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Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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July 28, 2008

Mr. Larry Mayes
CEO
Adak Telephone Utility
1410 Rudakof Circle
Anchorage, AK 99508

Dear Mr. Mayes:

According to information the Committee has received from the Federal Communications Commission (FCC), your company is a recipient of one of the ten largest per-line subsidies offered by the federal Universal Service Fund (USF) High Cost Program for 2006 and 2007. I am writing to request information regarding these subsidies and what your company does with the funds.

Under federal law, all telecommunications providers and other entities offering interstate telecommunications services are required to contribute to the federal USF. Most companies have elected to pay this assessment by recovering their required contributions directly from their customers. Accordingly, most consumers today pay a surcharge of 11.4% on their interstate calls.¹ This surcharge is usually reflected in a phone bill line item, typically labeled as a "universal service fee." The funds collected through the surcharge are sent to the FCC which eventually disburses these monies to several universal service programs.

The Oversight Committee is investigating the High Cost Program, focusing on how the recipients of the subsidies use the funds they receive. To further the Committee's understanding of how High Cost Program dollars are utilized and accounted for, I request answers to the questions listed below and the production of related documents by August 25, 2008.

1. Is the data provided to the Committee by the FCC (attached) consistent with your company's accounting of the universal service subsidy received during the years indicated? If not, please explain any discrepancies.

¹ See e.g., Federal Communications Commission, Public Notice, *Proposed Third Quarter 2008 Universal Service Contribution Factor*, CC Docket No. 96-45 (June 11, 2008).

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2. Does your company (or any company affiliate) receive subsidy dollars from a state universal service fund? If yes, please specify which funds and how much your company received in 2006, 2007, and to date in 2008.
3. How long has your company (or any company affiliate) been receiving High Cost Program subsidy dollars? Please specify the total amount of High Cost Program funding your company has received since you started receiving these subsidies.
4. Does your company (or any company affiliate) have any pending applications to be designated an eligible telecommunications carrier (ETC) pursuant to section 214(e) of the Communications Act? If so, how many applications are pending and in which states (including Puerto Rico)?
5. Has your company (or any company affiliate) ever been audited by the FCC or the Universal Service Administrative Company (USAC) with regard to your participation in the High Cost Program?
 - a. If yes, please specify how many times overall and which entities were audited.
 - b. Did the FCC or USAC find any deficiencies, penalize or enter into a consent agreement with the audited entity? If so, please describe and provide any related documents.
6. Do you collect related fees or surcharges from your customers? If yes, please:
 - a. Explain how you calculate the appropriate fee or surcharge, identify the services and percentage to which it applies, and explain whether you utilize a safe-harbor.
 - b. Provide the language you use to describe this fee or surcharge to your customers.
 - c. Describe how you account for monies collected from your customers for the USF.
 - i. Do you include funds collected for the USF in your revenues or do you report them separately?
 - ii. Do you pay taxes on the collected funds?
 - iii. Do your customers pay taxes on the surcharges collected for USF?
 - iv. Do you include USF surcharges in calculating company performance metrics such as "average revenue per user" (ARPU)? Please specify.
7. Are you required to account for your expenditure of High Cost Program subsidy dollars? If so, please describe what kind of accounting is required and where this information is filed. In addition:

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- a. What procedures do you have in place to ensure that High Cost Program support is used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended?
 - b. What documentation do you retain?
 - c. How long do you retain such documentation?
8. Do you apply any USF High Cost Program support toward the deployment of broadband service or equipment that can be utilized for broadband?
 - a. If yes, please describe.
 - b. If yes, please specify how much support was devoted to broadband services or equipment that can be utilized for broadband in 2006, 2007, and 2008.
 9. Do you consider the availability of USF subsidy dollars when planning network buildout? If yes, please describe and provide illustrative documents.
 10. Do you consider USF subsidies when analyzing potential transactions (e.g., mergers or acquisitions)? If yes, please provide illustrative documents.
 11. How do USF subsidy dollars affect the rates consumers are charged? Please provide any documents that demonstrate the linkage between rates and the receipt of USF subsidies.
 12. What percentage of your overall company revenues did High Cost Program support represent in 2006, 2007, and 2008?
 13. Please describe the territory you serve and explain what factors contribute to the high costs of providing service in this area.

The Committee on Oversight and Government Reform is the principal oversight committee in the House of Representatives and has broad oversight jurisdiction as set forth in House Rule X. An attachment to this letter provides additional information about how to respond to the Committee's request.

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If you have any questions about this request, please contact Roger Sherman or Alison Cassady of the committee staff at (202) 225-5051. Thank you for your attention to this matter.

Sincerely,



Henry A. Waxman
Chairman

Enclosures

cc: Tom Davis
Ranking Minority Member

Kevin J. Martin
FCC Chairman

Michael J. Copps
FCC Commissioner

Jonathan S. Adelstein
FCC Commissioner

Deborah Taylor Tate
FCC Commissioner

Robert M. McDowell
FCC Commissioner