ORIGINAL

ITS TELECOMMUNICATIONS SYSTEMS, INC.

15925 SW Warfield Blvd. • P. O. Box 277
Indiantown, Florida 34956
772-597-2111

March 30, 2006

Ms. Blanco Bayó, Director
Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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COMMISSION CLERK

RE: FPSC Docket No. 010977-TL
ITS Telecommunications Systems, Inc.
State Certification of Rural Telecommunications Carriers
Pursuant to 47 C.F.R. §54.314

Dear Ms. Bayó:

On behalf of ITS Telecommunications Systems, Inc., ("ITS"), enclosed please find the original and 15 copies of the signed affidavit and associated attachment in compliance with the requirements set forth in the above-referenced docket. The affidavit certifies that ITS will only use federal high cost support for 2006 for the provision, maintenance and upgrading of facilities and service for which support is intended.

Please contact our office with any questions.

Respectfully submitted,

Mary Ann Holt

Mary Ann Holt
Administrative Services Manager

CMP ______
COM ______
CTR ______
ECR ______
GCL ______
OPC ______
RCA ______
SCR ______
SGA ______
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OTH ______

Enclosures

cc: Shevie B. Brown, FPSC Regulatory Analyst

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AFFIDAVIT

BEFORE ME, the undersigned Notary, personally appeared **Jeffrey S. Leslie**, known to me to be a credible person and of lawful age, who deposed and said:

1. My name is Jeffrey S. Leslie. I am employed by ITS Telecommunications Systems, Inc. (the "Company") as Vice President, Chief Financial Officer. I possess substantial knowledge of the Company's operations and am an officer authorized to give this affidavit on behalf of the Company. This affidavit is being given to support the certification of the Florida Public Service Commission ("Commission") as contemplated in 47 C.F.R. §54.314.

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

3. The Company is eligible for disbursements from the federal Universal Service Fund as prescribed by the Federal Communications Commission ("FCC").

4. The Company hereby certifies that it will utilize all federal high-cost support it receives during 2006 only for the provision, maintenance, and upgrading of facilities and services for which the support is intended, consistent with 47 U.S.C. § 254(e) of the Telecommunications Act of 1996.

5. In lieu of providing progress reports on a five-year service quality improvement plan, the Company submits that certain requirements, procedures, and processes to which the Company adheres, and which are further explained in the attachment to this affidavit, constitute the Company's progress report with respect to the receipt and utilization of federal universal service support. Under the existing rules and processes discussed in the attachment, the federal support funds received by the Company and other rural incumbent local exchange carriers ("ILECs") are, in fact, an integral part of the rural ILECs' recovery of expenditures incurred in the provision, maintenance and upgrading of its provision of universal service. Essentially, the Company receives federal universal service support ("USF") through various programs which are administered through the Universal Service Administrative Company ("USAC"). USAC has contracted with the National Exchange Carrier Association, Inc. ("NECA") to assist in data collection necessary for the remittance of USF. The Company submits, no less frequently than annually, detailed information requested by NECA in the USF data collection process. USF data used in the USF calculations by NECA must also be filed with the FCC by November 1st of each year. This process ensures that the Company will not be deprived of the USF funding upon which the Company depends to provide rural telephone customers with affordable and quality telecommunications services.

6. The Company reports that for the period beginning March 1, 2005 and ending March 1, 2006, it had no outage lasting at least 30 minutes in any part of its service area that potentially affected at least ten percent of the end users served in the area, or that potentially affected a 911 special facility. The Company also certifies that it follows all applicable federal and state network outage reporting requirements.

7. The Company reports that it had no requests for service from potential customers within its service area that were not fulfilled.

8. The Company reports that for the period beginning March 1, 2005 and ending March 1, 2006, the Company did not receive any notification of complaints filed with the FCC or the Commission.

9. The Company hereby certifies that it is in compliance with all applicable federal and state service quality standards and consumer protection rules.

10. The Company hereby certifies that it is able to function in emergency situations.

11. The Company is an ILEC and hereby certifies that it offers a local usage plan as part of its basic service package of supported services and provides equal access to long distance carriers.

FURTHER AFFIANT SAYETH NOT.

Jeffrey S. Leslie
Vice President, Chief Financial Officer
ITS Telecommunications Systems, Inc.
P.O. Box 277
Indiantown, Florida 34956-0277
772-597-2111

STATE OF FLORIDA
COUNTY OF MARTIN

Acknowledged before me this 30th day of March 2006, by Jeffrey S. Leslie, Vice President, Chief Financial Officer of ITS Telecommunications Systems, Inc., who is personally known to me and or produced identification and who did take an oath.

Mary Ann Holt
NOTARY PUBLIC

MARY ANN HOLT
Commission # DD0202355
Expires 4/21/2007
Bonded through
(800-432-4254) Florida Notary Assn., Inc.

MARY ANN HOLT
Printed Name of Notary

ATTACHMENT TO AFFIDAVIT

Under the existing rules and processes explained below, the federal support funds received by the Company and other rural ILECs are, in fact, an integral part of the rural ILECs' recovery of expenditures incurred in the provision, maintenance and upgrading of its provision of universal service. The operation of these processes ensure that the USF directed to the Company is both properly quantified and utilized in accordance with the provision and maintenance of the facilities and services for which the support is intended.

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

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

The Company receives its interstate recovery based on "cost studies." All cost studies submitted by rural ILECs and all USF received by rural ILECs must be based on financial statements. Rural ILECs must attest to the information submitted. An officer of the rural ILEC must certify the accuracy and validity of the filed information. Additionally, NECA performs focus reviews of cost studies as well as the USF filings for the cost companies involved in the NECA process. NECA and its auditors must attest to the validity and integrity of NECA's process. In other words, the ILEC cost studies and responses to data collection requests are subject to audit. The information provided in response to all of the USF mechanisms utilizes FCC accounts for regulated costs and must be in compliance with FCC rules in Parts 32, 36, 54 and 64.

In order for rural ILECs to receive HCLS and LSS, a State that has jurisdiction over the carriers must certify annually that all federal high-cost support provided to such carriers within that State will be used only for the provision, maintenance and upgrading of facilities and services for which the support is intended. The State must file the certification with the FCC and USAC. To be eligible to receive ICLS, rural ILECs must make a similar annual certification which the carrier files with the FCC and USAC. Rural ILEC are not eligible to receive SNAS unless they are able to demonstrate that growth in telecommunications plant in service (TPIS)

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[1] *See* Section (a) below for explanation regarding the algorithm.

per line is at least 14 percent greater than the study area's TPIS in the prior year. The following is a description of each of these programs:

a. HCLS

HCLS is provided to the Company to defray the costs the Company has incurred associated with the loop that connects an end user to the Company's central office. A rural ILEC is eligible for HCLS only if its embedded unseparated loop cost exceeds 115 percent of the national average loop cost.[2] These costs are calculated using a set of complex algorithms approved by the FCC, the inputs for which are scrutinized by NECA. Further, HCLS is subject to an indexed cap, which limited the total support to the previous year's total, increased by a "rural growth factor."[3] For Fiscal Year 2005, it was determined that the Company's cost per loop exceeded the national average. Accordingly, the Company was eligible to receive HCLS for that year.

b. LSS

LSS is provided to the Company to "cover some of the intrastate switching costs of carriers serving study areas with 50,000 or fewer lines, in recognition of such carriers' high average fixed switching costs compared to larger carriers with greater economies of scale."[4] The remainder of the costs of providing switching access is recovered through the switching rate, which is charged to interexchange carriers. The number of access lines in the Company's study area is below the 50,000-line threshold. Accordingly, the Company qualified to receive LSS for Fiscal Year 2005.

The LSS rules established by the FCC use the embedded costs of the rural ILECs associated with switching investments, depreciation, maintenance, expenses, taxes and an FCC established rate of return. For "cost" companies, this is based upon certified cost studies submitted by each rural ILEC and reviewed by NECA. This amount is used to offset the rural ILECs' interstate switching revenue requirement. The difference between that revenue requirement, again as set forth in the company's annual interstate cost study, makes up the switching rate which is charged to interexchange carriers.

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[2] In its Fourteenth R&O, the FCC "froze" the national average loop cost at $240 for purposes of calculating rural HCLS. *See In the Matter of Federal-State Joint Board on Universal Service*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45 and Report and Order in CC Docket No. 00-256, FCC 01-157 (released May 23, 2001) ("Fourteenth R&O") at para. 56.

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

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

c. ICLS

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

In 1987, the FCC eliminated mandatory pooling, but required non-pooling carriers to continue to contribute to the pool through a mechanism called Long Term Support ("LTS") to maintain a nationwide average CCL rate. Subsequent to the passage of the Telecommunications Act of 1996, the FCC removed LTS from the access rate structure and made it recoverable through USF. The FCC also ruled that LTS for each qualifying carrier would remain at the level of LTS for 1997 plus growth based on nationwide average loop costs.[5] According to the FCC, "[t]he combination of SLCs, LTS and CCL charges . . . enable rate-of-return carriers to recover all of their allowed interstate common line revenues based on their embedded costs."[6]

In 2001, the FCC reformed its interstate access charge system for rate-of-return carriers by increasing the SLC and replacing the CCL with a new USF mechanism, ICLS.[7] Subsequently, the FCC ruled that LTS would be merged into the ICLS effective July 1, 2004.[8] Accordingly, the ICLS advanced to the Company for Fiscal Year 2005 provided the Company with its "allowable common line revenues" to the extent they cannot be recovered through end user charges.[9]

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5 *See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers; Federal-State Joint Board on Universal Service: Report and Order and Second Further Notice of Proposed Rulemaking*, CC Docket Nos. 00-256, 96-45, FCC 04-31 (rel. Feb. 26, 2004) ("MAG II Order") at para. 56.

6 *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers; Federal-State Joint Board on Universal Service; Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation; Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers: Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166*, 16 FCC Rcd 19613 (2001) ("MAG I Order") at para. 132.

7 *Id.* at para. 15.

8 MAG II Order at paras. 54 & 67.

9 *Id.* at para. 58.

d. SNAS

SNAS is support above the HCLS cap for carriers that make significant investment in rural infrastructure in years in which HCLS is capped. To receive this support, a rural ILEC must show that growth in telecommunications plant in service (TPIS) per line is at least 14 percent greater than the study area's TPIS in the prior year.[10] Carriers seeking to qualify for SNAS must provide written notice to USAC that a study area meets the 14 percent TPIS trigger. The Company has not met this threshold and thus does not receive SNAS.

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