% of the total high-cost support, 28% of the supported access lines in the $30 range and above ranges receive 68% of the total high-cost support.

Table 5 — Stratification of Large Company High-Cost Area Support

Monthly Per Line Support Range	Number of Lines	% of Total High Cost Residential Lines	Total Support/Month	% of Total Residential High-Cost Line Support
$0.02 - $10.00	394,537	34%	$1,470,452	5%
$10.01 - $20.00	284,216	24%	4,130,967	13%
$20.01 - $30.00	166,879	14%	4,197,068	14%
$30.01 - $40.00	87,087	7%	3,084,640	10%
$40.01 - $50.00	61,106	5%	2,707,123	9%
$50.01 - $60.00	54,017	5%	2,958,610	10%
$60.01 - $70.00	19,343	2%	1,257,584	4%
$70.01 - $80.00	26,169	2%	1,952,682	6%
$80.01 - $90.00	15,686	1%	1,330,800	4%
$90.01 - 100.00	14,269	1%	1,367,701	4%
$100.01 - $150	30,078	3%	3,524,290	12%
> $150	11,620	1%	2,630,595	9%
Total	1,165,007	100%	$30,612,513	100%

The geographic dispersion of high-cost support is further illustrated in the following maps. Additional maps illustrating the dispersion of high-cost support by individual strata are contained in Appendix. D.

Figure 5 — Geographic Dispersion of High-Cost Support – Total Annual Support

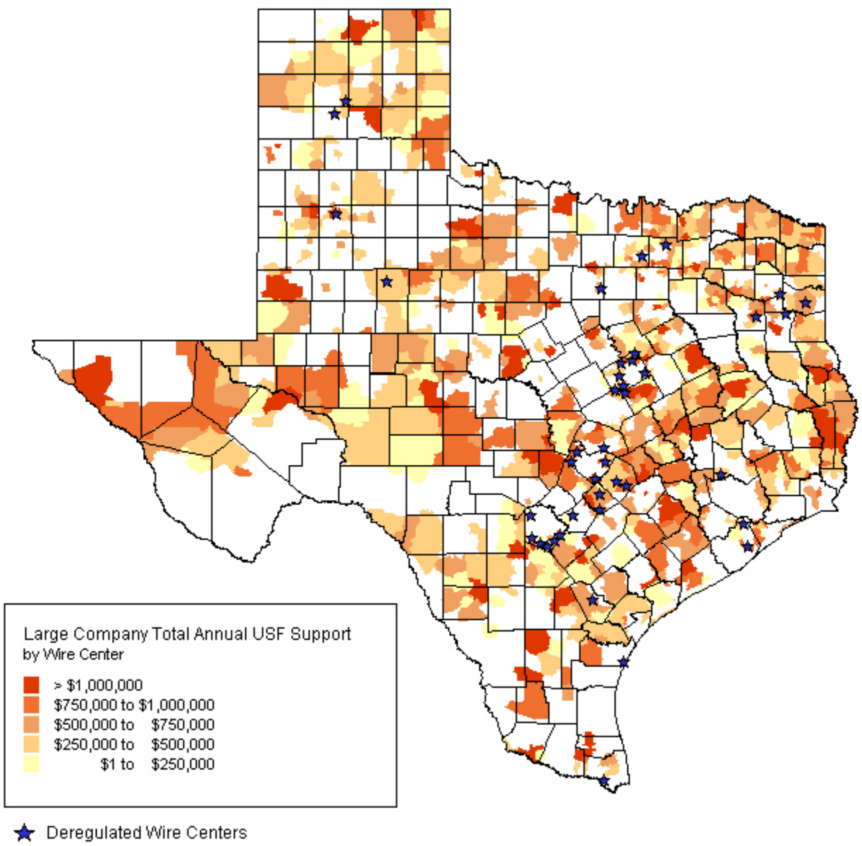
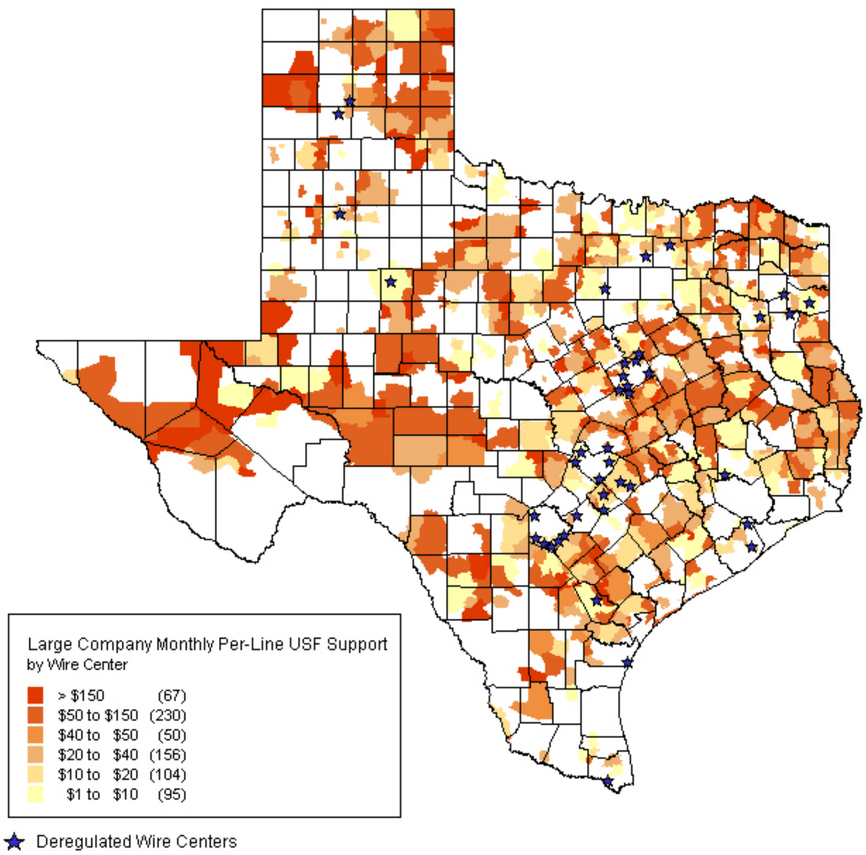
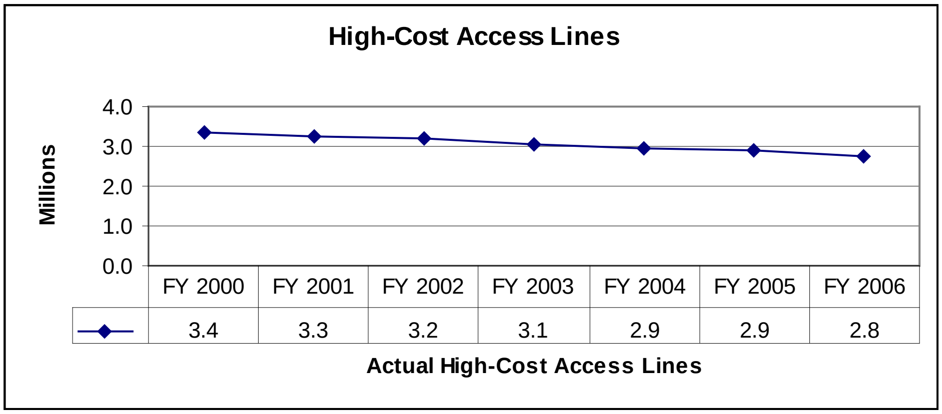


Figure 6 — Geographic Dispersion of High-Cost Support – Per Line Support



The number of lines eligible to receive large company area high-cost program support decreased steadily from fiscal year 2000-2006, with a decrease of 17% from fiscal year 2000 to 2006. This decline is attributable to several developments, including the displacement of second lines in favor of digital subscriber line (DSL) service or cable-modem service for internet access and the substitution of wireless service for landline service.

Figure 7 — High-Cost Lines, FY 2000-2006



SOURCE: Solix, Inc.

4. Summary of Key Metrics

Table 6 – Summary of Key Metrics - Large Company summarizes the key metrics associated with the Commission's review and evaluation of the large company area high-cost program. These metrics are central to the Commission's observations and analysis regarding this program and will be the subject of discussion in following sections of this report.[23]

[23] The Commission received responses from 16 of the 17 competitive local exchange carriers (CLECs) that were required to submit information pursuant to the Commission's data request. The information provided by these CLECs did not lend itself to a meaningful analysis primarily because they are not required to file Earnings Monitor Reports, and are not required to maintain their books and records in accordance with FCC Title 47, Part 32, Uniform System of Accounts. The information submitted by these CLECs indicated that they received approximately $14.8 million in high-cost support, or approximately 2.8% of the high-cost programs.

Table 6 — Summary of Key Metrics – Large Company

Description	Have BLTS Rates (without any features) Increased Since 1999?	By Way of Extrapolation, Does Data Indicate that TOTAL High-Cost Area Expenditures Exceeded THCUSP Receipts for CY 2000 - 2005?	By Way of Extrapolation, Does Data Indicate that High-Cost Area OPERATING Expenditures Exceeded THCUSP Receipts for CY 2000 - 2005?	By Way of Extrapolation, Does Data Indicate that High-Cost Area CAPITAL Expenditures Exceeded THCUSP Receipts for CY 2000 - 2005?	BLTS Rates-Residential Per Line/mo (rounded to whole $)	BLTS Rates-Business Per Line/mo (rounded to whole $)	THCUSP Receipts Per USF Line/mo - Docket No. 18515	Annual THCUSP Support (@ 1999 Access Line Counts) - Docket No. 18515	Total Number of Access Lines - CY 2005 (or 2004)	Total No. of Exchanges/ No. of Deregulated Exchanges	Actual Intrastate Rate of Return - CY 2005 (or 2004)[24]
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
AT&T [25, 26]	No	Yes	Yes	Yes	$8 - $11	$19 - $28	$ 0.13 - $369	$173m	8.35m	293/55	13.34%
Verizon [25, 26]	No	Yes	Yes	Yes	7 - 16	18 – 41	0.27 - 674	101m	1.45m	243/11	1.29%
Embarq-Central [25]	No	Yes	Yes	Yes	7 - 16	17 – 38	0.07 - 834	22m	.21m	104/5	9.31%
Embarq-United [25]	No	Yes	Yes	Yes	8 - 14	17 – 28	0.02 - 294	36m	.16m	N/A	16.48%
Windstream-Valor[25]	No	Yes	No	No	7 - 12	18 – 30	0.50 - 1,119	97m	.28m	195/0	128.14%
FCC National Avg. Urban Rates / Wt. Avg. Range / Totals					$14.53	$32.81	$8 - $44	**$429m**	10.45m		
Expenditures vs. Receipts Range		**6.7x - >1.0x**	**4.8x - <1.0x**	**1.9x - <1.0x**				-	-		

Columns (b), (c) and (d) are based upon unseparated operating expenses (excluding depreciation & amortization) and/or capital additions minus high cost support (receipts) for calendar years 2000 through 2005. Since operating expenses are not identified at the wire-center level, ratios were developed from the cost studies in Docket No. 18515 to apportion actual expenditures to those wire centers receiving high cost support.
Columns (e) and (f) rates reflect the tariff rate for flat-rate local exchange telephone service and do not include the federal subscriber line charge ($6.50), taxes, surcharges, USF assessments, fees, or any separately tariffed EAS, EMS or ELCS ($3.50) charges.
Columns (g) and (h) amounts have been adjusted to reflect the acquisition of exchanges by Windstream-Valor from Verizon. TUSF receipts represent approximately 3% of AT&T's Texas regulated telecommunications revenues; 9% for Verizon; 14% for Embarq; and 34% for Windstream.

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[24] Publicly available rates of return (ROR) from PUC Earnings Monitoring Reports. FCC's authorized ROR for non-price cap carriers is 11.25%.

[25] Denotes Chapter 58 Incentive Regulation Election.

[26] Denotes certification for state-issued cable or video franchise.

B. Has Program's Purpose Been Achieved?

The large company area high-cost program's purpose is to provide financial assistance to ETPs that serve high-cost rural areas of Texas so that BLTS may be provided at reasonable rates in a competitively neutral manner.[27]

1. Parties' Positions

Stakeholders fell into three camps regarding whether the large company area high-cost program's purpose has been achieved: those that believed the program's purpose has been achieved, those that believed it has not, and those that were uncertain.

Those that argued that the program's purpose has been achieved consisted of the ILECs and their associations– AT&T, Embarq, Windstream, Verizon, Texas Statewide Telephone Cooperative, Inc. (TSTCI) and Texas Telephone Association (TTA) – and, with caveats, Texas Public Policy Foundation (TPPF). The ILECs, recipients of large company area high-cost program support, unequivocally stated that the program's purpose had been achieved. In support of this, they offered as evidence the low local rates in high-cost rural areas of Texas.[28] While generally supporting the fund, TPPF also stated that the fund generally accomplishes its purposes, albeit inefficiently, and that price caps for BLTS are sustainable only because of TUSF support.[29] According to TPPF, the general problem with the fund is that the goal of bringing low prices to telecommunications consumers is better achieved through market competition than through government subsidies.

Texas Cable and Telecommunications Association (TCTA) and Time Warner Telecom of Texas, L.P. (TWTC) (collectively referred to as TCTA/TWTC) maintained that the data necessary to fully evaluate the large company area high-cost program is not available. TCTA/TWTC also stated that updated information suggests that the high-cost program is far larger than needed to achieve its purpose, in part because there is no direct linkage between the subsidy provided and the rates charged consumers in many markets and for most services.[30]

Grande, Office of Public Utility Commission (OPUC) and the State of Texas (State), however, expressed uncertainty as to whether the fund has achieved its purpose. Grande stated that it was difficult to ascertain what a reasonable rate was, and that it did not have sufficient information to comment on whether the TUSF accomplished the other goals in PURA Section 51.021.[31] OPUC opined that the program has worked better in some areas than in others, but because the confidential information is not available for

[27] PURA § 56.021(1) and P.U.C. SUBST. R. 26.403.

[28] AT&T Comments at 3 (Mar. 1, 2006); Verizon Comments at 4 (Mar. 1, 2006); and TTA Comments at 2 (Mar. 1, 2006).

[29] TPPF Comments at 3 (Mar. 1, 2006).

[30] TCTA/TWTC Comments at 6 (Mar. 1, 2006).

[31] Grande Comments at 2-3 (Mar. 1, 2006).

review, it could not comment on all programs without additional information.[32] The State believed it was premature to answers the question and that further analysis would be necessary.[33]

2. Commission Observations & Analysis

The large company area high-cost program and regulatory caps on BLTS rates were established in order to ensure that these rates remained at levels deemed to be reasonable at that time, while continuing the ability of the ILECs to provision, operate, and maintain quality service in those areas. The fund was established under the premise that this calculated, pre-determined level of financial assistance to ETPs that serve high-cost rural areas of Texas was necessary so that BLTS could continue to be provided at reasonable rates in a competitively neutral manner.[34] The Commission notes that rates for BLTS have not increased in the high-cost rural areas of Texas since the creation of this program or earlier. Thus, the high-cost program, along with incentive regulation which prohibits these companies from unilaterally increasing certain rates, has assisted ETPs in maintaining existing rates for BLTS.[35]

Generally, BLTS rates in Texas are below the national average. The residential rates for the large companies range from $7 to $16 per month,[36] whereas the national average rate is $14.53.[37] The business rates of the five large companies range from $17 to $41, whereas the national average rate is $32.81.[38] Table 6, Summary of Key Metrics – Large Company, summarizes the basic local residential and business rates for the large companies.

The Commission also notes that the program continues to be competitively neutral. High-cost support is portable and, therefore, available to any telecommunications provider (i.e., incumbent or competitive LEC) who has sought and obtained certification as an ETP and actually provides local exchange service to end-user customers in high-cost areas.

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[32] OPUC Comments at 1-2 (Mar. 1, 2006).

[33] State Comments at 1 (Mar. 1, 2006).

[34] PURA § 56.021(1) and P.U.C. SUBST. R. 26.403.

[35] From 1995 until 2005, all residential BLTS rates of large companies were capped by incentive regulation and did not increase since the creation of the fund in 1999 (or before).[35] In 2006, ILECs with markets deregulated pursuant to Chapter 65 of PURA could increase the rates of BLTS if a customer ordered BLTS along with other services; however, "stand-alone" BLTS rates are capped at least until September 2007 and the Commission has the opportunity, after notice and hearing, to revise the large company high-cost program support amounts.

[36] BLTS rates reflect the tariff rate for flat-rate local exchange telephone service and do not include the federal subscriber line charge ($6.50), taxes, surcharges, USF assessments, fees, or any separately tariffed EAS, EMS or ELCS ($3.50) charges.

[37] Federal-State Joint Board Monitoring Report, FCC, Table 7.6, Dec. 2005.

[38] *Id*., Table 7.7.

In summary, the Commission's overall review and evaluation of the large company area high-cost program shows that the program in conjunction with rate caps has achieved and is achieving its purpose of assisting telecommunications providers in providing BLTS at reasonable rates in high-cost rural areas primarily by maintaining existing rates for BLTS. However, whether this level of funding is necessary to achieve reasonable rates in high-cost areas going forward is yet to be determined, as discussed in the recommendation sections of this report. The preservation of existing BLTS rates, some of which have been in effect for decades, does not necessarily mean that existing rates are still reasonable. As shown on Table 6, Summary of Key Metrics – Large Company, residential rates for BLTS are, generally, a few dollars below the national average rate of $14.53.

C. Did Entities Spend the Money for Intended Purposes?

Given that the large company area high-cost program's purpose is to provide financial assistance to ETPs that serve high-cost rural areas of Texas so that BLTS may be provided at reasonable rates in a competitively neutral manner,[39] the purpose would be achieved if the high-cost support was spent to achieve this end.

1. Parties' Positions

The majority of stakeholders receiving TUSF – Verizon, TSTCI, Alltel, AT&T, Embarq, Windstream and TTA, along with TPPF, maintained that the entities receiving TUSF have spent it for its intended purposes. These stakeholders generally argued that they are meeting the guidelines of the Commission's Final Orders in Docket Nos. 18515 and 18516, complying with requirements under existing law, and spending TUSF monies for intended purposes, as evidenced by the certifications filed in Project No. 31952.[40] According to these stakeholders, they provide BLTS in high cost areas at reasonable rates and in a competitively-neutral manner.[41]

Other participants had varying observations regarding the use of funds. OPUC expressed concern that some carriers are not using the subsidy as efficiently as possible.[42] Grande asserted that, while it provided a certificate to the effect that it spent the monies it received for the purposes intended by law, it has no knowledge as to how other recipients

[39] PURA § 56.021(1) and P.U.C. SUBST. R. 26.403.

[40] PURA § 56.029(g) requires recipients of universal service fund money to file an affidavit with the Commission attesting that the money from the fund has been used in a manner consistent with PURA § 56.021 and Commission orders in Docket Nos. 18515 and 18516. Carriers receiving universal service fund money filed their affidavits in Project No. 31952.

[41] Windstream Comments at 4 (Mar. 1, 2006); TSTCI Comments at 4 (Mar. 1, 2006); Alltel Comments at 3 (Mar. 1, 2006); TPPF Comments at 3; AT&T at 7; AT&T Reply Comments at 7 (Apr. 3, 2006); and Embarq Reply Comments at 8 (Apr. 3, 2006).

[42] OPUC Comments at 2-3.

have spent their funds.[43] Grande opined that companies that provide service in accordance with the rules adopted by appropriate regulatory authorities should be compensated for the service provided in accordance with the rules in effect at the time the service is provided. Grande also argued that companies are entitled to a presumption that they have acted in accordance with the law and they have used the funds in accordance with the law.[44]

The State observed that recipients may have divergent views or interpretations of what constitutes a legitimate expenditure.[45] TCTA/TWTC argued in their initial comments that, because it does not have access to the necessary company-specific data to respond to this inquiry, they would reserve comment until they could review the initial comments produced by the parties spending the TUSF subsidy.[46] In their Reply Comments, TCTA/TWTC observed that neither AT&T Texas (nor the other Large Carrier Fund recipients, Verizon and Valor) offered any evidence as to how they have used the subsidies and stated that the existing system does not ensure that these public subsidies are being used for their intended purpose.[47].

2. Commission Observations & Analysis

The purpose of large company area high-cost program is to provide financial assistance to ETPs that serve high-cost rural areas of Texas so that BLTS may be provided at reasonable rates in a competitively-neutral manner.[48] The large company rural area high-cost program does not reimburse ETPs for a specific expense or cost, such as the purchase of switching equipment/gear. The funds from this program were intended to cover necessary and reasonable expenditures for operating and maintenance expense or plant addition that serve to promote the provisioning of BLTS at reasonable rates in high-cost rural areas. As discussed further below, the Commission did not have (nor were ILECs required to provide) cost information specific to high-cost wire centers, so in order to make the best determination it could as to whether the money was spent for intended purposes, the Commission employed an extrapolation methodology to allocate costs to high-cost wire centers.

a. Observations and Analysis

The Commission determined that a reasonable way to ascertain whether the five large companies spent the money they received for its intended purposes was to compare the amount of high-cost support received with expenditures in the high-cost areas. If the amount of these expenditures was at least as much as the amount of support received, it is

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[43] Grande Comments at 3.

[44] Grande Comments at 1.

[45] State Comments at 2.

[46] TCTA/TWTC Comments at 9.

[47] TCTA/TWTC Reply Comments at 5-6.

[48] PURA § 56.021(1).

reasonable to conclude that the money was spent as intended. To do this analysis, the Commission compared the amount of high-cost support with expenditures for each company for the entire period from calendar year 2000 through 2005. With this backdrop, the Commission made three comparisons:

- the first comparison was between high-cost support and expenditures for operations and maintenance expenses, (excluding depreciation), and plant (capital) additions;

- the second comparison was between high-cost support and operations and maintenance expenses, (excluding depreciation); and

- the third comparison was between high-cost support and only plant additions.

It is important to note that these comparisons are complicated by the fact that wire-center level cost information is not available. LECs are not required to maintain cost information at the wire-center level. Instead, they maintain their books of account on a statewide study-area basis. Consequently, information at the wire-center level is simply not available, thereby making it impossible to compare actual costs with actual support in any given high-cost wire center. In order to be responsive to the question of whether companies receiving high-cost funds are spending the money for intended purpose, i.e., spending high-cost support for legitimate purposes in high-cost areas, the Commission has endeavored to address this question by extrapolation.

The Commission developed company-specific ratios from the forward-looking cost studies sanctioned by the Commission in Docket No. 18515. These ratios were used to apportion actual, statewide area expenditures between those wire centers that are and are not receiving high-cost support. These ratios represent an objective and conservative (did not include other legitimate costs such as depreciation, other taxes, federal income taxes, interest expense, or return on equity) basis available to apportion costs, and indeed, are the only means available to attempt to address the instant question. Therefore, critical assumptions must be made by the Commission in attempting to ascertain whether the high-cost support was spent for intended purposes.

b. The Results of Extrapolation

The lack of wire-center level cost information makes it impossible to determinate definitively whether or not receipts for high-cost support were spent for intended purposes in high-cost wire centers without making assumptions. However, by way of extrapolation, the data indicates that, overall, large companies receiving high-cost support spent more money than they received for intended and necessary purposes. In other words, this analysis indicates that all of these companies spent more money on operating, maintenance and capital expenditures combined in high-cost wire centers than the support they received from the large company rural area high-cost program. The analysis indicates that the magnitude by which they spent more money than they received ranged from 6.7 to 1 to just above 1 to 1.

With respect to recurring operating expenditures alone, excluding capital expenditures, the analysis indicates that all companies, save one, spent more money than they received. The analysis indicates that the magnitude by which they spent more money than they received for just operating expenditures ranged from 4.8 to 1 to just below 1 to 1.[49]

With respect to capital expenditures, the analysis indicate that all companies, save one, spent more money than they received.[50] The analysis indicates that the magnitude by which they spent more money than they received for capital expenditures ranged from 1.9 to 1 to something below 1 to 1. Table 6, Summary of Key Metrics – Large Company, summarizes these results.

D. What Should This Program Look Like in the Future?

1. For what purpose should the recipients spend the money?

a. Parties' Positions

Stakeholders – including AT&T, Grande, Alltel and TSTCI – that made distinctions between the appropriate use of the money in the fund and the purpose for which the money should be used by the TUSF recipient agreed that the recipient should use the money to fund "operating expenses" and "capital" costs.[51] AT&T also noted that the money should assist in funding the operating expenses and capital costs incurred in providing BLTS at reasonable rates in high cost rural areas.[52] AT&T specifically noted that operating expenses and capital costs would include costs associated with material, installation, maintenance, billing, customer care and network upgrades.[53]

The majority of the stakeholders – AT&T, Alltel, Verizon, TSTCI, OPUC, the State, TWTC/TCTA, and Embarq – stated that TUSF funds should be spent in accordance with the law, as described in PURA §56.021. These parties asserted that the statute and the Commission rules for use of the TUSF rightfully focus on assistance for

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[49] As expected, none of the companies provided operating and maintenance expense information on a wire-center level because such information is only required on a statewide study-area basis.

[50] A wire-center-by-wire-center comparison of high-cost support and plant additions confirmed that Windstream did not spend more money than it received from the high-cost fund on plant additions in high-cost wire centers. A similar wire-center-by-wire-center comparison could not be performed for AT&T because it did not provide any plant-addition data by wire center. Such information was not provided by AT&T because their available wire-center level data was purported to only include a subset of the data necessary to respond to the Commission's data request.

[51] AT&T Comments at 7; Grande Comments at 5; Alltel Comments at 6; and TSTCI Comments at 9.

[52] AT&T Comments at 7.

[53] *Id*.

the provision of BLTS in high cost areas, access for people with disabilities, and assistance for low-income customers.[54]

Grande asserted that the TUSF fund should be used to achieve the legislative objectives and maintained that the fund should be expanded to support broadband services.[55] TPPF opined that the fund should be primarily targeted toward low-income customers, that support for high-cost areas and small rural carriers should be reduced, and that subsidies for well-funded government agencies should be abolished immediately.[56]

b. Commission Recommendations

In the course of the Commission's review and study it became apparent through both the Commission's analysis as well as stakeholders' comments that certain aspects of this program are potentially in need of change and should be re-examined. PURA currently provides the Commission with the ability to make appropriate changes in the near future via rulemaking and contested proceedings.[57] The Commission believes that the re-examination of this program should include, but not be limited to, "resizing" the support amounts and "retargeting" the service areas and access lines eligible for support.

Resizing of the program involves recalculating the monthly per-line support amounts from the fund available to Eligible Telecommunications Providers (ETPs). This would be done via a contested case involving all interested stakeholders. The original cost model used to calculate support amounts included inputs that are now arguably outdated. The Commission envisions that, as done at the onset of this program, a cost model could be chosen along with the relevant, up-to-date information to calculate going-forward per-line support amounts in areas determined to be high cost. The Commission could also consider other appropriate methods.

Retargeting involves issues of a policy nature and could be handled via a Commission rulemaking. The most significant issue identified by the Commission and discussed by stakeholders is "What lines should be eligible for this high-cost support (e.g. lines in regulated vs. deregulated market areas, quantity of lines at any given residence, stand-alone lines vs. lines with vertical services included, etc.)?"

In addition, the Commission believes it should examine what constitutes a "reasonable rate" for BLTS today, because the concept of "reasonableness" has not been reviewed by the Commission for several years.

Furthermore, the Commission believes that ETPs should continue to spend high-cost support in high-cost areas in order to maintain a current Commission-determined

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[54] AT&T Comments at 6; Alltel Comments at 7; Verizon Comments at 6; TSTCI Comments at 9; OPUC Comments at 4; State Comments at 3; TCTA/TWTC Comments at 15; and Embarq Reply Comments at 11.

[55] Grande Comments at 4.

[56] TPPF Comments at 4-5.

[57] *See* PURA 56.031. The Commission may revise the monthly per line support amounts any time after September 1, 2007, after notice and opportunity for hearing.

"reasonable" rate for BLTS. Specifically, such support should be spent on necessary and appropriate costs associated with deploying, maintaining and operating the telecommunications infrastructure associated with providing BLTS in high-cost rural areas.

2. How should support be disbursed?

a. Parties' Positions

Stakeholders generally directed their comments around two issues: (1) whether support should be provided to wire centers in deregulated exchanges and for access lines in regulated exchanges that are subscribed to a deregulated service; and (2) what responsibilities should be required of TUSF recipients.

Grande and TCTA/TWTC argued that TUSF support should no longer be provided in wire centers that have been deregulated pursuant to PURA Chapter 65[58] and TCTA/TWTC stated that TUSF subsidies in regulated exchanges should be limited to access lines that are not subscribed to a deregulated service.[59] According to Grande, the presumption for a deregulated market is that such a market will provide for communications services and that TUSF is not required.[60] Further, Grande recommended that the Commission consider expanding TUSF support to include broadband services.[61] TCTA/TWTC recommended that the Commission should recommend to the Legislature that exchanges that have been deregulated be immediately removed from the fund.[62] TCTA/TWTC also opined that public subsidy should be provided only for those lines where the customer subscribes solely to basic local telephone service.[63]

In general, stakeholders receiving TUSF or representing entities that receive TUSF – including Embarq, AT&T, Verizon, TSTCI, and TTA – and the State argued that support in deregulated exchanges should continue.[64] Embarq noted that it does not receive TUSF support in any of its markets that have been deregulated, but argued that eligibility for any large company area high-cost program support is not determined by the level of competition but on the level of costs.[65]

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[58] TCTA/TWTC Comments at 21 and Grande Comments at 7.

[59] TCTA/TWTC Reply Comments at 2, 6, 11 and 12.

[60] Grande Comments at 6.

[61] Grande Reply Comments at 1-3 (Apr. 3, 2006).

[62] TCTA/TWTC Comments at 21.

[63] TCTA/TWTC Comments at 4.

[64] AT&T Comments at 13; Verizon Comments at 10-11; TSTCI Comments at 16; State Comments at 5; and Embarq Reply Comments at 20 (Apr. 3, 2006).

[65] Embarq Reply Comments at 20.

According to AT&T, support should be available in deregulated wire centers because a wire center can be competitive yet still need universal service support to ensure BLTS is available everywhere.[66] Verizon stated that only those carriers in deregulated exchanges that retain provider of last resort (POLR) responsibilities should receive TUSF support[67] TSTCI believed that the receipt of TUSF support is simply not relevant to the level of competition in a market or to the issue of determining a market's eligibility for deregulation and the deregulatory status of a market should not be a factor.[68] The State asserted that support, to the extent it is provided, should be provided equally to all ETPs in a deregulated wire center.[69]

Some stakeholders argued that providers should only be able to receive TUSF if they contribute to the fund, are an ETP, and assume POLR responsibilities.[70] OPUC and TSTCI argued that any recipient of the fund should meet ETP requirements as stated in the Commission's rule, P.U.C. SUBST. R. 26.417.[71] AT&T further argued that to receive support, a provider should be facilities-based, provide service throughout the area, and that the provision of services should trigger the payment contributions.[72] Verizon argued that a recipient should be a POLR and should contribute to the TUSF before it is entitled to funding.[73]

b. Commission Recommendations

The Commission believes that high-cost support should continue to be disbursed to ETPs on a per-access-line basis. In addition, the question of whether all access lines within a high-cost wire center should receive support, or should receive the same level of support, could also be examined.

3. What future accountability mechanism should be established?

a. Parties' Positions

Stakeholders generally either stated that the current system of accountability is completely satisfactory, or that more accountability and transparency is necessary and

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[66] AT&T Comments at 13.

[67] Verizon Comments at 11.

[68] TSTCI Comments at 16.

[69] State Comments at 5.

[70] State Comments at 5; TSTCI Comments at 15; Verizon Comments at 10; Alltel Comments at 8; AT&T Comments at 12; Embarq Reply Comments at 19-20; and Grande Comments at 7.

[71] TSTCI Comments at 15 and OPUC Comments at 6.

[72] AT&T Comments at 12.

[73] Verizon Comments at 10.

appropriate in the future. ILEC participants and their associations and TPPF asserted that the current system is fine, while TWTC/TCTA and OPUC took the opposite view.

Respondents on behalf of the ILECs asserted that the current system is sufficient and that there is no need for any additional requirements. The ILEC respondents claimed that the attestation required by PURA § 56.029(g) is very useful and appropriate, especially because a certifying company would be subject to penalties for falsifying such certification.[74] According to the ILECs, additional accountability measures are not needed because they were required to: (1) to reduce their rates/revenues by a like amount as a condition precedent to receiving TUSF funds, thereby eliminating any windfall;[75] (2) provide detailed documents on a monthly basis to Solix (the TUSF administrator) to request TUSF support;[76] and (3) PURA funds are used appropriately.[77]

With regards to accounting procedures and internal tracking mechanisms used for tracking operating expenses and capital expenditures to determine if funds received from the TUSF are used specifically for satisfying the requirements of PURA § 56.021, the ILEC respondents stated that no explicit accounting procedures are needed and that no such requirements were established by any state or federal regulatory authority.[78] The ILECs further noted that their books of account for the recording and summarizing operating expenses and capital expenditures are maintained in accordance with 47 C.F.R. Part 32.[79] Additionally, the ILECs claimed that any detailed tracking is unnecessary and inappropriate (and would be difficult, if not impossible, to perform), would be burdensome and costly, and that such information could not be made publicly available because the Legislature has previously determined that any reports telecommunications providers are required to submit regarding fund disbursements are confidential and not subject to disclosure under Chapter 552, Government Code.[80] TPPF stated that the current system has worked well and noted that specific requirements were established during the implementation of the fund to ensure that the purposes of the fund would be achieved, including Commission oversight.[81]

However, other respondents argued the current system lacks accountability, transparency, independent analysis and public disclosure, and that the PURA § 56.029(g)

[74] AT&T Comments at 8; Verizon Comments at 8; TSTCI Comments at 11; TTA Comments at 7; Alltel Comments at 6; and Grande Comments at 5.

[75] Verizon Comments at 6-7; AT&T Comments at 7; and TTA Comments at 14-15.

[76] AT&T Comments at 7.

[77] Alltel Comments at 6; AT&T Comments at 7; and TTA Comments at 14-15.

[78] AT&T Response to the Commission's Part II Information Request (Apr. 3, 2006).

[79] *Id*.

[80] AT&T Reply Comments at 15-16 and TSTCI Reply Comments at 2-3.

[81] TPPF Comments at 5.

"check a box" attestation, while administratively simple, does not improve transparency and its usefulness is questionable because it does not convey any detail.[82]

TCTA/TWTC argued that it will be difficult to hold recipients of TUSF money accountable and that the current system does not differentiate the subsidies provided to all access lines in "high cost" exchanges from access lines purchased in packages which allegedly are priced at compensatory levels.[83] TCTA/TWTC stated that the most troubling features of the existing system are that there is no accountability and no transparency that would permit independent analysis.[84] Similarly, the State suggested that TUSF recipients be required to file publicly their expenditures that were made using universal service support so that both the Commission and the consumers who are paying for these subsidies can review the appropriateness of all supported expenditures.[85] OPUC concurred that recipients of TUSF funds should maintain complete records of TUSF receipts and expenditures and these records should allow for tracking by Commission Staff to determine whether the TUSF monies were spent consistent with Texas law.[86]

TCTA/TWTC stated that although the Commission did require that other prices be adjusted downward, it is not fair to say that the purpose of the fund was to perpetuate a replacement revenue stream, thereby insulating the recipient's revenues from competitive pressures or technological change.[87] TCTA/TWTC also claimed that the AT&T standard for accountability – *i.e.*, that public subsidies are appropriate merely because they replaced other revenues – does not track AT&T's understanding of what the subsidies are intended for – *i.e.*, to assist them in funding the capital and operating expenses incurred in providing "basic local telecommunications service at reasonable rates in high cost rural areas."[88] TCTA/TWTC stated that despite recognizing how the USF subsidies are intended to be spent, AT&T, Verizon and Windstream did not offer any evidence as to how they have used the subsidies, nor did they suggest any improvements regarding accountability.[89]

Grande noted that any method other than an attestation must be based upon a reasonable set of easily applied objective standards in a reasonable geographic context and that ETPs not subject to traditional utility accounting rules should be permitted to use non-utility accounting standards.[90]

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[82] TCTA/TWTC Comments at 16; OPUC Comments at 5; and State Comments at 4.

[83] TCTA/TWTC Comments at 16.

[84] TCTA/TWTC Comments at 16.

[85] State Comments at 3.

[86] OPUC Comments at 4.

[87] TCTA/TWTC Reply Comments at 4-5.

[88] *Id*.

[89] *Id*.

[90] Grande Comments at 5.

b. Commission Recommendations

Besides the relatively new requirement in PURA § 56.030 for affidavits attesting to the use of TUSF monies, the Commission believes that future accountability could be achieved by performing periodic reviews of the high-cost support amounts to ensure that the amounts and geographic areas and access lines supported are appropriate and adequate.

4. How to ensure support for geographic area is consistent with § 56.021 & Docket No. 18515?

a. Parties' Positions

Several stakeholders – Embarq, Verizon, TSTCI, AT&T, Alltel and Grande – argued that no changes are required to the existing procedures to ensure TUSF support received pursuant to the large company area high-cost program is consistent with PURA § 56.021 and the Commission Order in Docket Nos. 18515 and 18516.[91] In general, these stakeholders, all recipients of TUSF or representatives of recipients of TUSF, maintained that they use TUSF support in a manner consistent with PURA § 56.021, which dictates the policy they are required to follow. Further, TSTCI strongly contended that the current and proposed attestations, coupled with other reports ILECs furnish the Commission, such as Quality of Service Reports and Regulated/Non-regulated Comparative Percentage Reports, are sufficient.[92]

Other stakeholders argued that additional measures are needed to ensure that support for the geographic areas is consistent with PURA § 56.021 and the Commission Order in Docket Nos. 18515 and 18516. The State argued that the best safeguard to ensure that universal service support is being used consistent with the fund's purposes would be a requirement for public filing of all TUSF-supported expenditures, exposing them to public critique, as well as compliance audits.[93] OPUC asserted that compliance audits would be a good start and it would be useful to establish a yardstick for infrastructure development for a carrier receiving TUSF funds to attempt to compare to similarly situated carriers.[94]

TCTA/TWTC argued that three things should be done, at a minimum, to ensure that funding levels identified at the geographic level are set consistent with PURA § 56.021 and Docket Nos. 18515 and 18516: (1) update the revenue benchmarks used to determine support from the HAI model for the large company area high-cost program; (2) update the cost model to reflect changes in the cost of providing local service; and (3) eliminate any subsidies in wire centers in deregulated exchanges[95] and, in regulated

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[91] Embarq Reply Comments at 8; Verizon Comments at 5; TSTCI Comments at 7; AT&T Comments at 4; AT&T Reply Comments at 7; Alltel Comments at 4; and Grande Comments at 3.

[92] TSTCI Comments at 7.

[93] State Comments at 2 and State Reply Comments at 2.

[94] OPUC Comments at 3.

[95] TCTA/TWTC Comments at 9-10.

exchanges, for access lines that are subscribed to a deregulated service.[96] TCTA/TWTC estimated that AT&T's High Cost subsidy could be reduced if the costs and revenues are updated.[97] TPPF argued that the primary focus should be on reducing the size of the fund and suggested four steps to accomplish that goal: (1) allow the price of BLTS to rise to better reflect actual costs; (2) ensure that all cost savings are identified through an updated cost study going forward; (3) provide more careful targeting of fund programs to those who truly need them; and (4) eliminate mandated provisioning of private network service.[98]

b. Commission Recommendations

The Commission believes that consistency could be achieved by periodically updating the high-cost support amounts and the geographic areas and access lines supported in order to ensure that such support is appropriate and adequate.

96 TCTA/TWTC Reply Comments at 2, 6, 11 and 12.

97 TCTA/TWTC Comments at 28.

98 TPPF Comments at 4.

Chapter III. Small Company Area High-Cost Program

A. Background/Program Totals 2000-2006

1. History

Section 56.021(1) of the Public Utility Regulatory Act (PURA) directs the Commission to adopt rules requiring local exchange companies to establish a universal service fund to "assist telecommunications providers in providing basic local telecommunications service at reasonable rates in high cost rural areas."[99] The program seeks to ensure that all customers throughout Texas have access to basic local telecommunications service (BLTS) at just, reasonable, and affordable rates.

As part of the restructuring of the Texas Universal Service Fund (TUSF), on January 22, 1998, in Project No. 14929, the Commission adopted P.U.C. SUBST. R. 23.134 (now P.U.C. SUBST. R. 26.404) which established the Small and Rural ILEC Universal Service Plan, hereafter referred to as the small company area high-cost program. The small company area high-cost program provides financial assistance to eligible telecommunications providers (ETPs)[100] that serve high-cost, rural areas of Texas where a small, rural carrier[101] is the incumbent.

The Commission recognized that state and federal statutes place small and rural carriers on a different competitive footing than other carriers and therefore established a separate fund for rural carriers. To determine support amounts for ETPs serving customers in these small, rural incumbent local exchange carrier (ILEC) study areas, on December 22, 1997, the Commission initiated a separate contested proceeding, Docket No. 18516, which was concurrently processed with the large company high-cost area program in Docket No. 18515.

Unlike the large company area high-cost program, wherein a cost model was used to establish wire-center specific per-line support amounts, the per-line support amounts in the small company area high-cost program were based upon an outright buy down of certain rates, namely intraLATA toll rates and switched access charges, and elimination

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[99] Basic local telecommunications service (BLTS) is defined in PURA § 51.002(1) as consisting of the following components: flat rate business and residential service, including directory listings, Lifeline service, tone dialing, access to 911, operator and directory assistance services, and the ability to report service problems seven days a week. BLTS does not include any features (such as Caller ID or call waiting) or any additional services (such as DSL or long distance calling) beyond basic access to the telephone network.

[100] An ETP is a telecommunications provider designated by the Commission to receive support from the TUSF pursuant to P.U.C. SUBST. R. 26.417.

[101] As defined in P.U.C. SUBST. R. 26.5(187), a rural ILEC as an ILEC that qualifies as a rural telephone company as defined in 47 U.S.C. § 3(37) and/or 47 U.S.C. 251 § (f)(2). PURA § 53.304(a)(1) defines a small ILEC as "a cooperative corporation" or a company that "has, together with all affiliated incumbent local exchange companies, fewer than 31,000 access lines in service in this state."

of the implicit subsidy provided via the intraLATA toll pool (i.e., the division of revenue/settlements process between the ILECs). Some of the small rural ILECs eligible to receive support pursuant to this program had elected incentive regulation under either Chapters 58 or 59 of PURA, and the Commission was prohibited from reducing their rates. However, a company could reduce its rates voluntarily in return for high-cost support. Therefore, at its inception, the small company area high-cost program was implemented on a revenue-neutral basis.

For the rural ILEC study areas, monthly per-line support consists of the sum of (1) the amount necessary to replace support previously provided by the intraLATA toll pool and (2) the loss of revenue associated with the implementation of the Commission-ordered switched access and intraLATA toll rate reductions. Specifically, support amounts were determined by transitioning the intraLATA toll pool support amount, and twenty-cent ($0.20) per minute intraLATA toll rate cap and an intrastate access rate reduction (closer to interstate switched access rate parity). The toll pool support amounts were direct transition amounts, but the intraLATA toll and intrastate access rate reductions were calculated to recover the difference between the old rates and the new rates based upon 1997 minutes of use.[102] These support amounts, access lines and minutes of use were the inputs for a one-time calculation that produced a frozen monthly, per-line support amount for each small, rural ILEC study area. The final order implementing the small company area high-cost program was adopted on January 14, 2000.

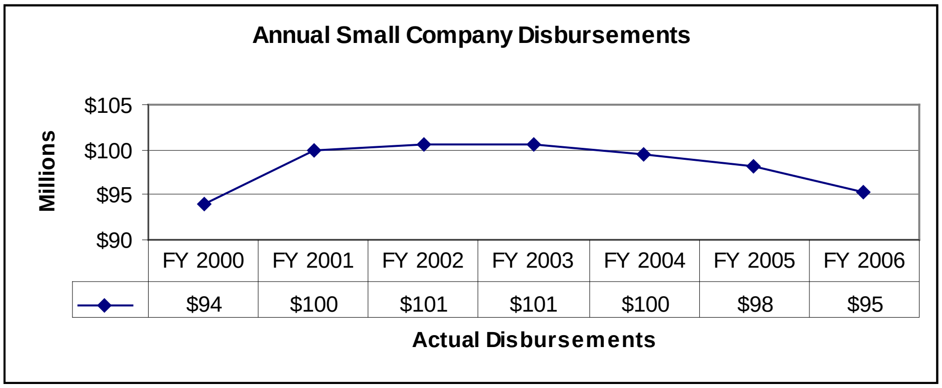
The small company area high-cost program provides per-line support to any ETP that provides service in the study areas of small, rural ILECs, ensuring the provision of BLTS at reasonable rates in a competitively neutral manner. The full per-line support amount is portable to competitive ETPs, and unlike the large company area high-cost program, there is no sharing mechanism.

2. Disbursements and Eligible Lines

The disbursements for the small company area high-cost program have remained fairly static since 2000. In fiscal year 2006, $95 million was disbursed to 57 ETPs (54 ILECs and 3 competitive ETPs). Of that amount, the 54 ILECs received $ 94 million, or approximately 98%, of the total disbursements from this program. CLECs received the remaining $1.5 million.

[102] Revenues from access charges and toll rates, like revenues from all other telecommunications services, recover operations and maintenance costs, taxes, and may produce a return (interest expense and profit). Such costs and profit are not easily or objectively attributable to any specific telecommunications service, including basic local telecommunications service.

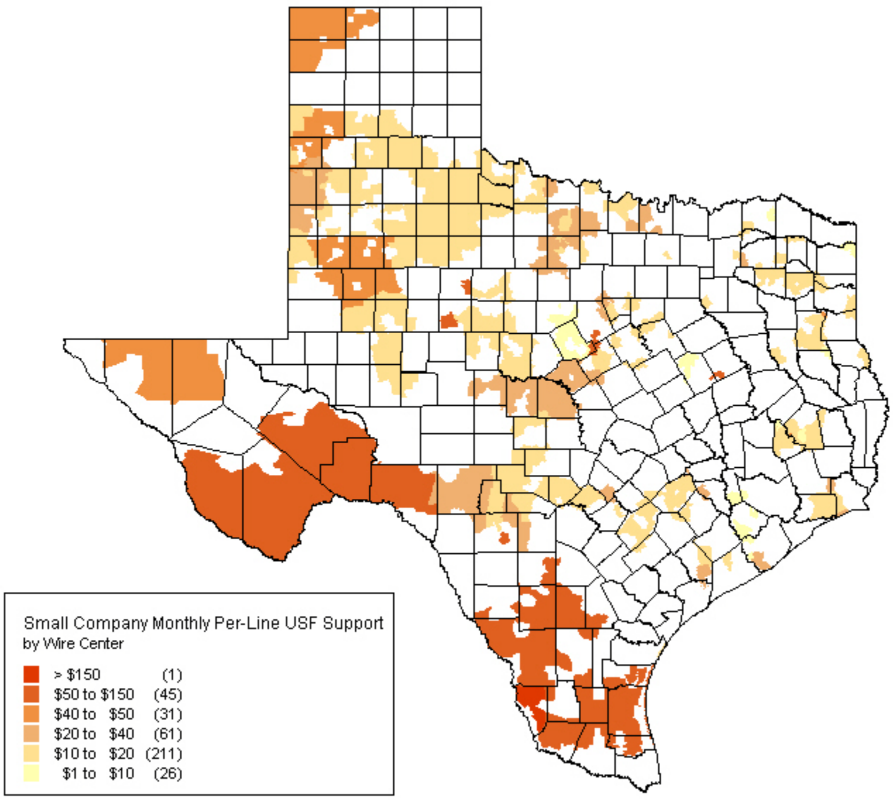
Figure 8 — Small Company Fund Disbursements, FY 2000-2006



SOURCE: Solix, Inc.

The geographic dispersion of the small company support is illustrated in the following map. Additional maps illustrating the dispersion of high-cost support by individual strata are contained in Appendix E.

Figure 9 — Geographic Dispersion of High-Cost Support – Per Line Support



3. Summary of Key Metrics

Table 7 – Summary of Key Metrics – Small Company summarizes the key metrics associated with the Commission's review and evaluation of the small company area high-cost program. These metrics are central to the Commission's observations and analysis regarding this program and will be the subject of discussion in following sections of this report.

Table 7 — Summary of Key Metrics – Small Company

Name	Have BLTS Rates Increased Since 1999?	Do TOTAL Expenditures Exceed Receipts for CY 2000 - 2005?	Do OPERATING Expenditures Exceed Receipts for CY 2000 - 2005?	Do CAPITAL Expenditures Exceed Receipts for CY 2000 - 2005?	Residential Rates Per Line/mo (rounded)	Business rates Per Line/mo (rounded)	SRICUSP Receipts Per USF Line/mo – Dkt. 18516	Annual RECEIPTS (@ 1997 Access Line Counts) – Dkt. 18516	Intrastate Rate of Return - CY 2005 (or prior)[103]
Alenco	No	Yes	Yes	No	$7 - $11	$14 - $25	$87	$1,417,918	15.1%
Big Bend[104]	No	Yes	Yes	Yes	5 - 9	9 - 18	52	2,491,836	11.3%
Blossom	No	Yes	Yes	Yes	7	9	4	56,062	6.2%
Border	No	Yes	Yes	Yes	19	38	236	212,652	21.3%
Brazoria	No	Yes	Yes	Yes	10 - 14	18 - 22	31	2,031,754	12.0%
Brazos Inc.	No	Yes	Yes	No	6	10	37	501,746	21.6%
Brazos Tel.	No	Yes	Yes	Yes	7	18	12	518,851	10.1%
Cameron	Yes [105]	Yes	Yes	No	7 - 10	14 - 16	26	366,231	-0.4%
Cap Rock	Yes [105]	Yes	Yes	Yes	7 - 11	14 - 25	17	943,712	16.4%
Central Tx	No	Yes	Yes	Yes	8 - 12	11 - 35	23	1,739,870	7.3%
Century LD[104]	No	Yes	Yes	Yes	7	14	13	1,096,756	18.8%
Century PA[104]	No	Yes	Yes	Yes	6	11 - 12	13	497,880	16.1%
Century SM[104]	No	Yes	Yes	No	6	13	20	5,047,404	22.5%
Coleman	No	Yes	Yes	Yes	7	10	19	448,917	15.4%
Colorado	No	Yes	Yes	Yes	8	14	19	1,263,722	n/a
Comanche	No	Yes	Yes	Yes	10	14	8	464,680	-10.5%
Community	No	Yes	Yes	No	10	14	26	474,301	11.7%
Consol. TX [104]	No	Yes	Yes	No	6 - 8	13 - 15	12	10,991,391	25.1%
Consol. FB[104]	No	Yes	Yes	Yes	7 - 9	13 - 16	10	3,056,604	16.6%
Cumby	No	Yes	Yes	No	7	11	27	213,859	28.7%
Dell	No	Yes	Yes	Yes	15	21	46	302,481	0.0%
Eastex	No	Yes	Yes	Yes	6 - 7	10 - 11	14	4,178,106	3.1%
Electra	No	Yes	Yes	No	6	12 - 18	29	510,187	15.7%
ENMR	No	Yes	Yes	No	12 - 13	17 - 20	18	179,515	-7.0%
Etex	No	Yes	Yes	Yes	7	13 - 14	16	2,328,588	19.2%
Five Area	No	Yes	Yes	No	17	32 - 33	38	620,588	11.2%
Ganado	No	Yes	Yes	Yes	7 - 11	13 - 25	20	600,945	16.7%
Guadalupe[106]	No	Yes	Yes	Yes	7 - 8	11 - 18	12	3,782,715	16.9%
Hill Country	No	Yes	Yes	Yes	6	10	18	2,686,493	12.1%
Industry	No	Yes	Yes	Yes	8 - 9	12 - 14	35	755,887	1.0%
Kerrville[104]	No	Yes	Yes	Yes	7 - 8	16 - 20	11	2,283,730	20.9%
La Ward	Yes[105]	Yes	Yes	Yes	9	17	30	358,306	1.3%
L.Livingston	No	Yes	Yes	No	7	7	44	545,355	11.1%
Lipan	No	Yes	Yes	Yes	7 - 9	11 - 13	39	538,671	10.4%
Livingston	No	Yes	Yes	Yes	8	20	7	415,515	11.9%
Mid-Plains	No	Yes	Yes	Yes	7 - 14	18 - 27	15	510,042	12.5%
Nortex	No	Yes	Yes	No	8 - 9	15 - 17	34	1,246,463	19.5%
North Texas	No	Yes	Yes	No	9	17	11	108,163	-6.7%
Peoples	No	Yes	Yes	Yes	8 - 9	17 - 18	11	1,389,831	11.7%
Poka Lambro	No	Yes	Yes	No	9 - 10	16	44	1,661,915	-5.8%
Riviera	No	Yes	Yes	No	9	17	78	759,389	3.8%
Santa Rosa	No	Yes	Yes	Yes	8	12	14	367,802	6.7%
South Plains	No	Yes	Yes	Yes	8 - 11	12 - 17	16	860,582	13.9%
SW AR	No	Yes	Yes	Yes	18	33	5	27,522	-7.9%
SW Texas	No	Yes	Yes	No	8	14	39	1,611,976	20.6%
Sugar Land[104]	No	Yes	Yes	Yes	5 - 16	7 - 44	9	5,108,244	31.8%
Tatum	No	Yes	Yes	No	5	8 - 23	45	415,047	27.2%
Taylor	No	Yes	Yes	Yes	7 - 8	9 - 13	12	867,009	12.4%
TX Alltel[104]	No	Yes	Yes	Yes	5 - 6	11 - 16	13	3,886,302	12.8%
Valley	No	Yes	Yes	Yes	11 - 15	14 - 22	71	4,350,162	16.0%
West Plains	No	Yes	Yes	No	8	20	12	598,229	17.8%
West Texas	No	Yes	Yes	No	11	17	44	897,451	-3.9%
Wes-Tex	No	Yes	Yes	Yes	7 - 11	11 - 13	13	488,923	-16.0%
XIT	No	Yes	Yes	Yes	9 - 13	15 - 19	45	561,991	3.5%
TOTAL								$79,640,271	

103 Publicly available rates of return (ROR) from PUC Earnings Monitoring Reports. FCC's authorized ROR for non-price cap carriers is 11.25%.

104 Denotes Chapter 58 or 59 Incentive Regulation Election.

105 Denotes minor rate change (<=10% per yr) for cooperatives and small telephone companies pursuant to P.U.C SUBST. R. 26.171.

106 Denotes Certification for State-Issued Cable or Video Franchise.

B. Has Program's Purpose Been Achieved?

The small company area high-cost program's purpose is to provide financial assistance to ETPs that serve high-cost rural areas of Texas so that BLTS may be provided at reasonable rates in a competitively neutral manner.[107]

1. Parties' Positions

Very few stakeholders addressed this issue. According to the Texas Statewide Telephone Cooperative, Inc. (TSTCI), the small company area high-cost program has and does accomplish its intended purpose. TSTCI stated that, for its member companies and other small ILECs that were a party to Docket No. 18516, the support is a replacement of toll pool revenues, access revenues, and intra-LATA toll revenues made to achieve a shift from implicit to explicit support for high-cost rural areas.[108] TSTCI reported that since the adoption of the Final Order in Docket No. 18516 in January 2000, except for a few administrative filings under P.U.C. SUBST. R. 26.171 and/or PURA § 53.301, there have been no increases in BLTS rates, intraLATA toll or intrastate access rates. TSTCI asserted that competition in the rural high cost areas of Texas has flourished.[109]

Alltel stated that its wireless subsidiary, WWC Texas RSA Limited Partnership (Western Wireless) currently receives support from three different programs: (1) Lifeline; (2) Texas High Cost Universal Service Plan; and (3) small company area high-cost program. Alltel reported that in the nearly five years that Western Wireless has been receiving support, thousands of low-income and rural customers, many of whom did not have telecommunications service prior to subscribing with Western Wireless, have been receiving voice, data and fax capabilities for their telecommunications needs. Alltel asserted that many of these services would not be available to these customers today but for the support provided by the TUSF.[110]

According to Alltel, there are many other benefits that result from TUSF support. A study of these benefits was conducted on behalf of Western Wireless (prior to its acquisition by Alltel) in 2003. Alltel reported that Western Wireless's initial capital expenditures spurred additional economic activity greater than its direct spending and Western Wireless's competitive rate plans offered lower rates for consumers which translated into additional consumer spending on other goods and services. With respect to rural economic development, Alltel opined that wireless technologies assist rural communities in competing with urban and suburban communities for business expansion and relocations.[111]

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[107] PURA § 56.021(1) and P.U.C. SUBST. R. 26.404..

[108] TSTCI Comments at 1-2.

[109] *Id*. at 4.

[110] Alltel Comments at 2.

[111] *Id*. at 3.

2. Commission Observations & Analysis

The purpose of small company area high-cost program is to provide financial assistance to ETPs that serve high-cost rural areas of Texas so that BLTS may be provided at reasonable rates in a competitively neutral manner. The Commission notes that rates for BLTS have not increased in the high-cost rural areas of Texas since the creation of this program or earlier, except for a couple of "minor" rate increases of no more than 10%. Thus, the high-cost program, along with incentive regulation which prohibits these companies from unilaterally increasing certain rates, has assisted ETPs in maintaining existing rates for BLTS.[112]

Generally the Texas rates are below the national average. The residential rates for the small companies range from $5 to $16 per month,[113] whereas the national average rate is $14.53.[114] These companies' business rates range from $7 to $44, whereas the national average rate is $32.81.[115] Table 7 - Summary of Key Metrics – Small Company, summarizes the residential and business rates for the small companies.

The Commission also notes that the program continues to be competitively neutral. High-cost support is portable and, therefore, available to any telecommunications provider (i.e., incumbent or competitive LEC) who has sought and obtained certification as an ETP and actually provides local exchange service to end-user customers in high-cost areas.

In summary, the Commission's overall review and evaluation of the small company area high-cost program shows that the program has achieved and is achieving its purpose of assisting telecommunications providers in providing BLTS at reasonable rates in high-cost rural areas primarily by maintaining existing rates for BLTS. However, the preservation of existing BLTS rates, some of which have been in effect for decades, does not necessarily mean that existing rates are still reasonable. As shown on Table 7, Summary of Key Metrics – Small Company, residential rates for BLTS are, generally, a few dollars below the national average rate of $14.53.

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[112] From 1995 until 2005, all residential BLTS rates of large companies were capped by incentive regulation and did not increase since the creation of the fund in 1999 (or before). In 2006, ILECs with markets deregulated pursuant to Chapter 65 of PURA could increase the rates of BLTS if a customer ordered BLTS along with other services; however, "stand-alone" BLTS rates are capped until September 2007 and the Commission has the opportunity to revise the small company high-cost program support amounts.

[113] BLTS rates reflect the tariff rate for flat-rate local exchange telephone service, and do not include the federal subscriber line charge ($6.50), taxes, surcharges, USF assessments, fees, or any separately tariffed EAS, EMS or ELCS ($3.50) charges.

[114] Federal-State Joint Board Monitoring Report, FCC, Table 7.6, Dec. 2005.

[115] *Id.*, Table 7.7.

C. Did Entities Spend the Money for Intended Purposes?

The small company area high-cost program's purpose is to provide financial assistance to ETPs that serve high-cost rural areas of Texas so that BLTS may be provided at reasonable rates in a competitively neutral manner;[116] the purpose would be achieved if the high-cost support was spent to achieve this end.

1. Parties' Positions

Majority of the stakeholders receiving support – Verizon, TSTCI, Alltel, Texas Public Policy Foundation (TPPF), AT&T, and Embarq – maintained that the entities receiving support are spending it for its intended purposes. These stakeholders generally argued that they are meeting the guidelines of the Commission's Final Orders in Docket Nos. 18515 and 18516, that they comply with existing requirements under existing law, and pointed to the certification they provide pursuant to Project No. 31952 as evidence they are spending monies for its intended purpose. According to these stakeholders, they provide basic BLTS in high cost areas at reasonable rates and in a competitively-neutral manner.[117]

Other participants had varying observations regarding the use of TUSF funds. Office of Public Utility Counsel (OPUC) expressed concern that some carriers are not using the subsidy as efficiently as possible.[118] Grande asserted that, while it provided an affidavit to the effect that it spent the TUSF monies it received for the purposes intended by the law, it has no knowledge as to how other recipients have spent their funds.[119] Grande opined that companies that provide service in accordance with the rules adopted by appropriate regulatory authorities should be compensated for the service provided in accordance with the rules in effect at the time the service is provided, and are entitled to a presumption that they have acted in accordance with the law and that they have used the funds in accordance with the law.[120]

The State of Texas (State) observed that TUSF recipients may have divergent views or interpretations of what constitutes a legitimate expenditure.[121] Texas Cable and Telecommunications Association (TCTA) and Time Warner Telecom of Texas, L.P. (TWTC) (collectively referred to as TCTA/TWTC) argued that, because it does not have access to the necessary company-specific data to respond to this inquiry, they could not respond at this time.[122]

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[116] PURA § 56.021(1) and P.U.C. SUBST. R. 26.404..

[117] Windstream Comments at 4; TSTCI Comments at 4; Alltel Comments at 3; TPPF Comments at 3; AT&T at 7; AT&T Reply Comments at 7; and Embarq Reply Comments at 8.

[118] OPUC Comments at 2-3.

[119] Grande Comments at 3.

[120] *Id*. at 1.

[121] State Comments at 2.

[122] TCTA/TWTC Comments at 9.

2. Commission Observations & Analysis

The purpose of the small company area high-cost program's purpose is to provide financial assistance to ETPs that serve high-cost rural areas of Texas so that BLTS may be provided at reasonable rates in a competitively neutral manner.[123] Given that the small company area high-cost program does not reimburse ETPs for a specific expense or cost such as the purchase of switching equipment/gear, the Commission considers any necessary expenditure for operating and maintenance expense or plant addition that serves to promote the provisioning of BLTS at reasonable rates in high-cost rural areas to have been spent appropriately.

a. Observations and Analysis

The Commission determined that a reasonable way to ascertain whether the small companies spent the money they received for its intended purpose was to compare the amount of high-cost support received with expenditures in the high-cost areas. If the amount of these expenditures was at least as much as the amount of support received, it is reasonable to conclude that the money was spent as intended. To do this analysis, the Commission compared the amount of high-cost support with expenditures for each company for the entire period from calendar year 2000 through 2005. With this backdrop, the Commission made three comparisons:

- the first comparison was between high-cost support and expenditures for operations and maintenance expenses, (excluding depreciation), and plant (capital) additions;

- the second comparison was between high-cost support and operations and maintenance expenses, (excluding depreciation); and

- the third comparison was between high-cost support and just plant additions.

b. The Results

Based upon the Commission's analysis, it appears that, overall, each small company ILEC spent more money than they received for intended and necessary purposes. In other words, the analysis indicates that all of these companies spent more money on operating, maintenance and capital expenditures combined in high-cost wire centers than the support they received from the small company area high-cost program. The analysis indicates that the magnitude by which they spent more money than they received ranged from 18.8 to 1 to just above 2 to 1.

[123] PURA § 56.021(1) and P.U.C. SUBST. R. 26.404.

With respect to recurring operating expenditures alone, excluding capital expenditures, the analysis indicates that all companies spent more money than they received. The analysis indicates that the magnitude by which they spent more money than they received for just operating expenditures ranged from 15.1 to 1 to 1.3 to 1.[124]

With respect to capital expenditures, the analysis indicates that 35 of the 54 companies spent more money than they received. The analysis indicates that the magnitude by which they spent more money than they received for capital expenditures ranged from 5.8 to 1 to something below 1 to 1. Table 7 - Summary of Key Metrics – Small Company, summarizes the residential and business rates for the small companies.

D. What Should This Program Look Like in the Future?

1. For what purpose should the recipients spend the money?

a. Parties' Positions

Stakeholders – including AT&T, Grande, Alltel and TSTCI – that made distinctions between the appropriate use of the money in the fund and the purpose for which the money should be used by the TUSF recipient agreed that the recipient should use the money to fund "operating expenses" and "capital costs."[125] AT&T also noted that the money should assist in funding the operating expenses and capital costs incurred in providing BLTS at reasonable rates in high cost rural areas.[126] AT&T specifically noted that operating expenses and capital costs would include costs associated with material, installation, maintenance, billing, customer care and network upgrades.[127]

The majority of the stakeholders – AT&T, Alltel, Verizon, TSTCI, OPUC, the State, TWTC/TCTA, and Embarq – stated that an appropriate use of the TUSF funds is for the carriers receiving funding to follow the law as described in PURA §56.021. These parties asserted that the statute and the Commission rules for use of the TUSF rightfully focus on assistance for the provision of BLTS in high cost areas, access for people with disabilities, and assistance for low-income customers.[128]

Grande asserted that the TUSF fund should be used to achieve the legislative objectives, and maintained that the fund should be expanded to support broadband services.[129] TPPF opined that the fund should be primarily targeted toward low-income customers that support for high-cost areas and small rural carriers should be continued

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[124] As expected, none of the companies provided operating and maintenance expense information on a wire-center level because such information is only required on a statewide study-area basis.

[125] AT&T Comments at 7; Grande Comments at 5; Alltel Comments at 6; and TSTCI Comments at 9.

[126] AT&T Comments at 7.

[127] _Id_. at 7.

[128] AT&T Comments at 6; Alltel Comments at 7; Verizon Comments at 6; TSTCI Comments at 9; OPUC Comments at 4; State Comments at 3; TCTA/TWTC Comments at 15; and Embarq Reply Comments at 11.

[129] Grande Comments at 4.

but reduced, and subsidies for well-funded government agencies should be abolished immediately. [130]

b. Commission Recommendations

In recognition of the unique regulatory and competitive circumstances faced by the small rural ILECs serving the rural areas of Texas, the small company area high-cost program was originally implemented on a revenue-neutral basis, with reductions in revenues from intraLATA toll rates and access charges offset by per-line support, rather than basing support levels on forward-looking economic costs (as done in the large company area high-cost program). The Commission instituted SUBST. R. 26.404 to establish guidelines for determining monthly per-line support for each small and rural ILEC study area to ensure the provision of BLTS at reasonable rates in a competitively neutral manner in those areas of the state.

The Commission does not believe that it is necessary to evaluate the forward-looking economic cost of providing BLTS in the rural areas served by small rural ILECs at this time. However, since the rates for BLTS in these rural areas have not changed for many years, the Commission believes that it is appropriate to review policy issues such as the reasonableness of these rates, as well as which access lines should be eligible for support. In this project, stakeholders generally commented on TUSF high-cost issues broadly, rather than directing comments specifically toward the small company area high-cost fund. Based on this lack of input on this specific program, and on the unchanged rates referenced above, the Commission believes it should consider an additional project, directed at evaluating these policy issues specific to the small and rural ILEC areas. PURA currently provides the Commission with the ability to make appropriate changes in the near future via rulemaking and contested proceedings.[131]

Furthermore, the Commission believes that ETPs should continue to spend high-cost support from this program in high-cost areas in order to maintain a current Commission-determined "reasonable" rate for BLTS. Specifically, such support should be spent on necessary and appropriate costs associated with deploying, maintaining and operating the telecommunications infrastructure associated with providing BLTS in high-cost areas.

2. How should support be disbursed?

a. Parties' Positions

The majority of the stakeholders argued that providers should only be able to receive TUSF if they contribute to the fund, are an ETP, and assume POLR responsibilities.[132] OPUC and TSTCI argued that any recipient of the fund should meet

[130] TPPF Comments at 4-5.

[131] *See* PURA 56.031. The Commission may revise the monthly per line support amounts any time after September 1, 2007, after notice and opportunity for hearing.

[132] State Comments at 5; TSTCI Comments at 15;Verizon Comments at 10; Alltel Comments at 8; AT&T Comments at 12; Embarq Reply Comments at 19-20; and Grande Comments at 7.

ETP requirements as stated in the Commission's rule, P.U.C. SUBST. R. 26.417.[133] AT&T further argued that to receive support, a provider should be facilities-based, provide service throughout the area, and that the provision of services should trigger the payment contributions.[134] Verizon argued that a recipient should be a POLR and should contribute to the TUSF before it is entitled to funding.[135] Texas Telephone Association (TTA), Windstream, Kerrville and TSTCI maintained that the Commission should not recalculate the small company area high-cost support amounts until taking into consideration the possible impact that changes at the federal level could have on the Texas fund.[136] TTA pointed out that the toll pool support replaced by the TUSF was based on actual cost and that companies have done what Grande recommended, calculate support based on the actual cost using least cost technology.[137] Alltel recommended no changes to the current disbursement mechanism and argued that the Commission should not limit disbursements to ILECs, but should continue to apply the same competitive neutrality principles to program disbursements, which has enabled it to receive TUSF support.[138]

The State supported transitioning to a cost model for calculating small company area high-cost program support, and Grande recommended that support provided under the small company area high-cost program transition to a common structural approach with the large company area high-cost program.[139] Grande further recommended that the Commission consider expanding TUSF support to include broadband services.[140] TCTA/TWTC focused primarily on the large company area high-cost program and did not present any arguments regarding disbursements from the small company fund.

b. Commission Recommendations

The Commission believes that high-cost support should continue to be disbursed to ETPs on a per-access-line basis. In addition, the question of whether all access lines within a high-cost study area should receive support, or should receive the same level of support, could also be examined.

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[133] TSTCI Comments at 15 and OPUC Comments at 6.

[134] AT&T Comments at 12.

[135] Verizon Comments at 10.

[136] TSTCI Comments at 19-21; TSTCI Reply Comments at 7; TTA Comments at 25-27; and Windstream and Kerrville Comments at 1.

[137] TTA Reply Comments at 17.

[138] Alltel Comments at 8.

[139] State Reply Comments at 8 and Grande Comments at 9.

[140] Grande Reply Comments at 1-3.

3. What future accountability mechanism should be established?

a. Parties' Positions

Stakeholders generally either stated that the current system of accountability is completely satisfactory or, conversely, that more accountability and transparency is necessary and appropriate in the future. ILEC participants and their associations and TPPF asserted that the current system is fine, while TWTC/TCTA and OPUC took the opposite view.

Respondents on behalf of the ILECs asserted that the current system is sufficient and that there is no need for any additional requirements. The ILEC respondents claimed that the attestation required by PURA § 56.029(g) is very useful and appropriate, especially because a certifying company would be subject to penalties for falsifying such certification.[141] According to the ILECs, additional accountability measures are not needed because they were required to reduce their rates/revenues by a like amount as a condition precedent to receiving TUSF funds, thereby eliminating any windfall[142] and provide detailed documents on a monthly basis to Solix to request TUSF support.[143] Therefore, the ILECs contend that such funds are being used appropriately.[144]

With regards to accounting procedures and internal tracking mechanisms used for tracking operating expenses and capital expenditures to determine if funds received from the TUSF are used specifically for satisfying the requirements of PURA § 56.021, the ILEC respondents stated that no explicit accounting procedures are needed, and that no such requirements were established by any state or federal regulatory authority.[145] The ILECs further noted that their books of account for the recording and summarizing operating expenses and capital expenditures are maintained in accordance with 47 C.F.R. Part 32.[146] Additionally, the ILECs claimed that any detailed tracking is unnecessary and inappropriate, would be difficult, if not impossible, to perform, would be burdensome and costly, and that such information could not be made publicly available since the Legislature has previously determined that any reports telecommunications providers are required to submit regarding fund disbursements are confidential and not subject to disclosure under Chapter 552, Government Code.[147] TPPF stated that the current system has worked well and noted that specific requirements were established during the

[141] AT&T Comments at 8; Verizon Comments at 8; TSTCI Comments at 11; TTA Comments at 7; Alltel Comments at 6; and Grande Comments at 5.

[142] Verizon Comments at 6-7; AT&T Comments at 7; and TTA Comments at 14-15.

[143] AT&T Comments at 7.

[144] Alltel Comments at 6; AT&T Comments at 7; and TTA Comments at 14-15.

[145] AT&T Response to the Commission's Part II Information Request.

[146] *Id.*

[147] AT&T Reply Comments at 15-16 and TSTCI Reply Comments at 2-3.

implementation of the fund to ensure that the purposes of the fund would be achieved, including Commission oversight.[148]

However, other respondents argued the current system lacks accountability, transparency, independent analysis and public disclosure, and that the PURA § 56.029(g) "check a box" attestation, while administratively simple, does not improve transparency and its usefulness is questionable since it does not convey any detail.[149]

TCTA/TWTC focused primarily on the large company area high-cost program and presented only general arguments regarding accountability for the funds. TCTA/TWTC argued that it will be difficult to hold recipients of TUSF money accountable and that the current system does not differentiate the subsidies provided to all access lines in "high cost" exchanges from access lines purchased in packages which allegedly are priced at compensatory levels.[150] TCTA/TWTC stated that the most troubling features of the existing system are that there is no accountability and no transparency that would permit independent analysis.[151] Similarly, the State suggested that TUSF recipients be required to file publicly their expenditures made using universal service support so that both the Commission and the consumers who are paying for these subsidies can review the appropriateness of all supported expenditures.[152] OPUC concurred that recipients of TUSF funds should maintain complete records of TUSF receipts and expenditures and these records should allow for tracking by Commission Staff to determine whether the TUSF monies were spent consistent with Texas law.[153]

Grande noted that any method other than an attestation must be based upon a reasonable set of easily applied objective standards in a reasonable geographic context and that ETPs not subject to traditional utility accounting rules should be permitted to use non-utility accounting standards.[154]

b. Commission Recommendations

Besides the relatively new PURA § 56.030 requirement for affidavits attesting to the use of TUSF monies, the Commission believes that future accountability could be achieved by performing periodic reviews of the high-cost support amounts to ensure that the amounts and geographic areas supported are appropriate and adequate.

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148 TPPF Comments at 5.

149 TCTA/TWTC Comments at 16; OPUC Comments at 5; and State Comments at 4.

150 TCTA/TWTC Comments at 16.

151 *Id*.

152 State Comments at 3.

153 OPUC Comments at 4.

154 Grande Comments at 5.

4. How to ensure support for geographic area is consistent with § 56.021 & Docket No. 18516?

a. Parties' Positions

Several stakeholders – Embarq, Verizon, TSTCI, AT&T, Alltel and Grande – argued that no changes are required to the existing procedures to ensure TUSF support received pursuant to the small company area high-cost program or large company area high-cost program is consistent with PURA § 56.021 and the Commission Orders in Docket Nos. 18515 and 18516.[155] In general, these stakeholders, all recipients of TUSF or representatives of recipients of TUSF, maintained that they use support in a manner consistent with PURA § 56.021, which dictates the policy they are required to follow. Further, TSTCI strongly contended that the current and proposed attestations, coupled with the other reports ILECs must furnish the Commission, such as Quality of Service Report and Regulated/Non-regulated Comparative Percentage Reports, are sufficient.[156]

Other stakeholders argued that additional measures are needed to ensure that support for the geographic areas is consistent with PURA § 56.021 and the Commission Order in Docket No. 18516. The State argued that the best safeguard to ensure that universal service support is being used consistent with the fund's purposes would be a requirement for public filing of all TUSF supported expenditures, exposing them to public critique, as well as compliance audits.[157] OPUC asserted that compliance audits would be a good start and it would be useful to establish a yardstick for infrastructure development for a carrier receiving TUSF funds in order to compare similarly situated carriers.[158]

TPPF argued that the primary focus should be on reducing the size of the fund and suggested four steps to accomplish that goal: (1) make rates more reasonable by allowing the price of BLTS to rise to better reflect actual costs; (2) all savings from lower costs identified in an updated cost study should go toward reducing the size of the fund; (3) provide more careful targeting of fund programs to those who truly need them; and (4) eliminate mandated provisioning of private network service.[159] TCTA/TWTC focused primarily on the large company area high-cost program and did not present any arguments regarding the small carrier fund.

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[155] Embarq Reply Comments at 8; Verizon Comments at 5; TSTCI Comments at 7; AT&T Comments at 4; AT&T Reply Comments at 7; Alltel Comments at 4; and Grande Comments at 3.

[156] TSTCI Comments at 7.

[157] State Comments at 2 and State Reply Comments at 2.

[158] OPUC Comments at 3.

[159] TPPF Comments at 4.

b. Commission Recommendations

The Commission believes that consistency could be achieved by periodically updating the high-cost support amounts and the geographic areas supported in order to ensure that such support is appropriate and adequate.

Chapter IV. Other High-Cost Support Programs for Rural Areas

A. PURA § 56.025

1. Background/Program Totals 2000-2006

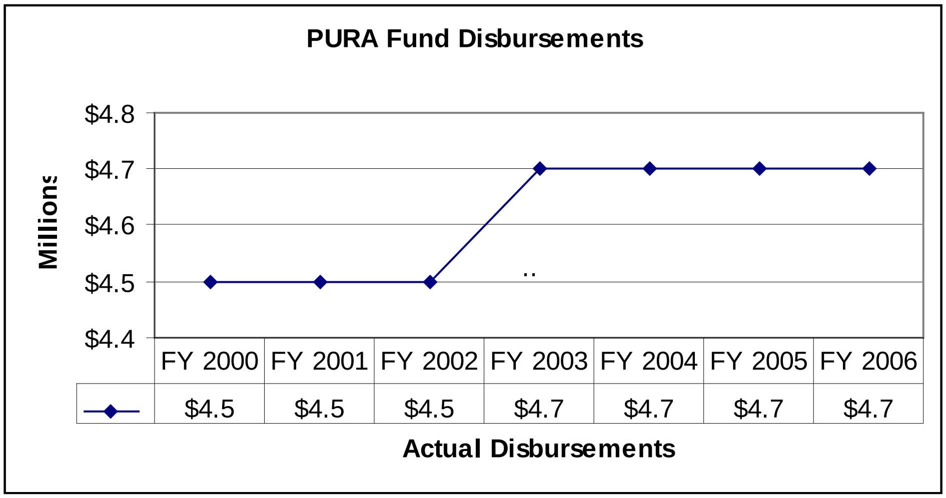
Originally adopted in 1995 by the 74th Legislature in House Bill 2128, this program of the Texas Universal Service Fund (TUSF) compensates providers for loss of revenues that result from certain regulatory actions, and also compensates incumbent local exchange carriers (ILECs) for other revenue shortfalls resulting from regulatory actions. Specifically, Section 56.025 of the Public Utility Regulatory Act (PURA) provides TUSF support to ILECs with fewer than 5 million lines to replace revenue because of a reduction in the amount of the Commission's High Cost Assistance Fund (HCAF), a change in the federal universal service fund (FUSF), a change in the Commission's intraLATA dialing access policy, or other governmental agency action.

The Commission implemented what is now P.U.C. SUBST. R. 26.406 in 1998 and approved the transition for 11 ILECs receiving HCAF support since 1992 to receive support pursuant to this new rule. In 1999, the 76th Legislature restructured the Utilities Code, and PURA § 3.608(b) was recodified as PURA § 56.025.

In 2005, during the Second Called Session, the 79th Legislature amended PURA § 56.025 to apply to cooperatives and ILECs serving fewer than 31,000 access lines instead of 5 million access lines, and in 2006, the Commission amended its rule to reflect this change.

Support amounts provided under this mechanism have remained the same as those adopted by the Commission in 1992 in its HCAF proceedings, and no company has sought additional support under this mechanism since 1998. In fiscal year 2006, PURA § 56.025 provided $4.7 million in support (approximately 1% of the total disbursement from the fund) to 11 ILECs (see Figure 10 – PURA Fund Disbursements, FY 2000-2006).

Figure 10 — PURA Fund Disbursements, FY 2000-2006



SOURCE: Solix, Inc.

2. Has Program's Purpose Been Achieved?

The stakeholders expressed no comments and/or reservations on whether the purpose of this program has been achieved, and the Commission believes that this program is achieving its intended purpose. The Commission observes that this program was designed to replace revenues lost because of regulatory actions at either the state or federal level, and that the program was implemented in 1998 to replace HCAF support. Since that time, disbursements have remained steady, and no provider has sought additional support under this program.

3. Did Entities Spend Money for Intended Purposes?

The stakeholders expressed no comments on whether the money from this program was spent for intended purposes, and the Commission has no reason to believe that the money was not spent for intended purposes.

4. What Should This Program Look Like in the Future?

The stakeholders expressed no comments and/or reservations regarding the future operation of this program, and the Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

5. Specific Recommendations re: § 56.025 Mechanisms

To the extent the Legislature believes the stated purpose of this program continues to be an appropriate policy for Texas, and given that this program is functioning properly and achieving its intended purpose, the Commission recommends the program be continued in its current form.

B. Service to Uncertificated Areas

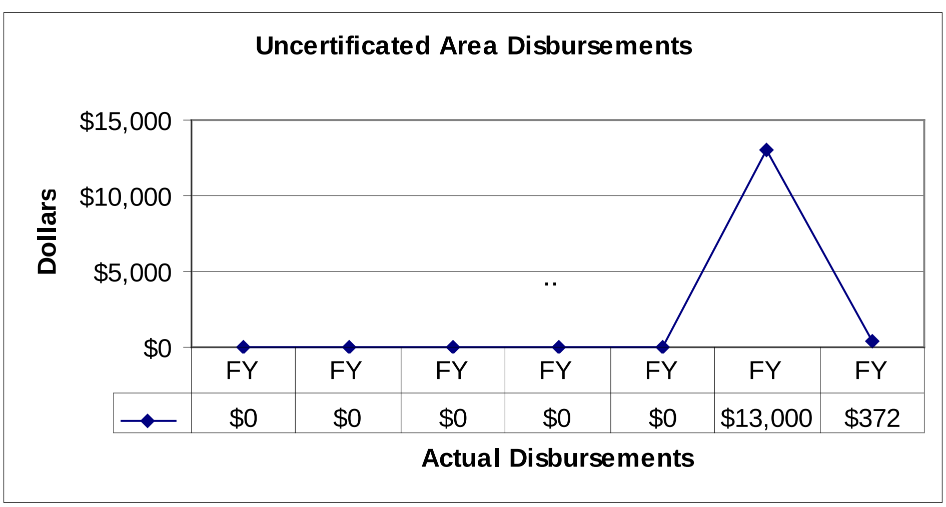
1. Background/Program Totals 2000-2006

In 2001, the 77th Legislature adopted House Bill 2388, enacting new Chapter 56, Subchapter F of the PURA, enabling eligible telecommunications providers (ETPs) providing voice-grade services to customers living outside of ILEC certificated areas to receive support from the TUSF. The program seeks to enhance the availability of basic local telecommunications service throughout the State, especially in areas where service has not otherwise been provided.

In 2002, the Commission adopted two rules to implement reimbursement mechanisms for ETPs serving uncertificated areas. Under P.U.C. SUBST. R. 26.421 Subchapter F, customers may petition the Commission to compel a provider to serve them if none volunteers. ETPs assigned to serve the customers are reimbursed for the actual cost of deployment and serving each line, including capital expenditures and monthly recurring costs not captured by the customer's monthly rate. Under P.U.C. SUBST. R. 26.423, an ETP may initiate a proceeding to serve an area, but will not be reimbursed capital expenditures; instead, the ETP receives a monthly per line support amount based on the average TUSF monthly per line support amount received by adjacent ILECs.

Since 2003, the Commission has received several requests for support in allegedly uncertificated areas. Some of these requests were denied because the areas in question were actually in previously certificated areas, or the ILEC agreed to provide service to said area. Western Wireless (Docket No. 27056), AT&T (Docket No. 28766), and DTS (Docket No. 31401) have been authorized to receive universal service fund support in uncertificated areas. In fiscal year 2006, $372 was disbursed to providers in uncertificated areas (see Figure 11 – Uncertificated Area Disbursements, FY 2000-2006).

Figure 11 — Uncertificated Area Disbursements, FY 2000-2006



SOURCE: Solix, Inc.

2. Has Program's Purpose Been Achieved?

Office of Public Utility Counsel (OPUC) stated that the TUSF has provided Texas with needed telecommunications services in areas where such advancements could otherwise be cost prohibitive and to customers who might otherwise be overlooked.[160]

The stakeholders expressed no reservations on whether the purpose of this program has been achieved, and the Commission believes that this program is achieving its intended purpose. The Commission observes that all applications by customers or providers for service to uncertificated areas have resulted in service being provided to those areas.

3. Did Entities Spend Money for Intended Purposes?

AT&T reported that the TUSF reimburses AT&T $31.02 per month to provide service to a customer who resides in uncertificated territory.[161] The Texas Telephone Association (TTA) stated that it knows of two providers that are ETPs in uncertificated areas.[162]

The stakeholders expressed no comments on whether the money from this program was spent for intended purposes, and the Commission has no reason to believe that the money was not spent for intended purposes.

4. What Should This Program Look Like in the Future?

The stakeholders expressed no comments and/or reservations regarding the future operation of this program, and the Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

5. Specific Recommendations re: Service to Uncertificated Areas

To the extent the Legislature believes the stated purpose of this program continues to be an appropriate policy for Texas, and given that this program is functioning properly and achieving its intended purpose, the Commission recommends the program be continued in its current form.

C. Successor Utilities

1. Background/Program Totals 2000-2006

In 2003, the 78th Legislature adopted Senate Bill 1829, adding Subchapter G to Chapter 54 of the PURA, allowing telecommunications providers other than ILECs to be designated the provider of last resort (POLR) in an area. SB 1829 also added Subchapter

[160] Office of Public Utility Counsel (OPUC) Reply Comments at 3 (Apr. 3, 2006).

[161] AT&T Comments at 3 (Mar. 1, 2006).

[162] Texas Telephone Association (TTA) Comments at 2 and 4 (Mar. 1, 2006).

G to PURA Chapter 56, to provide support from the TUSF to such "successor utilities"[163] inheriting the POLR obligation. Under these provisions, the Commission determines the amount of TUSF support the successor utility may receive for serving the affected area and complying with the Commission's service quality rules.[164]

Since its adoption, the Commission has not yet received a request for support under this program, therefore no disbursements have been made.

2. Has Program's Purpose Been Achieved?

OPUC stated that the TUSF has provided Texas with needed telecommunications services in areas where such advancements could otherwise be cost prohibitive and to customers that could otherwise be overlooked.[165]

The stakeholders expressed no comments and/or reservations on whether the purpose of this program has been achieved, and the Commission believes that this program is achieving its intended purpose. The Commission observes that this program has not yet been utilized, as no provider has sought TUSF support pursuant to this program.

3. Did Entities Spend Money for Intended Purposes?

The stakeholders expressed no comments on whether the money from this program was spent for intended purposes, and the Commission has no reason to believe that the money was not spent for intended purposes.

4. What Should This Program Look Like in the Future?

The stakeholders expressed no comments and/or reservations regarding the future operation of this program, and the Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

5. Specific Recommendations re: Successor Utilities

To the extent the Legislature believes the stated purpose of this program continues to be an appropriate policy for Texas, and given that this program is functioning properly and achieving its intended purpose, the Commission recommends the program be continued in its current form.

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[163] As defined in PURA § 54.301(3), a successor utility is "a telecommunications utility that holds a certificate…and that is or is designated to become the provider of last resort for the defined geographic area previously served by an exiting utility."

[164] PURA § 56.253.

[165] OPUC Reply Comments at 3.

D. Additional Financial Assistance

1. Background/Program Totals 2000-2006

The Commission adopted P.U.C. SUBST. R. 26.408 on January 22, 1998 in Docket No. 14929 as part of its wholesale restructuring of the TUSF to reflect state and federal legislation opening up local markets to competition. Pursuant to Section 56.021(1) of PURA, this program seeks to ensure that all customers throughout the state have access to basic local telecommunications services at reasonable rates. The rule allows ILECs to apply for additional financial assistance from the TUSF – in addition to the TUSF reimbursement received under the Large Company Area High-Cost Program, the Small Company Area High-Cost Program, and implementation of PURA § 56.025 – to meet that goal.

Since the adoption of the rule, the Commission has not received a request for TUSF support under this program.

2. Has Program's Purpose Been Achieved?

The stakeholders expressed no comments and/or reservations on whether the purpose of this program has been achieved, and the Commission believes that this program is achieving its intended purpose.The Commission observes that this program has not been utilized, as no provider has sought TUSF support pursuant to this program.

3. Did Entities Spend Money for Intended Purposes?

The stakeholders expressed no comments on whether the money from this program was spent for intended purposes, and the Commission has no reason to believe that the money was not spent for intended purposes.

4. What Should This Program Look Like in the Future?

The stakeholders expressed no comments and/or reservations regarding the future operation of this program, and the Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

5. Specific Recommendations re: Additional Financial Assistance

To the extent the Legislature believes the stated purpose of this program continues to be an appropriate policy for Texas, and given that this program is functioning properly and achieving its intended purpose, the Commission recommends the program be continued in its current form.

Chapter V. Lifeline

A. Background/Program Totals 2000-2006

The Lifeline program requires certificated telecommunications providers, pursuant to Section 55.015 of the Public Utility Regulatory Act (PURA), to offer telephone service at discounted rates to qualifying low-income households. All certificated telecommunications providers are required to provide a discount of up to $7.00 per monthly bill on its local service rates and waive the Federal Subscriber Line Charge (SLC) (which ranges up to $6.50). Thus, lifeline customers are eligible for a discount of up to $13.50 off of their monthly phone bill.

Providers designated as Eligible Telecommunications Providers (ETPs) are reimbursed for state-mandated lifeline discounts from the Texas Universal Service Fund (TUSF), while providers designated as Eligible Telecommunications Carriers (ETCs) are reimbursed for federally-mandated lifeline discounts from the Federal Universal Service Fund (FUSF).

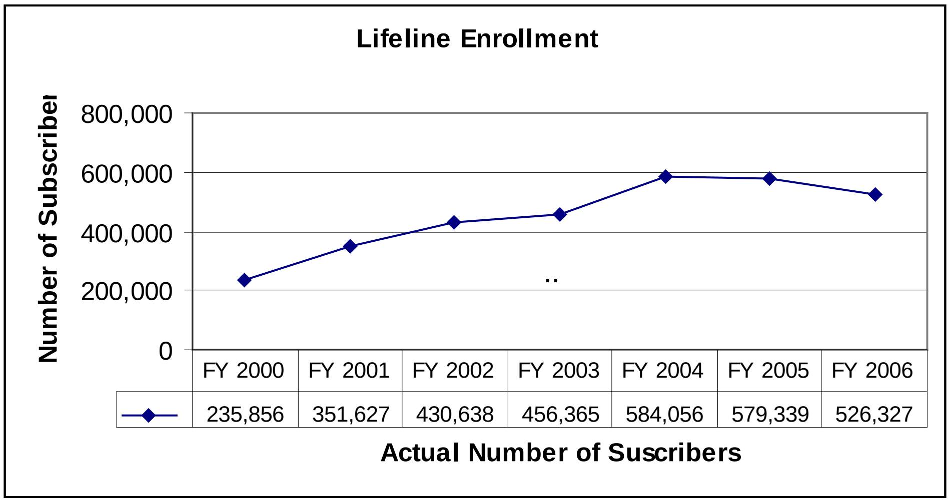
The Commission adopted its Lifeline rule, P.U.C. SUBST. R. 26.412, on January 22, 1998 in Docket No. 14929 as part of its wholesale restructuring of TUSF because of state and federal legislation opening up local markets to competition.

In 1999, the 76th Legislature adopted Senate Bill 560, which required the Commission and the Texas Health and Human Services Commission (HHSC, f/k/a Texas Department of Human Services) to establish an automatic enrollment process that would enable telephone companies to automatically provide discounted telephone service to low-income consumers enrolled in a qualifying social service program with HHSC. Eligible customers who are not automatically enrolled may self-enroll for the Lifeline discount. In 2001, the Commission and HHSC initiated the "LITE-UP" automatic enrollment program and saw a 41% increase in Lifeline recipients by 2002. A third-party administrator, low income discount administrator (LIDA), took over the program in 2004, and enrollment increased again, 28% over 2003.

The Lifeline program was most recently revised in 2005 by the 79th Legislature when it enacted SB 5, which expanded the Lifeline enrollment criteria to include customers with incomes of not more than 150% of the federal poverty guidelines and customers in whose household resides a person or child who receives Medicaid, foodstamps, supplemental security income (SSI), federal public housing assistance, low income home energy assistance program (LIHEAP) or children's health insurance program (CHIPs). In addition, SB 5 extended the requirement to provide Lifeline discounts to eligible customers of all certificated telecommunications providers (CTPs) in Texas, not just ETPs and ETCs. To implement these changes, the Commission is in the process of revising its existing Lifeline rule (P.U.C. SUBST. R. 26.412), and will be creating two new rules, P.U.C. SUBST. R. 26.413 and 26.419, to address Linkup Service and ETP criteria for resellers to receive Lifeline support.

As of FY 2006, there were over 526,327 Lifeline subscribers in Texas. (see Figure 12 – Lifeline Enrollment, FY 2000-2006).

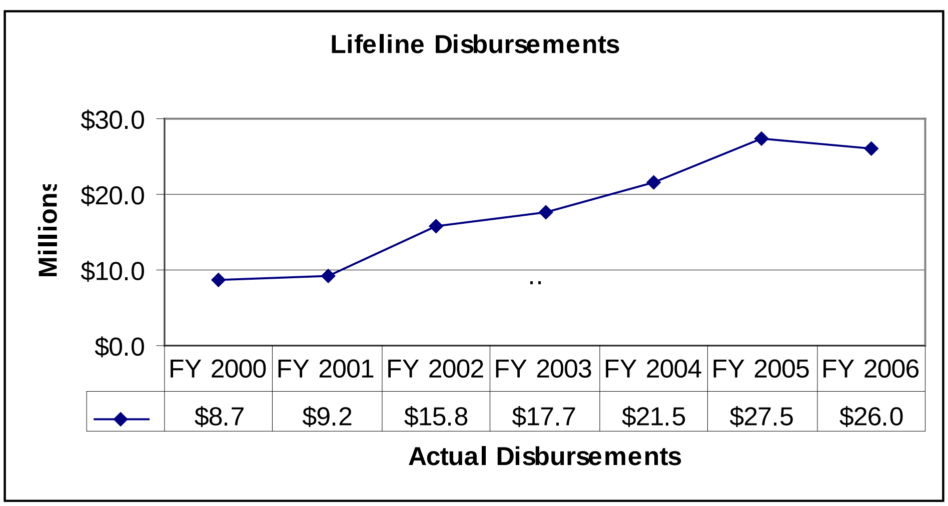
Figure 12 — Lifeline Enrollment in Texas, FY 2000-2006



SOURCE: Solix, Inc.

In fiscal year 2006, participating ETPs received $26 million (or 5% of the total fund) in reimbursement for serving Lifeline customers (see Figure 13 – Lifeline Disbursement, FY 2000-2006).

Figure 13 — Lifeline Disbursement, FY 2000-2006



SOURCE: Solix, Inc.

B. Has Program's Purpose Been Achieved?

1. Parties' Positions

All stakeholders commenting on this program stated that the program is accomplishing its purpose. Verizon stated that it believes the Lifeline program is accomplishing its purpose by reimbursing telecommunications providers who provide Lifeline service.[166] The Texas Statewide Telephone Cooperative, Inc. (TSTCI) reported that its member companies have seen an increase in customers receiving Lifeline discounts, indicating the success of the program and automatic enrollment.[167] Office of Public Utility Counsel (OPUC) stated that the TUSF has provided significant services to low-income and disabled consumers.[168] Texas Telephone Association (TTA) noted that Lifeline enrollment has increased steadily since automatic enrollment was adopted pursuant to SB 560, enacted by the 76th Texas Legislature.[169] Alltel reported that for five years, its subsidiary, Western Wireless, has received TUSF support from the Lifeline, Large Company Area High-Cost Program and Small Company Area High-Cost Programs. According to Alltel, thousands of low-income and rural customers would not have been provided voice, data and fax capabilities but for the support provided by the TUSF.[170]

2. Commission Observations & Analysis

The Commission observes that all stakeholders state that the program is accomplishing its intended purpose, and the Commission also believes that this program is achieving its intended purpose. Data indicates that enrollment has steadily increased through 2004, but subsequently moderated. See Figure 12 – Lifeline Enrollment, FY 2000-2006 and Figure 13 – Lifeline Disbursement, FY 2000-2006.

C. Did Entities Spend Money for Intended Purposes?

1. Parties' Positions

No stakeholder provided comments on whether entities receiving support under this mechanism have spent it for its intended purposes.

2. Commission Observations & Analysis

The stakeholders expressed no comments on whether the money from this program was spent for intended purposes, and the Commission has no reason to believe

[166] Verizon Comments at 2 (March 1, 2006).

[167] Texas Statewide Telephone Cooperative, Inc. (TSTCI) Comments at 4 (Mar. 1, 2006).

[168] OPUC Reply Comments at 2.

[169] TTA Comments at 2.

[170] Alltel Comments at 2 (Mar. 1, 2006).

that the money was not spent for intended purposes. The Commission observes that support provided to Lifeline providers is a direct reimbursement for discounted local rates. Therefore, by definition, the money is spent for its intended purpose.

D. What Should This Program Look Like in the Future?

1. For What Purpose Should the Recipients Spend the Money?

a. Parties' Positions

Alltel maintained that the Lifeline program should continue.[171] The State of Texas (State) also argued that the TUSF should be continued, primarily to support programs for low-income individuals, such as Lifeline, and for disabled individuals.[172] TTA stated that the need to maintain the stability of the fund is underscored by the fact that the Lifeline program was recently expanded to include customers at or below 150% of the federal poverty line, and support amounts disbursed under this program have steadily increased since 2000.[173] Texas Public Policy Foundation (TPPF) advocated that, as new technologies and demographic changes diminish the need for the Large Company Area High-Cost Program and Small Company Area High-Cost Programs, the fund be redirected toward meeting the needs of low-income households.[174]

However, no stakeholder provided comments or any recommendations regarding what this program should look like on a forward-going basis.

b. Commission Observations, Analysis & Recommendations

To the extent the Legislature believes the stated purpose of this program continues to be an appropriate policy for Texas, and given that this program is functioning properly and achieving its intended purpose, the Commission recommends the program be continued in its current form. The Commission also notes that when or if stand-alone BLTS rates increase, it would be appropriate for the Commission to review the Lifeline Program and the amount of support it provides to recipients. Stand-alone BLTS rates are capped at least until September 2007 and until the Commission has the opportunity, after notice and hearing, to revise the large company area high-cost program support amounts.

[171] Alltel Reply Comments at 1 (Apr. 3, 2006).

[172] State Comments at 2 (Mar. 1, 2006).

[173] TTA Reply Comments at 9 (Apr. 3, 2006).

[174] Texas Public Policy Foundation (TPPF) Comments at 4-5 (Mar. 1, 2006).

2. How Should Support Be Disbursed?

a. Parties' Positions

No stakeholder provided comments or recommendations regarding how support provided under this program should be disbursed on a forward-going basis.

b. Commission Observations, Analysis & Recommendations

The Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

3. What Future Accountability Mechanism Should Be Established?

a. Parties' Positions

No stakeholder provided comments or recommendations regarding an accountability mechanism to track whether or not recipients of support pursuant to this program are spending the funds as intended.

b. Commission Observations, Analysis & Recommendations

The Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

Chapter VI. Programs to Assist Persons with Disabilities

A. Relay Texas

1. Background/Program Totals 2000-2006

In 1989, the Legislature authorized a state telecommunications relay service (TRS) and directed the Commission to supervise its provision.[175] TRS is a service that allows individuals who are hearing-impaired or speech-impaired to communicate via specialized telecommunications devices and operator translations. The name "Relay Texas" was coined for the Texas TRS, currently codified in Chapter 56, Subchapter D of the Public Utility Regulatory Act (PURA).

When Relay Texas was first initiated in 1989, a 13-member Relay Texas Advisory Committee, consisting of industry representatives and members of the deaf, hard-of-hearing, elderly, deaf blind, speech disabled and consumer communities helped establish and promote the program. The Commission manages Relay Texas, and pursuant to PURA § 56.021(2), support from the Texas Universal Service Fund (TUSF) is provided to a vendor awarded the contract to provide a statewide telecommunications relay service. Using a request-for-proposal process, the Commission selects a vendor based on such key criteria as price, service quality, and availability over a five-year term. The Commission awarded five-year contracts to Sprint Communications Company, L.P. for Texas in 1990, in 1995, in 2000, and again in 2005. A new contract with Sprint is under negotiation and will expire in 2011.

In 1999, the 76th Legislature amended the TRS provisions to allow the Commission to seek other TRS vendors for special features of the relay service if the incumbent contractor is unable to provide the feature at the best value, which has enabled the Commission to ensure that special services can be sought at competitive prices.

Relay Texas is available 24 hours a day, 365 days a year, with no restrictions on the length or number of calls placed, and callers are not charged for local calls. In September 1990, the first month of operation, Relay Texas processed nearly 50,000 relay calls; by 2005, the number of calls had increased to an average of over 300,000 per month. Relay Texas has led the nation in improving the quality of TRS, with such enhancements as voice-carry-over, speech-to-speech, Texas Video Interpreting Service, a customer database, Spanish interpreting, and other new features.

The costs of Relay Texas have decreased since 2000; in fiscal year 2006, the fund distributed $7 million (or 1.2% of the total fund) to fund Relay Texas (see Figure 14 – TRS Disbursement, FY 2000-2006).

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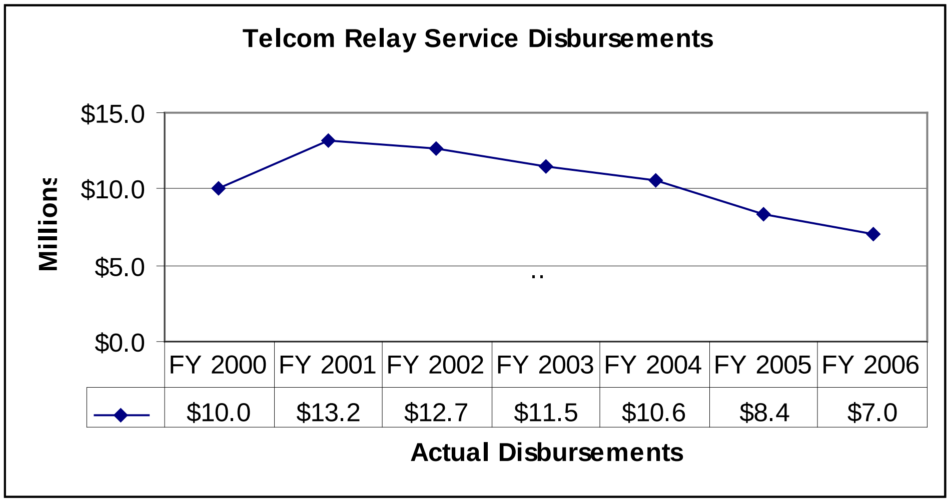
[175] Now codified in PURA §§ 56.101-112.

Figure 14 — TRS Disbursement, FY 2000-2006



SOURCE: Solix, Inc.

2. Has Program's Purpose Been Achieved?

Office of Public Utility Counsel (OPUC) stated that TUSF has provided significant services to low-income and disabled consumers, and that significant funding had been provided for Relay Texas.[176]

The Commission observes that TRS is available to all customers who require that service, and that the minutes-of-use reported by the TRS vendor continue to increase. The Commission believes that this program is achieving its intended purpose.

3. Did Entities Spend Money for Intended Purposes?

No stakeholder provided comments on whether entities receiving support under this mechanism have spent it for its intended purposes, and the Commission has no reason to believe that the money was not spent for intended purposes.

The Commission notes that the purpose of the TRS program is to allow individuals that are hearing-impaired or speech-impaired to communicate via specialized telecommunications devices and operator translations, and use of the program has increased steadily over the years, while the cost of the program has correspondingly decreased.

4. What Should This Program Look Like in the Future?

It appears that the State supports the continuation of this program.[177] OPUC stated that TUSF has provided significant services to low-income and disabled

[176] OPUC Reply Comments at 2-3.

consumers.[178] However, no stakeholder provided comments or any recommendations regarding what this program should look like on a forward-going basis.

The stakeholders expressed no comments and/or reservations regarding the future operation of this program, and the Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

B. Specialized Telecommunications Assistance Program (STAP)

1. Background/Program Totals 2000-2006

The Specialized Telecommunications Assistance Program (STAP), enacted by the 75th Legislature in 1997 and codified in Chapter 56, Subchapter E of the PURA, was created to provide financial assistance to persons with disabilities to purchase special telecommunications equipment to access the telephone network. Pursuant to PURA §56.021(3), support from the TUSF is provided to vendors and service providers that offer reduced rates for telecommunications equipment and services for hearing-impaired customers.

STAP is coordinated by two agencies: the Department of Assistive and Rehabilitative Services (DARS, formerly known as the Texas Commission for the Deaf and Hard of Hearing) and the Commission. The Commission is responsible for registering and reimbursing vendors from the TUSF. DARS is responsible for the bulk of operations, from developing applications, to approving equipment, to issuing vouchers to vendors and service providers. Under the voucher system, qualified persons pay a $35 application fee and receive a voucher to purchase the telecommunications equipment. Unlike many other states, the equipment becomes the property – and responsibility – of the purchaser. Approved products, such as teletypewriters (TTYs), amplified phones, speech aids, and video software, assist persons with a wide variety of disabilities in using the telephone, some for the very first time.

According to DARS, in FY 2005 more than 25,000 applications for equipment vouchers were fulfilled (see Table 8 – STAP Applications, FY 2002-2005). In fiscal year 2006, STAP accounted for just 01.2% ($7.1 million) of the fund (see Figure 15 – STAP Disbursement FY 2000-2006).

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[177] State Comments at 3.

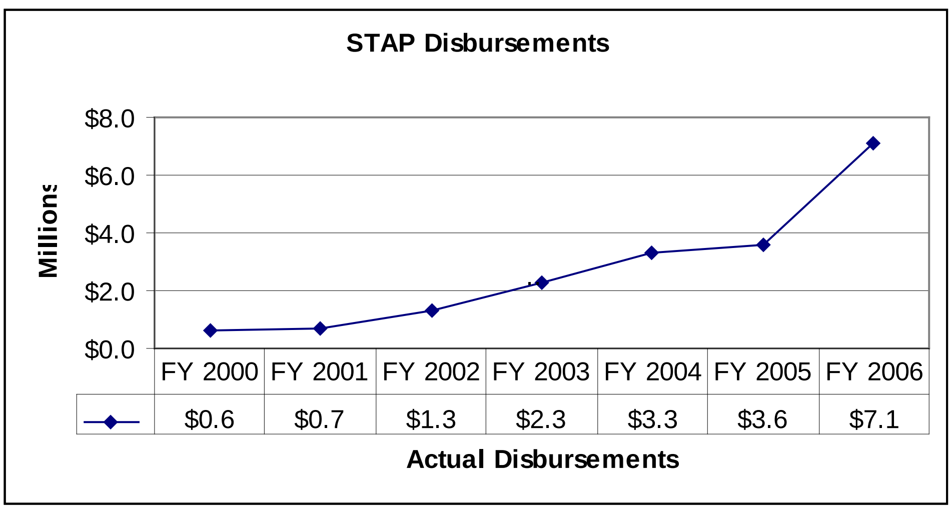
[178] OPUC Reply Comments at 2.

Table 8 — STAP Applications, FY 2002-2005

	2002	2003	2004	2005
Number of Applications Received	12,082	12,263	18,091	25,702
Disabilities Served				
Hard of Hearing	8,955	9,412	13,638	16,424
Deaf	1,350	1,074	1,917	1,148
Vision Impaired	119	270	315	1,142
Speech Impaired	493	310	281	207
Cognitive	42	24	18	22
Mobility	147	122	182	121
Multiple Disabilities and Hard of Hearing	454	542	811	5,321
Multiple Disabilities and Deaf	70	80	88	89
Other Multiple Disabilities	285	265	539	799
Total Served	**11,915**	**12,099**	**17,789**	**25,273**

SOURCE: DARS

Figure 15 — STAP Disbursement, FY 2000-2006



SOURCE: Solix, Inc.

2. Has Program's Purpose Been Achieved?

DARS attested that the fund is accomplishing its purpose. DARS reported that, according to the 2000 United States Census, there are more than 3.6 million Texans age five or older with a disability, and STAP is serving about 20,000 to 25,000 individuals annually who are requesting assistance from the program.[179] The State of Texas (State)

[179] Texas Department of Assistive and Rehabilitative Services (DARS) Comments at 1(Mar. 1, 2006).

supported this program on a forward-going basis.[180] OPUC stated that TUSF has provided significant services to low-income and disabled consumers, and agreed with DARS regarding TUSF support for this program.[181]

The Commission believes that this program is achieving its intended purpose. Analysis of the data appears to indicate that, given the growth level of the disbursements from the program over the last five years, the program is achieving its intended purpose.

3. Did Entities Spend Money for Intended Purposes?

DARS stated that applicant grantees provide outreach services and help persons, based on their individual needs, to determine the best specialized device to access the telephone network.[182]

The Commission has no reason to believe that the money was not spent for intended purposes. The Commission observes that support provided to equipment vendors is a direct reimbursement for vouchers provided for the purchase of authorized equipment. Therefore, by definition, the money is spent for its intended purpose.

4. What Should This Program Look Like in the Future?

DARS maintained that there is a continuing need for STAP, which is funded by the TUSF, and that the TUSF should continue. According to DARS, the program is a long way from serving all eligible individuals who could benefit from the program.[183] OPUC supported the continuation of TUSF support for STAP, and recommended that support be continued to allow for the future expansion of the program.[184] Further, OPUC recommended that, if TUSF is discontinued by the Legislature, a subsequent funding mechanism be adopted to administer STAP.[185]

The Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

C. Audio Newspaper Program (ANP)

1. Background/Program Totals

This new program, enacted by the 79 Legislature in Senate Bill 5 (new PURA §56.301), provides support from the TUSF for an audio newspaper program that provides

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[180] State Comments at 3.

[181] OPUC Reply Comments at 2.

[182] DARS Comments at 1.

[183] *Id*. at 2.

[184] OPUC Reply Comments at 3.

[185] *Id*.

the text of newspapers using synthetic speech to blind and visually-impaired persons. In 2006, the Commission adopted P.U.C. SUBST. R. 26.424 implementing the Audio Newspaper Program (ANP), issued a request for proposals (RFP) for potential vendors to provide the service, and, in September 2006, awarded the RFP to the Texas Chapter of the National Federation of the Blind. No payments were issued during FY 2006.

2. Has Program's Purpose Been Achieved?

Because this is a new program implemented in late 2006, no stakeholder provided comments on this program and whether its purpose has been achieved. Likewise, the Commission has no analysis of whether the program's purpose has been achieved given the very limited amount of time that the program has been in existence.

3. Did Entities Spend Money for Intended Purposes?

Because this is a new program implemented in late 2006 and no payments have been made, the Commission has no comment on this question at this time.

4. What Should This Program Look Like in the Future?

The stakeholders expressed no comments and/or reservations regarding the future operation of this program, and the Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

Chapter VII. PURA § 56.028 – Small ILEC Schools & Libraries Program

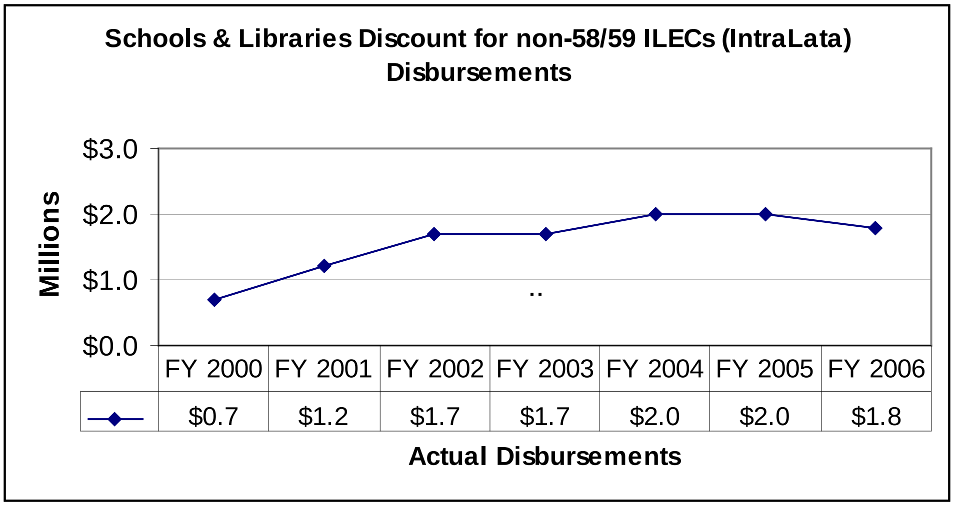
A. Background/Program Totals 2000-2006

The 76th Legislature added Section 56.028 to the Public Utility Regulatory Act (PURA) in 1999 to provide support from the Texas Universal Service Fund (TUSF) to companies that provide high-speed services at a discount to certain entities, including schools, libraries and non-profit hospitals.[186] Under this program (referred to as the "IntraLATA Program" or the "Schools & Libraries Program"), incumbent local exchange companies (ILECs) that have not elected incentive regulation (generally the smaller ILECs) and provide intraLATA, interexchange, high capacity (1.544 Mbps) service at reduced rates to entities described under PURA § 58.253(a) are reimbursed from the TUSF. The amount of reimbursement per line equals the difference between the tariffed rate for the service as of January 1, 1998, and the lowest rate for that service offered by any Chapter 58 company (generally the larger ILECs).

The amount of funding provided from the TUSF for digital signal level 1 (DS-1), 1.544 Mbps, services provided by non-electing companies increased steadily for the first four years of the program, increasing from $740,000 in the first year to approximately $1.8 million by 2006. The funding has remained fairly constant from fiscal year 2004 through 2006. In fiscal year 2006, disbursements from this program totaled $1.8 million (or 0.3% of the fund's total) (see Figure 16 – Schools & Libraries Disbursement, FY 2000-2006). Thirty-four ILECs currently are providing services and receiving reimbursements from this program.

[186] Eligible entities include educational institutions, accredited primary or secondary schools, accredited institutions of higher education, the Texas Education Agency, regional education service centers, the Texas Higher Education Coordinating Board, public libraries or regional library systems, libraries operated by institutions of higher education or school districts, nonprofit telemedicine centers, public or not-for-profit hospitals, and legally constituted consortia or group of any of these entities. PURA §§ 56.028, 58.253(a).

Figure 16 — Schools & Libraries Disbursement, FY 2000-2006



SOURCE: Solix, Inc.

B. Has Program's Purpose Been Achieved?

1. Parties' Positions

No stakeholder provided comments on whether the program's purpose has been achieved.

2. Commission Observations & Analysis

The stakeholders in this project expressed no comments and/or reservations on whether the purpose of this program has been achieved, however, in Project No. 31925, *Study Evaluating a New Funding Mechanism for Distance Learning Discounts and Private Network Services for Certain Entities,* the Commission recently concluded a separate study and report evaluating potential new funding mechanisms for distance learning discounts and private network services for certain entities (generally, schools and libraries). Please refer to that report for detailed information and recommendations regarding such funding.

In that report, the Commission generally concluded that the current programs that provide discounts to Texas's schools, libraries, and nonprofit health-care institutions appear to be working well. Data show that the disbursements from this program have remained constant in 2004 and 2005; in fiscal year 2005, disbursements from this program totaled $1,998,736 (0.4% of the fund's total). Whether this represents a saturation point at which all eligible entities that want DS-1 services have already applied for the discounted rate, or whether it is simply a "pause" in the adoption of these services cannot be determined at this time.

C. Did Entities Spend Money for Intended Purposes?

1. Parties' Positions

No stakeholder provided comments on whether entities receiving support under this mechanism have spent it for its intended purposes.

2. Commission Observations & Analysis

The stakeholders expressed no comments on whether the money from this program was spent for intended purposes, and the Commission has no reason to believe that the money was not spent for intended purposes. The Commission observes that support provided to the ILEC is a predetermined support amount based on tariffed rates, and therefore is a direct reimbursement for the amount of the discounted service.

D. What Should This Program Look Like in the Future?

1. For What Purpose Should the Recipients Spend the Money?

a. Parties' Positions

Texas Public Policy Foundation (TPPF) recommended elimination of the program. According to TPPF, the program is anti-competitive in nature, as the fund reimburses ILECs for providing high-speed services, such as high-speed Internet access, to certain entities, but does not reimburse competitors. Therefore, competitors are not able to successfully compete with the subsidized ILEC.[187]

b. Commission Observations, Analysis & Recommendations

As reflected in Project No. 31925, *Study Evaluating a New Funding Mechanism for Distance Learning Discounts and Private Network Services for Certain Entities*, the Commission recommends that careful scrutiny should be given to any proposal to establish an explicit funding mechanism for the discount program. If a funding mechanism is established, it should be carefully constructed to provide stability in the rates charged to the institutions receiving the discounts, and to minimize the administrative costs that will be incurred.

2. How Should Support Be Disbursed?

a. Parties' Positions

No stakeholder provided comments on how the money should be disbursed.

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[187] TPPF Comments at 3.

b. Commission Observations, Analysis & Recommendations

The Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

3. What Future Accountability Mechanism Should Be Established?

a. Parties' Positions

No stakeholder provided comments or recommendations about a future accountability mechanism specific to this program.

b. Commission Observations, Analysis & Recommendations

The Commission believes that this program is functioning properly "as is" and can continue to do so in the future.

Chapter VIII. Administration of the Fund

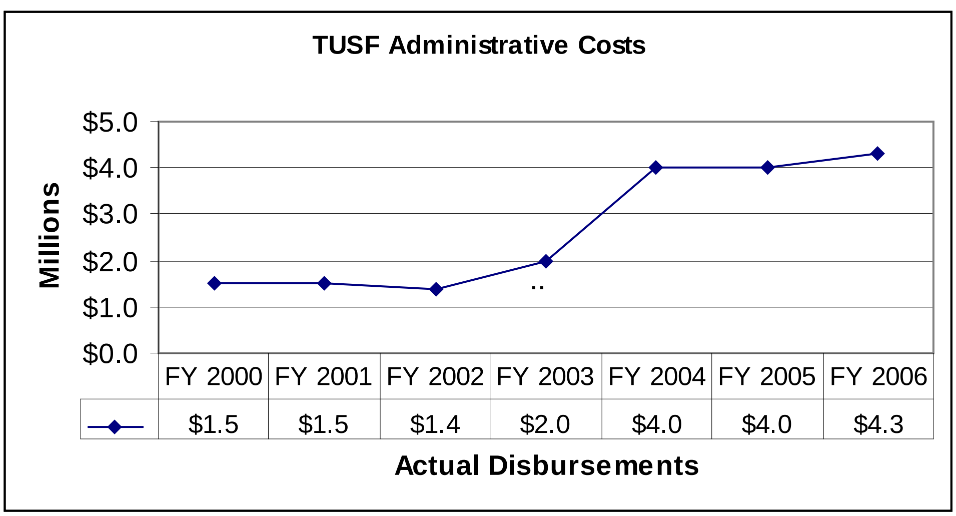
A. Background/Fund Performance 2000-2006

The Commission is the official governing agency of the Texas Universal Service Fund (TUSF); however, it has delegated administrative functions to Solix (f/k/a National Exchange Carrier Association or "NECA") through a contractual agreement. Solix has been the TUSF administrator since January 1, 1999. The Commission has the authority to monitor and audit the TUSF administrator's activities related to the operation and administration of TUSF. In addition, the Commission has the authority to initiate annual performance audits and financial audits of the TUSF at its discretion.

Public Utility Regulatory Act (PURA) §§ 56.021 (4) and (6) permit certain agencies, such as the Commission, Solix, Department of Assistive and Rehabilitative Services (DARS), Texas Health and Human Services Commission (HHSC, f/k/a Texas Department of Human Services) (DHS)), and the Texas Department of Housing and Community Affairs (TDHCA) to recover their costs incurred in implementing the provisions of Chapter 56 of PURA.

In fiscal year 2006, administration costs, which have remained steady since 2004, accounted for 0.75% of the fund. (see Figure 17 – Fund Administration Costs, FY 2000-2006).

Figure 17 — Fund Administration, FY 2000-2006



SOURCE: Solix, Inc.

Stakeholders in general commented that the fund is being efficiently administered. AT&T stated that the current administration of the fund is an economically affordable process that is functioning appropriately.[188] And Alltel, Texas Telephone Association (TTA), Windstream and Kerrville stated that Solix's third-party administration of the TUSF is working well.[189]

B. Should TUSF Be Continued, Phased Out, Abolished, or Brought Within the State Treasury?

1. Parties' Positions

The majority of the stakeholders advocated that the TUSF be continued, and, although several advocated that the fund be reduced, no party recommended that the fund be abolished, phased out, or brought within the State Treasury.

The majority of the stakeholders receiving TUSF support argued that the TUSF should continue. Grande advocated expanding the TUSF to include support for broadband services, although could not provide an estimate of the cost of such an expansion.[190] Alltel, AT&T, TTA, Windstream, Kerrville, and Texas Statewide Telephone Cooperative, Inc. (TSTCI) averred that the fund must continue, or incumbent local exchange carriers (ILECs) would be unable to provide basic phone service in high cost rural areas at reasonable rates.[191] Verizon and Sprint concurred that the Large Company Area High-Cost Program should continue, and should not be reduced; however, if it were to be reduced, Verizon and Sprint advocated rebalancing local phone rates dollar-for-dollar to offset any reduction in TUSF support.[192]

The State of Texas (State) maintained that the TUSF should be continued, primarily to support programs for low-income and disabled persons, and to ensure reasonable rates in high-cost areas where there is no effective competition.[193] OPUC argued that the fund should be continued with increased oversight ability for the Commission to conduct inspections and investigations of TUSF recipients.[194]

However, both Office of Public Utility Counsel (OPUC) and the State concurred with Texas Cable and Telecommunications Association (TCTA) and Time Warner Telecom of Texas, L.P. (TWTC) (collectively referred to as TCTA/TWTC) and Texas Public Policy Foundation (TPPF) that the fund should be reduced. Most of the

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188 AT&T Comments at 5.

189 Alltel Comments at 5; TTA Comments at 12; and Windstream and Kerrville Comments at 1 (Mar. 1, 2006).

190 Grande Comments at 4 (Mar. 1, 2006).

191 AT&T Comments at 5; TSTCI Comments at 7; TTA Comments at 12; Windstream and Kerrville Comments at 1; and Alltel Comments at 4.

192 Sprint Comments at 10-11, 17 (Mar. 1, 2006); and Verizon Comments at 5.

193 State Comments at 3.

194 OPUC Comments at 4.

stakeholders advocating reducing the fund – TCTA/TWTC, OPUC and the State – focused primarily on reducing the support available in the large ILEC areas under the Large Company Area High-Cost Program by: (1) eliminating support for deregulated exchanges; (2) updating the cost model used in the original proceeding in 1998; and (3) limiting support to only those lines that subscribe to basic local service, arguing that customers that select packages for services do not need public subsidy to remain connected to the public voice network.[195] In addition to updating the cost model, TPPF advocated gradual implementation of pricing flexibility, and rebalancing local phone rates dollar-for-dollar to offset any reduction in TUSF support.[196] TPPF also recommended targeting the TUSF to only Lifeline customers, and eliminating the Schools & Libraries program.[197]

However, the majority of the stakeholders receiving support from the Large Company Area High-Cost Program did not agree with TCTA/TWTC's proposal to limit support to lines subscribing to only basic local service, arguing, among other things, that most customers in rural areas subscribing to calling features or packages could not afford a cost-based rate.[198] Further, Verizon argued that such an approach undercuts the legislature's intent for an explicit funding mechanism, as revenues from calling features and other services would then implicitly subsidize the cost of basic local service.[199] As for deregulated exchanges, AT&T, Sprint and Verizon argued that, although there are no pricing regulations in those exchanges, TUSF support is still necessary for the high-cost areas in the exchange, as customers served by those wire centers could not afford cost-based rates.[200]

Stakeholders, with the exception of Grande, did not believe that the TUSF should be brought into the State Treasury. AT&T noted that if the TUSF was to be brought within the treasury, such action would raise questions as to whether the assessment now paid by telecommunications customers was, in effect, a tax.[201] Further, AT&T and TSTCI argued that a transfer would be unfair because of possible diversion.[202] TTA and Grande proffered the Telecommunications Infrastructure Fund as a problematic example of bringing a program into the State Treasury.[203] Alltel stated that it saw no reason to bring the TUSF within the treasury.[204] Verizon suggested that if the fund were to be

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[195] TCTA/TWTC Comments at 11-14 (Mar. 1, 2006); TCTA/TWTC Reply Comments at 10-12 (Apr. 3, 2006); State Comments at 2; and OPUC Comments at 4.

[196] TPPF Comments at 4.

[197] *Id.*

[198] Sprint Reply Comments at 14-15 (Apr. 3, 2006).

[199] Verizon Reply Comments at 5 (Apr. 3, 2006).

[200] Sprint Reply Comments at 14-15; Verizon Reply Comments at 4; and AT&T Reply Comments at 12.

[201] AT&T Comments at 4.

[202] AT&T Comments at 6; and TSCTI Comments at 8.

[203] TTA Comments at 12; and Grande Comments at 4.

[204] Alltel Communications, Inc. Comments at 5 (March 1, 2006).

moved into the treasury, the statutory purpose of the fund - namely to assist telecommunications providers in providing basic local telecommunications services at reasonable rates - would be violated.[205] TSTCI argued that bringing the fund within the state treasury would be inconsistent with the goal of keeping TUSF predictable, sustainable, and specific.[206]

The only stakeholder to suggest placing the fund in the treasury was Grande, which stated that, if the fund would benefit from money management services otherwise unavailable to it, then bringing the fund into the treasury might be desirable.[207] However, Grande stated that this would be appropriate only if the TUSF were not subject to appropriation for other purposes.[208]

2. Commission Observations, Analysis & Recommendations

In performing an analysis of whether such a fund should continue, generally three measures could be used as indicators of whether universal service is being achieved. They are: (1) availability of service, measured through the percentage of households with telephone service available;[209] (2) service adequacy, measured in two ways, through quality of service reports filed with the Commission on a quarterly basis and the number of customer complaints received per month; and (3) affordable rates, measured by the rate charged for basic local telephone service.

To the extent the Legislature believes the stated purpose of the TUSF continues to be an appropriate policy for Texas, and given that the TUSF is functioning properly and achieving its intended purpose, the Commission recommends the TUSF be continued in its current form.

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[205] Verizon Comments at 6.

[206] Texas Statewide Telephone Cooperative, Inc. (TSTCI) Comments at 5 (October 31, 2005).

[207] Grande Comments at 4.

[208] *Id*.

[209] Texas has historically lagged behind national telephone subscribership penetration rates. Nationally and in Texas, subscribership continues to decline. The FCC reported that, as of year-end 2005, 94.3% of the nation's households, and 92.3% of households in Texas, had telephone service available in the household, a statistically-significant decrease from year-end 2003, where 96% of the nation's household, and 94.8% of Texas households, had telephone service available. The FCC provided no explanation for the decrease. *Telephone Subscribership in the United States* at Table 3, FCC (May, 2006).

C. How Should TUSF Be Collected? Is The Current Funding Mechanism Adequate for Future?

1. Parties' Positions

a. Assessment Mechanism

Several entities, including AT&T, Sprint, TPPF and Grande maintained that the existing assessment mechanism should be changed. Sprint and AT&T argued that the current mechanism based on intrastate taxable telecommunications receipts is not sustainable, as identifying the jurisdictional nature of traffic will be increasingly difficult.[210] AT&T therefore argued that the Commission should instead adopt a connections-based methodology, such as the one it has proposed at the federal level that assesses contributions on the basis of telephone numbers and connections to the public network.[211] TPPF proposed that TUSF be funded through general taxation, specifically via a flat-rate charge similar to the Federal Communications Commission's Subscriber Line Charge, which would create fewer economic distortions than a tax on a specific industry.[212] Grande advocated that a competitively-neutral assessment mechanism, collected from all who provide these services in the state; in that manner, all providers, regardless of technology or geography served, also support broadband deployment.[213]

Alltel, OPUC, TCTA/TWTC, TSTCI, and Verizon maintained that the current mechanism (adopted by the Commission in Project No. 28708) should be retained.[214] TCTA/TWTC argued that AT&T' proposed "connections-based" methodology is premature, and recommended instead that the Commission retain its existing assessment mechanism, and monitor any modifications under consideration by the Federal Communications Commission.[215] TSTCI expressed concern that AT&T's connections-based proposal could disproportionately shift the cost of funding TUSF on the rural areas. TSTCI maintained that switching from the current percentage revenue methodology to a connections-based methodology would serve to disadvantage rural small businesses, ranches and farms, which are the mainstay of the rural economy, as a connections-based methodology would significantly increase their assessments.[216]

The State and TTA did not present an alternative to the existing mechanism, but did not expressly advocate its retention. The State asserted that any recipient of TUSF

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210 AT&T Reply Comments at 18; and Sprint Reply Comments at 19.

211 AT&T Comments at 11-12; and AT&T Reply Comments at 18.

212 TPPF Comments at 6.

213 Grande Reply Comments at 1.

214 Alltel Comments at 8; OPUC Comments at 5; and Verizon Comments at 10.

215 TCTA/TWTC Comments at 21; and TCTA/TWTC Reply Comments at 20-21.

216 TSTCI Reply Comments at 5-6.

support should also be required to collect and pay into the fund.[217] TTA, Windstream and Kerrville maintained that the TUSF assessment methodology must maintain the solvency of the fund and be applied in a competitively-neutral manner.[218]

b. Future Adequacy of Assessment Mechanism

AT&T and Sprint argued that the current collection methodology based on revenue is not sustainable, as identifying the jurisdiction of telecommunications revenue is becoming increasing difficult, and broadening the assessment base will be critical to maintaining the sustainability of the fund.[219]

Grande argued that the current funding mechanism is "probably not" adequate. According to Grande, one source of uncertainty is that if TUSF is expanded to include advanced services and multiple technologies, and if the assessment fee is extended to include providers of such services over such technologies, it is reasonable to expect the fund to increase as a result.[220]

TSTCI contends that new technologies and/or jurisdictional shifts brought about by changes to current federal funding mechanisms could indeed require the commission to review, at some future date, the requirement level of the TUSF.[221]

TPPF maintained that the current mechanism will be adequate and notes the need for the fund is decreasing, not increasing. According to TPPF, the technologically-driven marketplace has surpassed the ability of the fund to ensure efficient delivery of the lowest cost telephone service. TPPF also asserted that no new technologies should be subjected to fund assessments, and no new services should be covered by fund payment.[222]

The State stated that the adequacy of the funding mechanism is a valid concern.[223] Alltel reported that it has not determined whether the current funding mechanism is adequate to sustain the purposes of the fund, and stated that all technologies that provide supported services should be permitted to participate in the universal service support mechanism.[224] Verizon stated it cannot answer the question at this time with certainty. According to Verizon, the best approach is not to change the fund until the FCC reaches a decision regarding the federal fund, and thus give the Legislature the opportunity to evaluate the Commission's TUSF findings with consideration given to the federal

[217] State Reply Comments at 5.

[218] TTA Comments at 17; and Windstream and Kerrville Comments at 1.

[219] Sprint Reply Comments at 19 and 21; and AT&T Comments at 10 and 13.

[220] Grande Comments at 7.

[221] TSTCI Comments at 16.

[222] TPPF Comments at 6.

[223] State Comments at 5.

[224] Alltel Comments at 9.

universal service decisions.[225] TCTA/TWTC stated that the level of public subsidy being provided today is already too large, and that, before the Commission can reasonably address the issue posed, it must first recalibrate the Fund to determine what level of support is needed on a prospective basis.[226]

2. Commission Observations, Analysis & Recommendations

The Commission recently changed the TUSF's assessment base so as to exclude receipts from interstate and international telecommunications services, and no party provided an alternative methodology in that proceeding (Project No. 28708). Further, the Commission more recently lowered the assessment rate from 5.65% to 5%. When the Commission reduced the assessment rate to 5%, it did not forsee a significant negative impact on the current assessment methodology from VoIP services.[227]

To the extent the Legislature believes the stated purpose of the TUSF continues to be an appropriate policy for Texas, and given that the current collection and funding mechanism is functioning properly and achieving its intended purpose, the Commission recommends the TUSF be continued in its current form.

D. Usefulness of PURA § 56.029(g) Attestation

1. Parties' Positions

Section 56.029(g) of PURA requires recipients of TUSF support to file an affidavit with the Commission attesting that the money has been used in a manner consistent with the purpose for which it was provided. Respondents on behalf of the stakeholders receiving support from the TUSF asserted that the attestation is very useful and appropriate and that there is no need for any additional requirements. However, other stakeholders asserted that this is an insufficient accountability mechanism.

Majority of the stakeholders receiving TUSF support – Alltel, AT&T, Grande, Sprint, and Verizon – and their associations, TTA and TSTCI, claimed that the PURA § 56.029(g) attestation is very useful and appropriate, especially because a certifying company would be subject to penalties for falsifying such certification.[228] According to these stakeholders, additional accountability measures are not needed, and additional requirements are not necessary because of existing and extensive reporting requirements with both the Commission and Solix.[229] Further, they argued that that the funds are used

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[225] Verizon Comments at 11.

[226] TCTA/TWTC Comments at 22.

[227] TUSF Assessment, Project No. 21208, Order at Attachment A (July 24, 2006).

[228] AT&T Comments at 8; Verizon Comments at 8; TSTCI Comments at 11; TTA Comments at 7; Alltel Comments at 6; and Grande Comments at 5.

[229] AT&T Comments at 7.

appropriately,[230] and any detailed tracking is unnecessary and inappropriate (and would be difficult, if not impossible, to perform), and would be burdensome and costly to implement. Moreover, such information could not be made publicly available because the Legislature has previously determined that any reports telecommunications providers are required to submit regarding fund disbursements are confidential and not subject to disclosure under Chapter 552, Government Code.[231]

However, other stakeholders – TCTA/TWTC, OPUC and the State – argued that the “check a box” attestation, while administratively simple, does not improve transparency and its usefulness is questionable because it does not convey any detail.[232] TCTA/TWTC stated that it will be difficult to hold recipients of TUSF accountable, and argued that the current system does not differentiate the subsidies provided to all access lines in “high cost” exchanges from access lines purchased in packages, which TCTA/TWTC argued are priced at compensatory levels.[233] TCTA/TWTC stated that the most troubling features of the existing system are that there is no accountability and no transparency that would permit independent analysis.[234] Similarly, the State suggested that TUSF recipients should be required to file publicly their expenditures made using universal service support so that both the Commission and the consumers who are paying for these subsidies can review the appropriateness of all supported expenditures.[235] Further, OPUC stated that recipients of TUSF funds should maintain complete records of TUSF receipts and expenditures and these records should allow for tracking by Commission Staff to determine whether the TUSF monies were spent consistent with state law.[236]

Grande noted that any method other than an attestation must be based upon a reasonable set of easily applied objective standards in a reasonable geographic context, and that eligible telecommunications providers (ETPs) not subject to traditional utility accounting rules should be permitted to use non-utility accounting standards.[237]

2. Commission Observations, Analysis & Recommendations

The Commission observes that the affidavit adds some level of assurance that TUSF money is being spent in the intended manner. However, it alone does not provide complete transparency or detail regarding the actual use of TUSF support. The affidavit

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[230] Alltel Comments at 6; AT&T Comments at 7; and TTA Comments at 14-15.

[231] AT&T Reply Comments at 15-16; and TSTCI Reply Comments at 2-3.

[232] TCTA/TWTC Comments at 16; OPUC Comments at 5; and State Comments at 4.

[233] TCTA/TWTC Comments at 16.

[234] *Id*.

[235] State Comments at 3.

[236] OPUC Comments at 4.

[237] Grande Comments at 5.

could act as a deterrent insofar as discouraging any outright fraud associated with obtaining and utilizing money from the TUSF.

To the extent the Legislature believes the stated purpose of the attestation process continues to be an appropriate policy for Texas, and given that this process is functioning properly and achieving its intended purpose, the Commission recommends the process be continued in its current form.

Appendix A – Comments Received by the Commission

Following is a list of the fourteen stakeholders that provided written comments to the Commission regarding Project No. 31863 – *Review and Evaluation of the Texas Universal Service Fund Pursuant to PURA Section 56.029*:

Entity Name	Comments Filed	Reply Comments Filed
Alltel Communications Inc. (Alltel)	3/1/3006	4/3/2006
AT&T (f/k/a SBC)	3/1/3006	4/3/2006
Grande Communications Networks (Grande)	3/1/3006	4/3/2006
Kerrville Telephone Company (now Windstream)	3/1/3006	
Office of Public Utility Counsel (OPUC)	3/1/3006	4/3/2006
Sprint (now Embarq)		4/3/2006
State of Texas (State)	3/1/3006	4/3/2006
Texas Cable and Telecommunications Association (TCTA) and Time Warner Telecom of Texas, L.P. (TWTC)	3/1/3006	4/3/2006
Texas Department of Assistive and Rehabilitative Services (DARS)	3/1/3006	4/3/2006
Texas Public Policy Foundation (TPPF)	3/1/3006	
Texas Statewide Telephone Cooperative, Inc. (TSTCI)	3/1/3006	4/3/2006
Texas Telephone Association (TTA)	3/1/3006	4/3/2006
Windstream Telecommunications of Texas, L.P. (now Windstream)	3/1/3006	
Verizon	3/1/3006	4/3/2006

Appendix B – Eligibility for TUSF Support

To receive support from the Texas Universal Service Fund (TUSF), a telecommunications provider must be designated an eligible telecommunications provider (ETP) by the Commission. Telecommunications providers are required to meet a set of minimum criteria, set forth in P.U.C. SUBST. R. 26.417, before such a designation is granted, including: 1) classification as a telecommunications provider pursuant to Section 51.002(10) of the Public Utility Regulatory Act (PURA); 2) offering any customer in its ETP service area basic local telecommunications services, as defined in P.U.C. SUBST. R. 26.403, at a rate not to exceed 150% of the tariffed rate of the incumbent local exchange carrier (ILEC); 3) advertising those services; 4) providing Lifeline services; 5) offering the supported services either using its own facilities or a combination of its own facilities and the resale of another provider's services; and 6) rendering continuous and adequate service within the area or areas for which the Commission has designated it an ETP, in compliance with P.U.C. SUBST. R. 26.52 (relating to Emergency Operations), P.U.C. SUBST. R. 26.53 (relating to Inspections and Tests), and P.U.C. SUBST. R. 26.54 (relating to Service Objectives and Performance Benchmarks).

Such applications are processed administratively by Commission Staff, and public notice occurs in the *Texas Register*, allowing any interested party to file comments or seek to intervene in the docket, if desired. For those applications that are uncontested, a final order is issued within sixty days of the receipt of the application. If an application is contested by Commission Staff or any other party, it is referred to the State Office of Administrative Hearings (SOAH) for an evidentiary review and recommended decision. The Commission then reviews the SOAH decision and either approves it, denies it, or modifies it. Once an ETC designation is approved, either through the administrative or contested process, the Commission sends a letter of advisement to Solix to enable the provider to receive support for the designated area(s).

Following is a list of the 85 providers currently eligible to receive TUSF support: 61 ILECs, 22 competitive local exchange carriers (CLECs) and 2 wireless (a/k/a commercial mobile radio service) (CMRS)) providers.

Table 9 — ETPs as of 2006

Entity Name	ETP Docket(s)	Date(s) ETP Granted	Type of Provider
Alenco Communications, Inc.	18100	12/10/1997	ILEC
AMA Techtel Communications	28401, 29365/29366	10/7/2003	CLEC
AT&T (f/k/a Southwestern Bell Telephone or SBC Texas)	18100 & 18769	12/10/1997	ILEC
Big Bend Telephone Co., Inc.	18100	12/10/1997	ILEC
Blossom Telephone Co., Inc.	18100	12/10/1997	ILEC
Border to Border Communications	18100	12/10/1997	ILEC
Brazoria Telephone Co.	18100	12/10/1997	ILEC
Brazos Telecommunications, Inc.	18100	12/10/1997	ILEC
Brazos Telephone Coop., Inc.	18100	12/10/1997	ILEC
Cameron Telephone Co.	18100	12/10/1997	ILEC
Cap Rock Telephone Coop.	18100	12/10/1997	ILEC
Cedar Valley Communications (f/k/a TVS)	28404, 28463, 29325	10/7/2003	CLEC
Central Telephone Co. of Texas, Inc. (f/k/a Sprint, now Embarq))	18100	12/10/1997	ILEC
Central Texas Telephone Coop., Inc.	18100	12/10/1997	ILEC
Century Telephone-Lake Dallas, Inc.	18100	12/10/1997	ILEC
Century Telephone-NW Louisiana, Inc.	18100	12/10/1997	ILEC
Century Telephone-Port Aransas, Inc.	18100	12/10/1997	ILEC
Century Telephone-San Marcos, Inc.	18100	12/10/1997	ILEC
Cleartel Telecommunications Inc.	32258	2/27/2006	CLEC
Coleman County Telephone Coop.	18100	12/10/1997	ILEC
Colorado Valley Telephone Coop., Inc.	18100	12/10/1997	ILEC
Comanche County Telephone Co., Inc.	18100	12/10/1997	ILEC
Community Telephone Co.	18100	12/10/1997	ILEC
Consolidated Communications (f/k/a Lufkin Conroe and Fort Bend)	18100	12/10/1997	ILEC
Cumby Telephone Coop., Inc.	18100	12/10/1997	ILEC
Cumby Telephone Coop., Inc. CLEC	30786	4/4/2005	CLEC
Dell Telephone Coop., Inc.	18100	12/10/1997	ILEC
DTS - Dialtone Services (MSS)	30765/30812, 31399, 31401, 32024	8/2/2005, 6/22/06	CMRS
Eastex Telephone Coop., Inc.	18100	12/10/1997	ILEC
Electra Telephone Co.	18100	12/10/1997	ILEC
ENMR Telephone Coop., Inc.	18100	12/10/1997	ILEC
Etex Telephone Coop., Inc.	18100	12/10/1997	ILEC
ETS Telephone Company (f/k/a Kingsgate) d/b/a EnTouch	18100, 18768, 19657, 20014	12/10/1997	CLEC
FEC Communications, L.L.P.	24386/24387	8/23/2001	CLEC
Five Area Telephone Coop., Inc.	18100	12/10/1997	ILEC

Entity Name	ETP Docket(s)	Date(s) ETP Granted	Type of Provider
Ganado Telephone Co., Inc.	18100	12/10/1997	ILEC
GCEC Technologies	23176/23177	12/8/2000	CLEC
Grande Communications Network, Inc.	26404, 30115, 31109	7/15/2003	CLEC
Guadalupe Valley Telephone Coop.	18100	12/10/1997	ILEC
Hill Country Telephone Coop.	18100	12/10/1997	ILEC
Industry Telephone Co.	18100	12/10/1997	ILEC
Kerrville Telephone Co. (now Windstream)	18100	12/10/1997	ILEC
La Ward Telephone Exchange	18100	12/10/1997	ILEC
Lake Livingston Telephone Co.	18100	12/10/1997	ILEC
Leaco Rural Telephone Coop., Inc.	18100	12/10/1997	ILEC
Lipan Telephone Co.	18100	12/10/1997	ILEC
Livingston Telephone Co.	18100	12/10/1997	ILEC
Logix Communications Corporation	25619	5/6/2002	CLEC
Mid Plains Rural Telephone Coop., Inc.	18100	12/10/1997	ILEC
nii communications, LTD	24265	8/16/2001	CLEC
Nortex Communications (f/k/a Muenster)	18100	12/10/1997	ILEC
North Texas Telephone Co.	18100	12/10/1997	ILEC
NTS Communications, Inc.	28381	10/7/2003	CLEC
Panhandle Telephone Coop., Inc.	18100	12/10/1997	ILEC
Peoples Telephone Coop., Inc.	18100	12/10/1997	ILEC
Poka Lambro Telephone Co., Inc.	18100	12/10/1997	ILEC
PTCI (f/k/a Panhandle Telecommunications Systems, Inc.)	28315, 31066	9/24/2003	CLEC
Riviera Telephone Co., Inc.	18100	12/10/1997	ILEC
Sage Telecom of Texas, L.P.	25425	3/25/2002	CLEC
Santa Rosa Telephone Coop., Inc.	18100	12/10/1997	ILEC
Santa Rosa Telephone Coop., Inc. - CLEC	23216/23217, 25291/25293, 27786/27787, 29654, 31097	2/25/2002	CLEC
Smartcom Telephone L.L.C.	30607	2/11/2005	CLEC
South Plains Telephone Coop., Inc.	18100	12/10/1997	ILEC
Southwest Arkansas Telephone Coop., Inc.	18100	12/10/1997	ILEC
Southwest Texas Telephone Co.	18100	12/10/1997	ILEC
Sugar Land Telephone Co. (now Windstream)	18100	12/10/1997	ILEC
Tatum Telephone Co.	18100	12/10/1997	ILEC
Taylor Telephone Coop., Inc.	18100	12/10/1997	ILEC
Texas Alltel, Inc. (now Windstream)	18100	12/10/1997	ILEC
United Telephone Co. (Sprint/United, now Embarq)	18100	12/10/1997	ILEC
Valley Telephone Coop., Inc.	18100	12/10/1997	ILEC

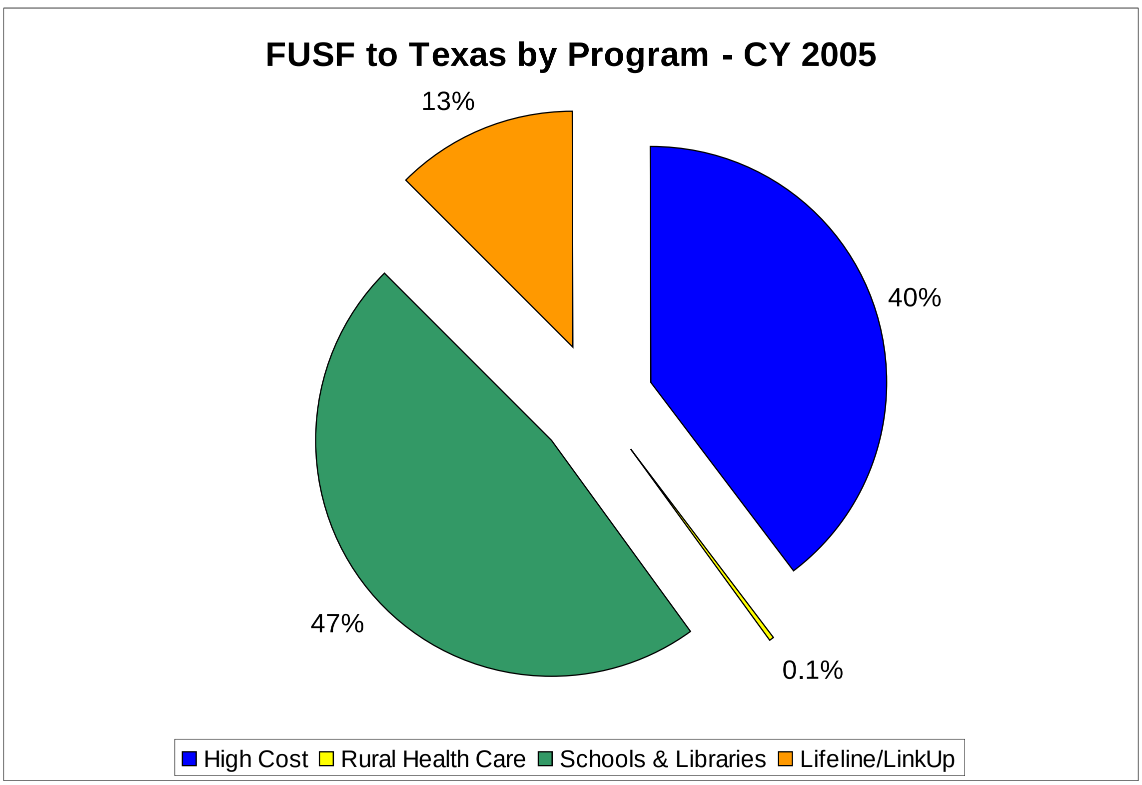
Entity Name	ETP Docket(s)	Date(s) ETP Granted	Type of Provider
Windstream Telecommunications of Texas, Inc. (now Windstream)	21834	6/15/2000	ILEC
Vantage Systems	28028	8/27/2003	CLEC
Verizon TXC & TXG	18100, 18769	12/10/1997	ILEC
Vycera Communications Inc.	28269, 32767	9/15/2004, 7/14/06	CLEC
W.T. Services, Inc.	23278 & 23280	1/2/2001	CLEC
West Plains Telecommunications, Inc.	18100	12/10/1997	ILEC
West Texas Rural Telephone Coop., Inc.	18100	12/10/1997	ILEC
Western Wireless Corporation (now Alltel Communications, Inc.)	22289/22295, 28688, 30710	10/31/2000	CMRS
Wes-Tex Telecommunications, Inc.	24646/24647	10/25/2001	CLEC
Wes-Tex Telephone Coop., Inc.	18100	12/10/1997	ILEC
XIT Rural Telephone Coop.	18100	12/10/1997	ILEC
XIT Telecommunications & Technology, Inc.	19903, 20385, 29524, 30098	10/14/98, 3/29/99, 9/1/04	CLEC

Appendix C – Federal USF Overview

In calendar year 2005, Texas contributed $380 million to the federal universal service fund (FUSF) and received $577 million in disbursements. The FUSF consists of four programs: Local Exchange Carrier High Cost (comprised of six funding mechanisms), Low Income (Lifeline & LinkUp), Schools & Libraries, and Rural Health Care.

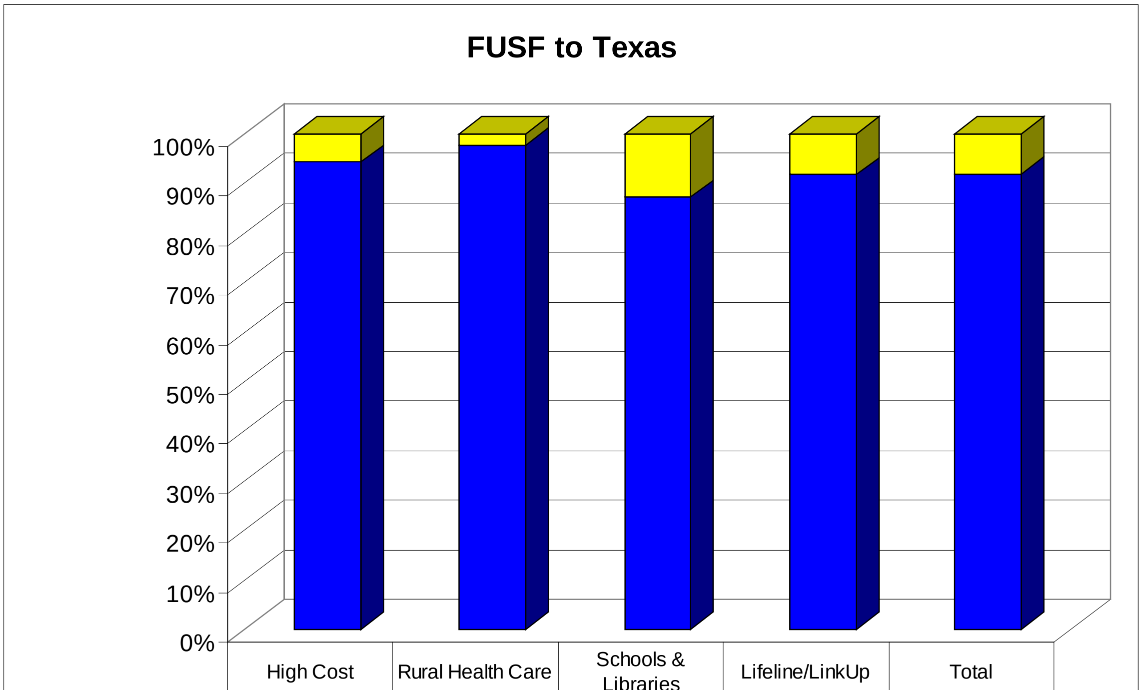
In calendar year 2004, Texas received $230 million from the high-cost program, and almost $275 million from the Schools & Libraries program (see Figure 18, FUSF to Texas). Support received under the Schools & Libraries program constituted 47% of all FUSF support received in Texas (see Figure 19, FUSF to Texas by Program, CY 2005).

Figure 18 — FUSF to Texas by Program, CY 2005



SOURCE: USAC 2005 Annual Report.

Figure 19 — FUSF to Texas, CY 2005

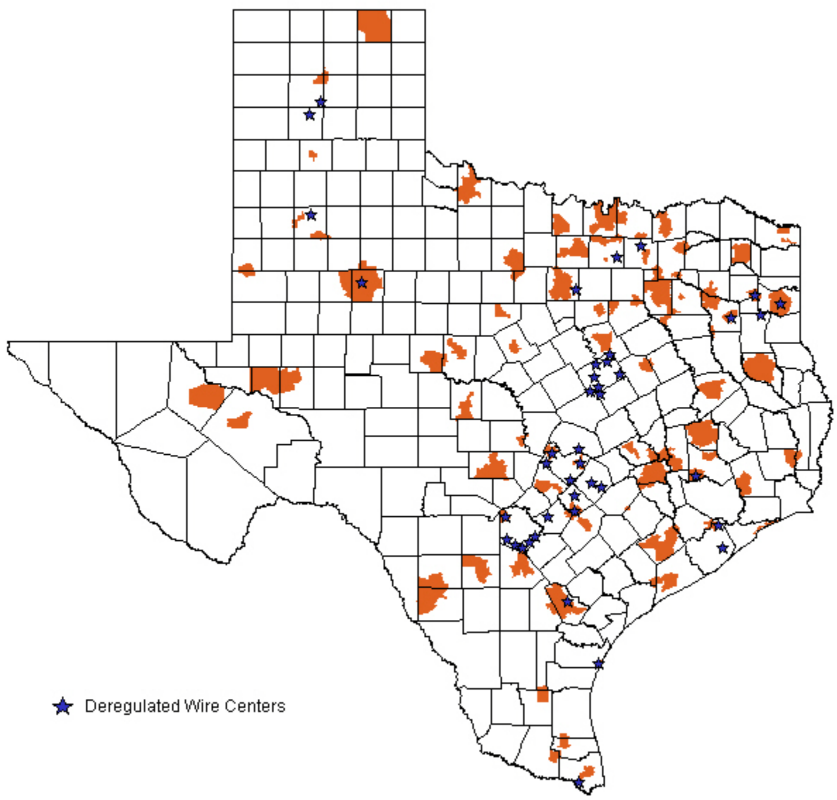


	High Cost	Rural Health Care	Schools & Libraries	Lifeline/LinkUp	Total
FUSF to Texas	$230,017,000	$592,000	$274,218,000	$72,330,000	$577,157,000
Total Federal USF	$3,824,186,000	$25,570,000	$1,861,745,000	$808,565,000	$6,520,066,000

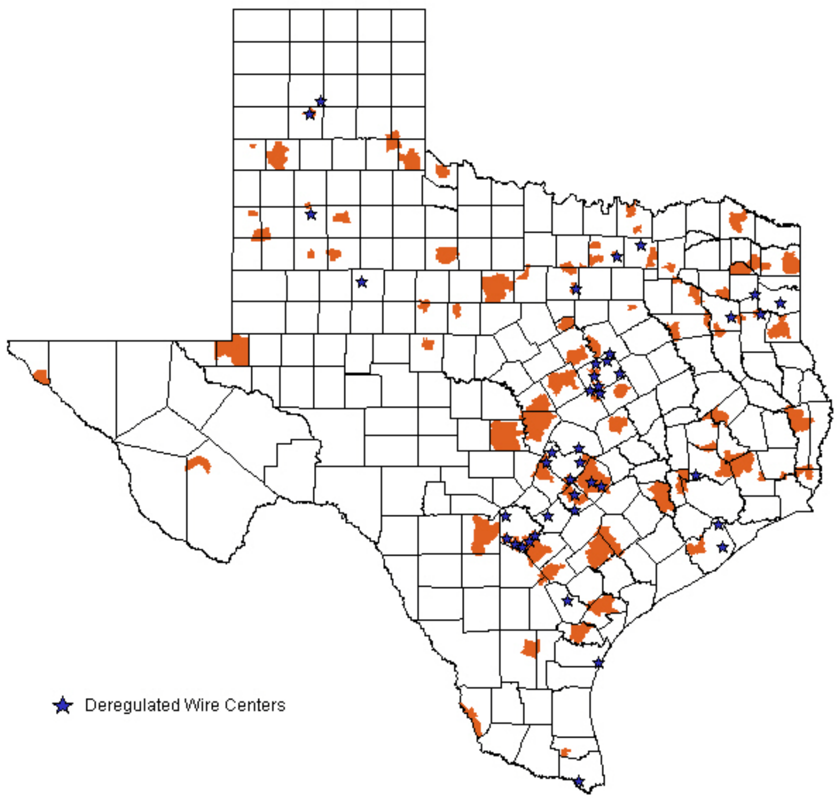
SOURCE: USAC 2005 Annual Report.

Appendix D – Large Company Maps

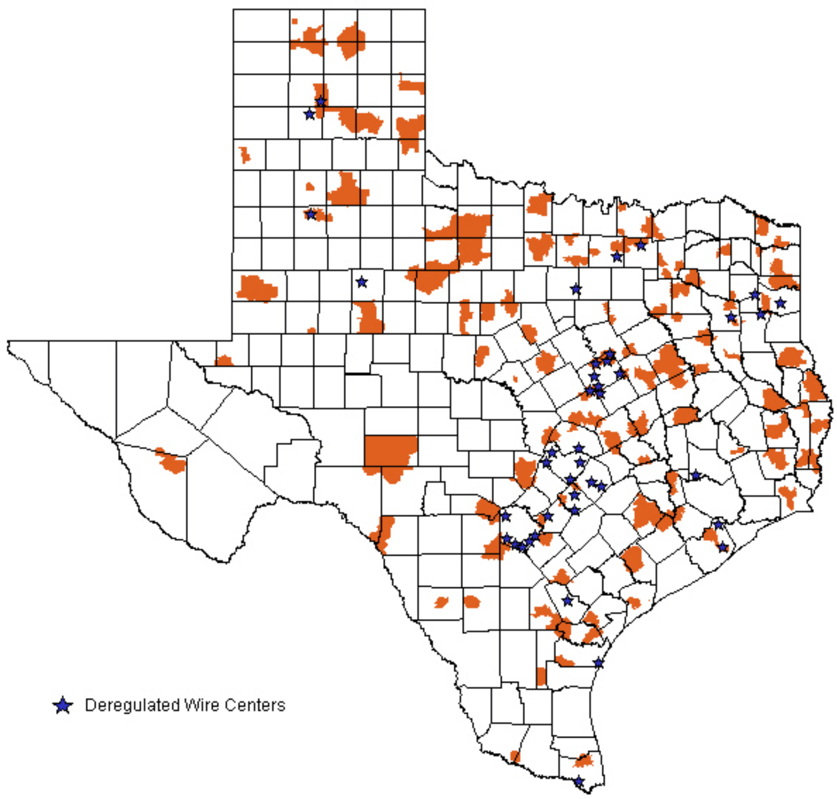
Large Company Area High-Cost Support of $1 to $10 Per Line



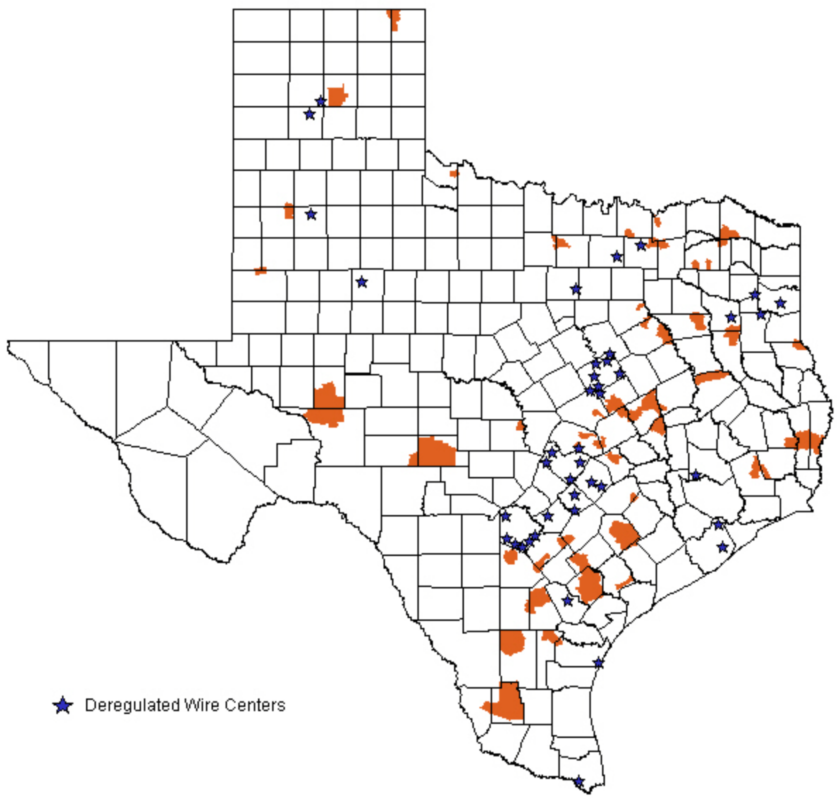
Large Company Area High-Cost Support of $10 to $20 Per Line



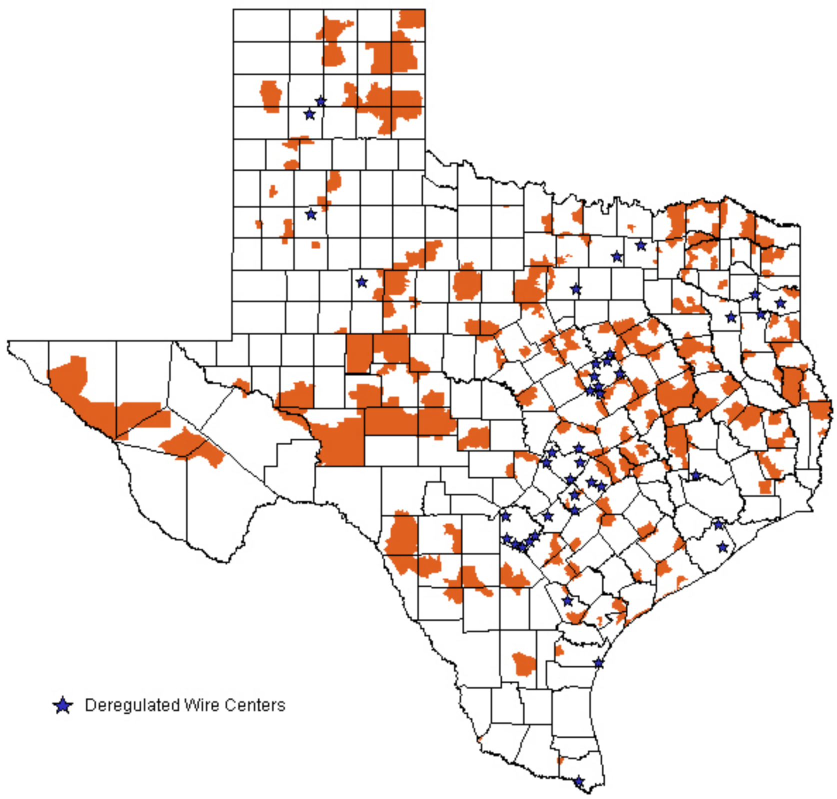
Large Company Area High-Cost Support of $20 to $40 Per Line



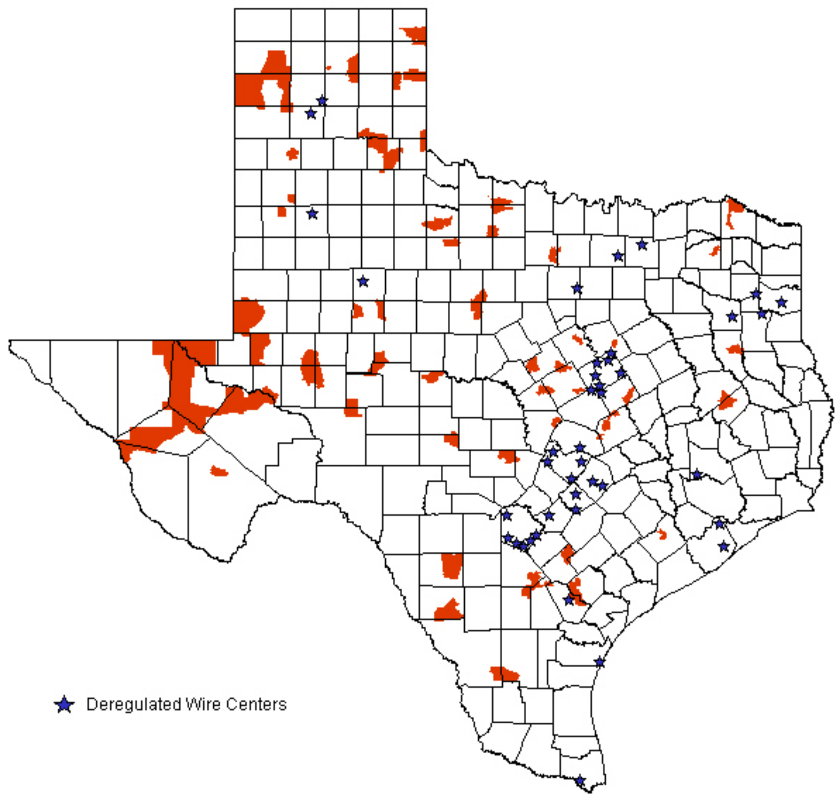
Large Company Area High-Cost Support of $40 to $50 Per Line



Large Company Area High-Cost Support of $50 to $150 Per Line

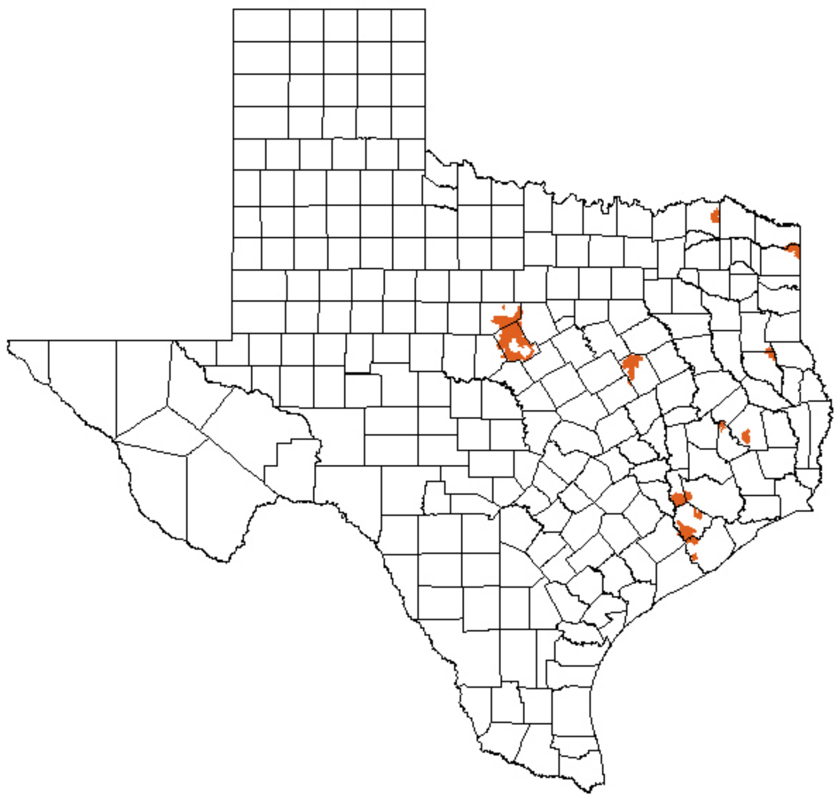


Large Company Area High-Cost Support of Greater Than $150 Per Line

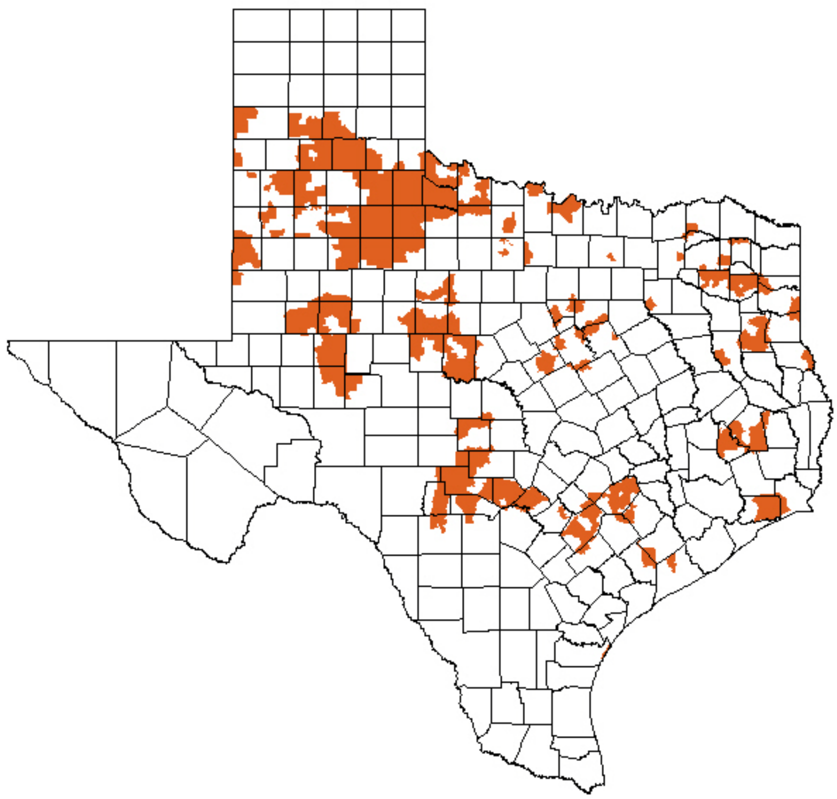


Appendix E – Small Company Maps

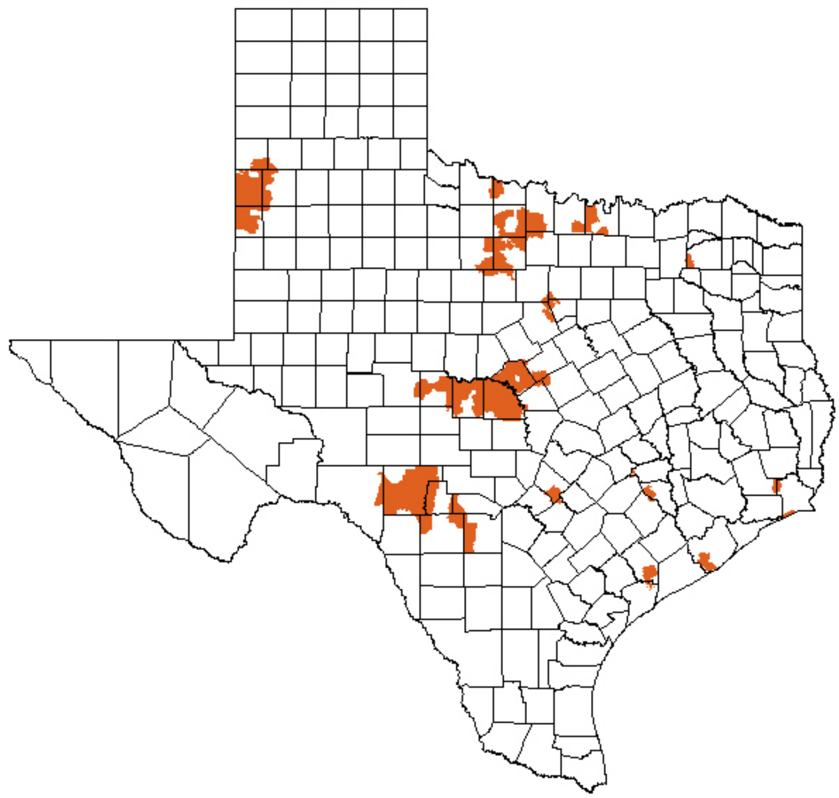
Small Company Area High-Cost Support of $1 to $10 Per Line



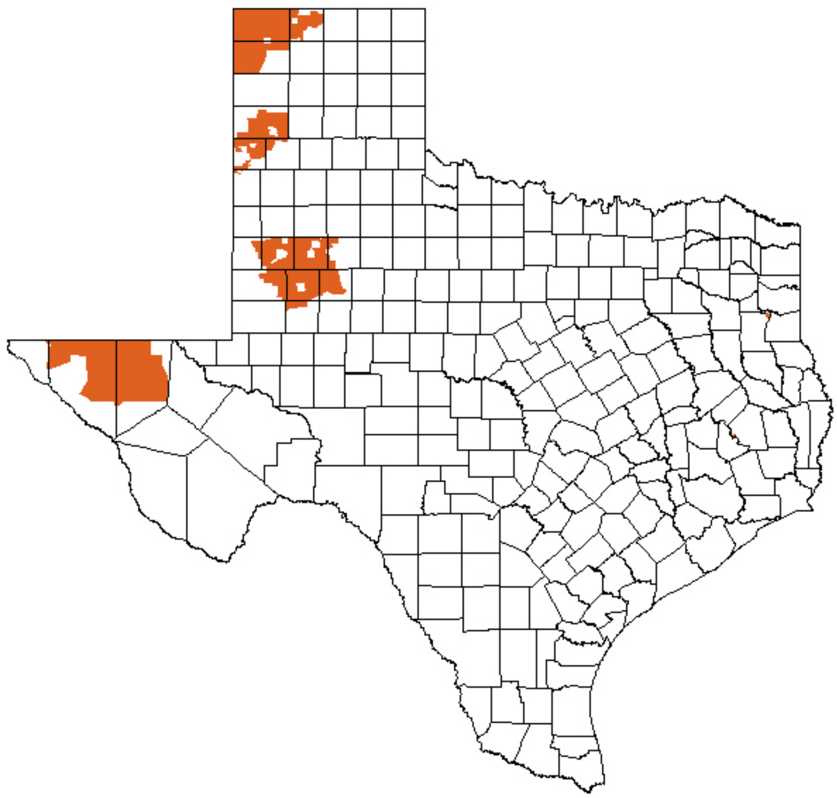
Small Company Area High-Cost Support of $10 to $20 Per Line



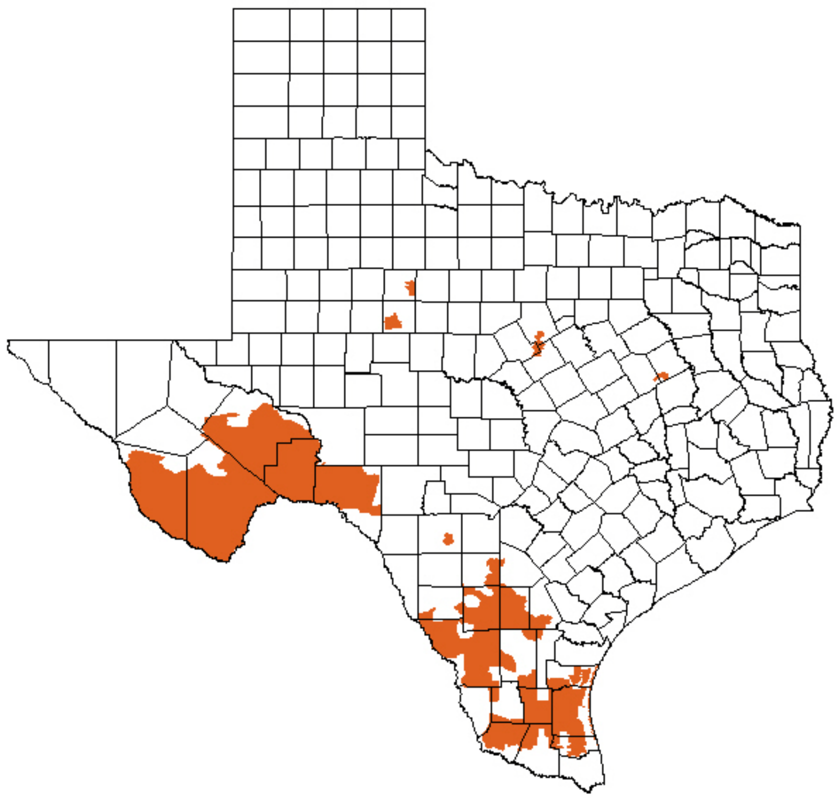
Small Company Area High-Cost Support of $20 to $40 Per Line



Small Company Area High-Cost Support of $40 to $50 Per Line



Small Company Area High-Cost Support of $50 to $150 Per Line



Small Company Area High-Cost Support of Greater Than $150 Per Line

Appendix F – TUSF Data Form

PUBLIC UTILITY COMMISSION OF TEXAS - UNIVERSAL SERVICE INFORMATION REQUEST - PART I **Page 1 of 7**

Company Name:		**Contact Person:**	
Texas CCN/COA/SPCOA No.		**Contact Phone #:**	
Parent/Holding Company:		**Contact E-Mail Address:**	
Parent Texas Certificate No.			

Who Must File:

All eligible telecommunications providers (ETPs) receiving disbursements from the TUSF, including the Texas High Cost Universal Service Plan (THCUSP) or the Small and Rural Incumbent Local Exchange Carrier (SRILEC) fund, are required to complete this spreadsheet, which is Part I of the Commission's information request issued by Commission Order in Project No. 31863. Both Part I and Part II of the information request are available for download on the Commission's website: http://www.puc.state.tx.us/telecomm/projects/31863/31863.cfm.

When to File:

ETPs must provide the requested data both by statewide study area, and by wire center or exchange; if an ETP is not able to provide the requested data by wire center or exchange, it must explain why in a memo submitted with this spreadsheet. Each ETP must file this spreadsheet twice: (1) an initial spreadsheet containing the requested data through December 31, 2004 must be filed by **April 3, 2006**; and (2) the initial spreadsheet updated with calendar year 2005 data (data from January 1, 2005 through December 31, 2005) must be filed by **June 1, 2006**.

Where to File:

Central Records, Project No. 31863, Texas Public Utility Commission, 1701 N. Congress Ave., P.O. Box 13326, Austin, TX 78711-3326. Include Signature Page and 3.5" diskette(s) or CD(s) in Microsoft Excel (version 2003 or lower) format.

Filing Public Information:

For publicly filed information, please submit (1) the original filing plus 3 hard copies to Central Records and (2) an electronic copy of the filing by e-mail to 2007TUSFReport@puc.state.tx.us. The electronic file must be in Microsoft Excel (version 2003 or lower) format. The electronic file submitted by e-mail must be an identical copy of the document filed as a hard copy in Central Records.

Filing Confidential Information:

If confidential treatment is requested for the Data Request section of this form, the confidential data must be submitted to Central Records pursuant to PROC. R. 22.71. The information filed pursuant to PUC Proc. R. 22.71 must include both a hard copy and an electronic copy (e.g. diskette or CD ROM) in Microsoft Excel Version 2003 or lower format of the confidential information.

Reminders:

•Files that cannot be opened in Excel 2003 will be rejected.
•Filings marked as confidential must be submitted pursuant to the Commission's procedural rules in PUC Proc. R. 22.71. Noncompliance with the confidential filing procedures in PUC Proc. R. 22.71 may result in the submission being filed as a public document.
•Filing the "Cover Page," "Confidentiality Page," and "Signature Sheet" as confidential may result in the filing being rejected.
•Failure to timely file this form may result in the assessment of administrative penalties.

Naming convention for your files:

Month, Year, Company Name, hyphen P or C (to indicate Public or Confidential status of form) and .XLS
(Example: 030103TELCOINC-P.XLS)

If confidential treatment is requested for a portion of this form, the carrier should submit two electronic files. The public data should be submitted by e-mail and the confidential data should be filed on a diskette or CD ROM in Central Records in accordance with PUC Proc. R. 22.71.
Questions: Please contact the Data Team at: 2007TUSFReport@puc.state.tx.us. For administrative assistance, please contact Isabel Herrera at (512) 936-7205. For assistance regarding the data request, please contact Randy Klaus at (512) 936-7456, or by e-mail at randy.klaus@puc.state.tx.us.

PUC Authority

The PUC collects this information pursuant to §56.029 of the Public Utility Regulatory Act (PURA).

PUBLIC UTILITY COMMISSION OF TEXAS - UNIVERSAL SERVICE INFORMATION REQUEST - PART I **Page 2 of 7**

Company Name:

How the PUC Will Treat the Data:

Public Information:

The information reported in the "Cover Page," "Confidentiality Page," and "Signature Page" will be considered public, and Staff may provide information from these worksheets to the public. *A submission that is not filed as confidential in accordance with P.U.C. Proc. R. 22.71 will be considered a public filing.*

If a Carrier Requests Confidential Treatment: If confidential treatment is requested for the Data Request section of this form, the data must be filed pursuant to PUC Proc. R. 22.71. Please note that certain portions of this form have been designated as "public" and will be reported publicly. [See "Public Information" above.] *All non-confidential portions of this form must be filed as public information*.

Confidential information submitted by carriers to the Commission must be clearly marked. Subject to the Texas Public Information Act, Chapter 552, Texas Government Code, the Commission shall not, without the carrier's prior written consent, disclose, provide, or make available any information marked as confidential by the carrier to any person, except to its bona fide employees and officers. Upon receipt of a request for information that a carrier has marked confidential pursuant to the Tex. Gov't Code Chapter 552, the Commission will promptly notify the carrier in order to provide an opportunity for the carrier to claim an exception under the statute. Carriers are advised to consult legal counsel regarding disclosure issues under Chapter 552, Tex. Gov't Code.

Indicate whether or not public disclosure of the information contained in the Data Request section of this form would likely cause substantial harm to the competitive position of the filer. ***[Check only one box]***

Put a ? in this box to certify that the Data Request section of this form may be made public:

Put a ? in this box to certify that the Data Request section of this form is filed as confidential:

PUBLIC UTILITY COMMISSION OF TEXAS - UNIVERSAL SERVICE INFORMATION REQUEST - PART I									Page 3 of 7
Eligible Telecommunications Provider (ETP) Data Request									
	($ in thousands for the Texas Statewide Study-Area)								
	See Instructions Below								
			Balance	Balance	Balance	Balance	Balance	Balance	Balance
			FYE	FYE	FYE	FYE	FYE	FYE	FYE
47 CFR	**DESCRIPTION**		12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005
	TOTAL OPERATING REVENUE								
32.5000	Basic Area Revenue								
32.5081	End User Revenue								
32.5082	Switched Access Revenue								
	Intrastate								
	Interstate								
32.5083	Special Access Revenue								
	Intrastate								
	Interstate								
32.5100	Long Distance Message Rev								
	Intrastate								
	Interstate								
32.5200	Miscellaneous Revenue								
	Intrastate								
	Interstate								
32.5230	Directory Revenue								
32.5300	Uncollectible Revenue								
	Intrastate								
	Interstate								
	TOTAL SUBJECT TO SEPARATIONS*		0	0	0	0	0	0	0
	TOTAL OPERATING EXPENSE								
	Plant Specific Operations Expense								
	Plant Non-specific Operations Expense								
	Customer Operations Expense								
	Corporate Operations Expense								
	Depreciation & Amortization								
	Other Operating Income/Expense								
	TOTAL SUBJECT TO SEPARATIONS*		0	0	0	0	0	0	0

									Page 4 of 7
			Balance	Balance	Balance	Balance	Balance	Balance	Balance
			FYE	FYE	FYE	FYE	FYE	FYE	FYE
47 CFR	**DESCRIPTION**		12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005
36.631	**Expense Adjustment (aka FUSF)***								
	TOTAL PROPERTY								
32.2001	Telecom Plant In Service (TPIS)								
32.2002	Property Held for Future Use								
32.2003	Telecom Plant Under Construction								
32.2005	Telecommunications Plant Adjustment								
	TOTAL SUBJECT TO SEPARATIONS*		0	0	0	0	0	0	0
32.2001	TPIS Additions (Per General Ledger)								
32.2001	TPIS Retirements (Per General Ledger)								
32.2001	Broadband Specific Property Additions								
32.1120	Cash & Equivalents								
32.1170	Account Receivables								
32.1406	Nonregulated Investments								
	EARNINGS MONITORING REPORT								
	Return (Sch I, Line 36, Col. g)*								
	Rate of Return (Sch II, Line 73, Col. g)*								
	Return on Equity (Sch II, Line 74, Col. g)*								
	EARNINGS MONITORING REPORT ACCESS LINES								
	TX Residential Access Lines								
	TX Business Access Lines								
	Total TX Period-ending Access Lines*		0	0	0	0	0	0	0
	NECA-REPORTED TUSF ACCESS LINES AT YEAR END								
	Eligible Residential High Cost Lines								
	Eligible Business High Cost Lines								
	Total Eligible Access Lines		0	0	0	0	0	0	0
	Total Access Lines, if reported to NECA								

									Page 5 of 7
			Bal. FYE	Bal. FYE	Bal. FYE	Bal. FYE	Bal. FYE	Bal. FYE	Bal. FYE
	DESCRIPTION		12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005
	TUSF Receipts								
	THCUSP (Subst. R. 26.403)								
	SRICUSP (Subst. R. 26.404)								
	High Cost Assist. (Subst. R. 26.406)								
	AFA (Subst. R. 26.408)								
	IntraLATA Hi-Cap (Subst. R. 26.410)								
	LifeLine (Subst. R. 26.412)								
	Tel-Assistance (Subst. R. 26.413)								
	Uncertificated Areas (Subst. R. 26.423)								
	Residential Data (THCUSP ILECS ONLY)								
	Access Lines								
	Local Revenues (Basic & Discretionary)								
	Intrastate Access Revenue Excluding CCL								
	Intrastate CCL Revenue								
	IntraLATA Toll Revenue								
	Interstate Access Revenue								
	DSL and Dial Up Internet Access Rev								
	InterLATA Toll Rev (State & Interstate)								
	Single-line Bus. (THCUSP ILECS ONLY)								
	Access Lines								
	Local Revenues (Basic & Discretionary)								
	Intrastate Access Revenue Excluding CCL								
	Intrastate CCL Revenue								
	IntraLATA Toll Revenue								
	Interstate Access Revenue								
	DSL and Dial Up Internet Access Rev								
	InterLATA Toll Rev (State & Interstate)								
	BASIC LOCAL TELECOMMUNICATIONS SERVICE RATES								
	Residential Rate Range								
	Lowest Tariffed Rate								
	Highest Tariffed Rate								
	Business Rate Range								
	Lowest Tariffed Rate								
	Highest Tariffed Rate								

			Balance	Balance	Balance	Balance	Balance	Balance
			FYE	FYE	FYE	FYE	FYE	FYE
	ETP AFFILIATE REVENUES - TEXAS		12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004
	Residential Data (THCUSP ILECS ONLY)							
	DSL and Dial Up Internet Access Rev							
	Toll Revenue (State & Interstate)							
	Single-line Bus. (THCUSP ILECS ONLY)							
	DSL and Dial Up Internet Access Rev							
	Toll Revenue (State & Interstate)							
	BASIC LOCAL TELECOMMUNICATIONS SERVICE RATES							
	Provide the Docket No. and final order date of the most recent rate-affecting case in which							
	the Commission made a determination of the utility's overall revenues for ratemaking purposes.							
	DOCKET NO. 18515 HAI COST STUDY RESULTS - THCUSP LECS ONLY - See Instruction No. 4 below.							
	Provide the weighted average cost per line of all high cost wire centers							
	Provide the weighted average cost per line of all wire centers							
	INSTRUCTIONS:							
	1) In addition to providing the financial data requested herein for the Texas statewide study-area, ILECs subject to							
	Subst. R. 26.403 THCUSP shall provide additional worksheets which identify each of the above-mentioned data							
	(e.g., "basic property records") by wire center, or exchange. If wire-center, or exchange, level data is not available,							
	explain why in a separate document.							
	2) ETPs not subject to 47 CFR Part 32 Uniform System of Accounts and that do not file Earnings Monitoring Reports shall provide							
	comparable financial data from their financial books of account. If such financial data is not available, explain why in a separate							
	document, and provide available data.							
	3) The "*" means that amounts must agree with filed Earnings Monitoring Reports for ILECs.							
	4) Based upon Attachment D (Support Per Line Calculation) in the Final Order of Docket No. 18515, provide a calculation							
	that shows the weighted average cost per line of all of your company's wire centers, and another calculation that shows							
	the weighted average cost per line of only your high cost wire centers. Provide such calculations in a separate worksheet.							
	5) To the extent that any of the data requested herein needs an explanation regarding its derivation, provide such explanation							
	in a separate worksheet.							

PUBLIC UTILITY COMMISSION OF TEXAS - UNIVERSAL SERVICE INFORMATION REQUEST - PART I

PRINT THIS SHEET, SIGN IT AND SEND IT TO THE ADDRESS GIVEN BELOW AS FOLLOWS.

Central Records, Project No. 31863, Texas Public Utility Commission, 1701 N. Congress Ave., P.O. Box 13326, Austin, TX 78711-3326

Check One Box

☐ I am sending the Cover Page, Confidentiality Page, Signature Page and Excel spreadsheet to the PUC.

☐ I am submitting my Cover Page, Confidentiality Page, Signature Page and Excel spreadsheet to the PUC through a third-party.

My third party is: ____________________ My third party's phone number is: ____________________

By my signature on this report, I certify that I am authorized to make statements and representations on behalf of the company. I further certify that I have personal knowledge of the facts stated in this report and that all information provided to the Public Utility Commission of Texas (or the third-party for reporting to the PUCT) in this report is true and correct.

Certified by: (Signature)____________________

Name:		Address:	
Title:		City:	State:
Firm:		Tel No.:	
For CCN/COA/SPCOA No.:		Fax No.:	
Date:		Email:	