

HAWAIIAN TELCOM, INC.

TRANSMITTAL No. 7

Issued March 17, 2006

DESCRIPTION AND JUSTIFICATION

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DESCRIPTION AND JUSTIFICATION

I. INTRODUCTION

Hawaiian Telcom Inc. hereby submits tariff pages and supporting data for proposed changes to the Federal Universal Service Fund rates associated with the second quarter 2006 federal universal service fund ("FUSF") obligation in Tariff FCC No. 1 and Tariff FCC No. 2 for advanced services. These tariff changes are being filed on 15 days notice for effect on April 1, 2006. This filing is in compliance with and includes the necessary supporting material required by the Commission's Price Cap CALLS Order,¹ Section 61.38 of the Commission's Rules,² Report and Order and Second Further Notice of Proposed Rulemaking³ and the Waiver Order released March 14, 2003.⁴

¹ *In the Matter of Access Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket 99-249, Eleventh Report and Order in CC Docket No. 96-45 (rel. May 31, 2000) ("CALLS" Order).

² CALLS Order, Appendix B, § 61.41 - 61.49.

³ *In the Matter of Federal-State Joint Board on Universal Service*, Report and Order and Second Further Notice of Proposed Rulemaking, FCC 02-329, (rel. December 13, 2002) ("December Order").

⁴ *In the Matter of Federal-State Joint Board on Universal Service, Order and Second Order on Reconsideration*, FCC 03-58, (rel. March 14, 2003) ("Waiver Order").

II. FEDERAL UNIVERSAL SERVICE FUND END-USER CHARGE DEVELOPMENT

CALCULATION OF FUSF END-USER CHARGE

Pursuant to the May 2000 CALLS order,⁵ amounts assessed for various universal service support mechanisms are recovered directly from end users. Starting with the third quarter of 2000, the Common Line amount of the FUSF obligation is recovered through a per-line charge assessed to end user customers to whom End User Common Line (EUCL) and other interstate charges apply. The contribution and carrier recovery was further explained in the Commission's December Order and subsequent Waiver Order.

Per the December Order, and beginning with the second quarter 2003, with the limited exceptions granted in the Waiver Order, telecommunication carriers are limited to recovering their FUSF contribution using monthly end user rates that are equal to the total monthly interstate revenues for a customer times the relevant contribution factor. The Waiver Order preserves the carrier's option to assess the universal service end user charge on Centrex customers on a per-line basis using the "equivalency" relationships established for the multi-line business PICC for Centrex lines as identified in section 69.158 of the Commission rules. The Commission also allows carriers to average among multi-line business customers the net reductions in charges attributed to the use of the PICC equivalency structure.

⁵ CALLS Order, paragraph 221.

The interstate Special Access and interstate Incidental Revenue FUSF obligation amount is recovered through a FUSF percentage surcharge using the FCC-prescribed rate applied to interstate end-user revenues.

End User FUSF Charges

Hawaiian Telcom's preliminary obligation to the Federal Universal Service Fund for the second quarter of 2006⁶ is based on the FCC's contribution rate rounded to the nearest tenth of a percent times Hawaiian Telcom's projected interstate end-user revenues for the second quarter of 2006 (April through June).⁷ Hawaiian Telcom's recovery of this obligation is derived through end user FUSF per-line rates for Switched Access services. These rates are determined in a three-step process.

First, interstate monthly charges that apply to each end user line for EUCLs and line ports are determined for all residential and business lines for each tariff entity. These rates are specified in the appropriate interstate access tariff. The line port charge applies only to digital lines in excess of basic service. Once the tariff rates are identified and summarized for each type of end user service (*e.g.*, single line residential or business, non-primary residence), the next step of the process begins.

⁶ FCC Public Notice, Proposed Second Quarter 2006 Universal Service Contribution Factor, CC Docket No. 96-45, DA 06-571, Released March 13, 2006.

⁷ Waiver Order at paragraphs 22-23.

Second, the sum of these interstate per-line charges that apply each month for each type of service is multiplied by the FCC second quarter's prescribed contribution rate to determine the FUSF per-line charge. Interstate rates for each type of service require a corresponding and separate per-line FUSF rate in accordance with the Commission's December Order. For example, a separate FUSF rate is required for primary residential (excluding Lifeline) customers, non-primary residential, and various types of multi-line business services.

Third, the product of these individual per-line rates billed on a current basis would recover Hawaiian Telcom's FUSF obligation for the same period. However, the Waiver Order allows Hawaiian Telcom to bill FUSF charges using the PICC equivalency structure for Centrex customers in accordance with existing FCC rules. The net contribution recovery shortfall caused by billing the PICC structure for Centrex customers is then calculated. The net contribution recovery shortfall is divided by the total contribution requirement to determine a rate adjustment factor ("RAF"). Then, this uniform RAF is applied across all multi-line rates to develop FUSF rates that fully recover Hawaiian Telcom's quarterly obligation.

The proposed changes to the FUSF rate for residential, non-primary residential, and single line business can be attributed to the increase in the FCC prescribed contribution factor between the 1st quarter 2006 and the 2nd quarter 2006 from .102 to .109. Also, the proposed changes to the multi-line rates can be attributed to the increase in the FCC prescribed contribution factor between the 1st quarter 2006 and the 2nd quarter 2006 from

.102 to .109 and updated line counts associated with the multi-line equivalency calculation.

STEP 1 – CALCULATE BASE USF LINE RATE

For each type of end user customer (i.e., single line residence and business, non-primary residence, and multi-line business), the second quarter 2006 FUSF factor from the FCC's Public Notice is multiplied by the sum of the end-user tariff charges applicable each month for the subscriber line and the line port (if appropriate) for each tariff entity to calculate the full-rate FUSF per-line charge. This methodology results in actual per-line FUSF charges for primary residential/single-line business and non-primary residential services; whereas, the resulting multi-line rates become the baseline for multi-line averaging as permitted in the Waiver Order. The calculated full-rate (before the Waiver Order) FUSF charge for each service type and study area is found in WP USF-2.

STEP 2 – CALCULATE FUSF PER-LINE RATES FOR CENTREX EQUIVALENCY

The baseline multi-line FUSF calculated rates from WP USF-2 are carried forward to WP USF-3 so they will align by tariff entity and type of applicable EUCL. As stated above, the exact FUSF rate applies without modification to all residential primary/single-line business and non-primary residential customers. The rate calculation for multi-line business customers begins with a "full-rate revenue calculation," which is the product of the billing lines for each type of EUCL times the calculated base FUSF rate. Based on the Waiver Order and pursuant to Section 69.158 of the Commission's rules, the FUSF

charge for Centrex is calculated using the equivalency relationship established for the multi-line business PICC. The detailed multi-line calculations and resulting FUSF rates for each element and tariff entity are found in WP USF-3.

The full-rate Centrex amounts are converted to the PICC structure in column (d) of WP USF-3. This is calculated by dividing the FUSF rate by 9 for Centrex systems with 9 lines or greater, dividing the FUSF rate by 8 for Centrex systems with 8, etc. The monthly contribution recovery shortfall caused by using PICC rates for Centrex is then calculated in column (e) of WP USF-3. An adjusted revenue base is then determined for all multi-line EUCLs by multiplying the units times the PICC rate and adding the other unadjusted multi-line amounts to the total. A RAF is then determined by dividing the Centrex shortfall by the adjusted revenue base, i.e., the difference between the full-rate revenues and those adjusted for the Centrex recovery shortfall. A RAF is then applied to all multi-line rates including Centrex, which produces a new per-line FUSF rate that accounts for the Centrex recovery shortfall.

The product of the new adjusted FUSF rates times the billing lines produces the same recovery revenue as the full-rate revenue (before the Centrex PICC structure).

FUSF CHARGES APPLIED ON A PERCENTAGE BASIS

The Special Access FUSF rate is the same as the percentage factor provided in FCC Public Notice rounded to the nearest tenth of a percent.⁸ The FCC's published factor is applied to each dollar of interstate Special Access end user revenue in Hawaiian Telcom's billing systems.

Also, the FUSF end-user charge applied to incidental types of service is assessed on the same percentage basis as prescribed by the FCC in its Public Notice.⁹ Incidental service consists of nonrecurring charges for the Presubscribed Interexchange Carrier (PIC) and the recurring Primary Interexchange Carrier Charge assessed to end users. The FUSF charge will also apply to interexchange carriers that pay the PIC change charge on behalf of the end user customer.

The FUSF charge on interstate incidental services will also apply to Lifeline customers.

⁸ Id at 7.

⁹ Id at 7.

III. WORKPAPERS

Introduction

Hawaiian Telcom has provided the necessary detail to support the calculations of the FUSF per-line charge. The following is the index of such Workpapers.

Index to Workpapers

Workpaper USF-1	Summary of 2 nd Qtr 2006 FUSF per-line Charges
Workpaper USF-2	Calculation of Maximum Switched USF per-line before Waiver Order
Workpaper USF-3	Multi-line Ratemaking for FUSF per-line using Centrex Equivalency
Workpaper USF-4	Interstate Special Access End User FUSF Charge