

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
National Exchange Carrier Association, Inc.)	
Proposed 2002 Modification of Average)	APD 01-7
Schedule Formulas)	
)	
)	

ORDER

Adopted: December 21, 2001

Released: December 26, 2001

By the Deputy Chief, Accounting Policy Division:

I. INTRODUCTION

1. On October 1, 2001, the National Exchange Carrier Association, Inc. (NECA) filed proposed modifications to the current universal service formulas for average schedule companies, requesting that they take effect on January 1, 2002, and remain in effect through December 31, 2002.¹ These formulas include a local switching support formula and a universal service fund (USF) expense adjustment formula for high-cost loop support. On October 31, 2001, a public notice was issued soliciting comments on NECA's filing.² For the reasons discussed below, we approve NECA's modified local switching support formula. With regard to the USF expense adjustment formula, we conclude that further review of NECA's proposed modifications is necessary. Until this review is complete, we direct NECA to continue use of the current USF expense adjustment formula as described herein. Additionally, further review of NECA's proposed methodologies for determining safety valve and safety net additive support for average schedule companies is necessary and such support should not be distributed until our review is complete.

II. DISCUSSION

2. *Local Switching Support Formula.* The local switching support formula is used to determine the amount of support for switching costs that will be provided from universal service support mechanisms. The current interstate local switching support formula was approved on

¹ See 2002 NECA Modification of Average Schedule Universal Service Formulas, National Exchange Carrier Association, Inc., October 1, 2001 (*NECA 2002 Filing*).

² *Pleading Cycle Established for Comments on National Exchange Carrier Association, Inc. 2002 Modification of Average Schedule Universal Service Formulas*, ASD 01-44, Public Notice, DA 01-2469 (rel. Oct. 31, 2001).

December 26, 2000.³ NECA proposes minor modifications to the current formula that, if approved, would increase annual payments for local switching support from approximately \$72.4 million in 2001 to approximately \$74.1 million in 2002, an increase of approximately 2.3 percent.⁴ We have reviewed NECA's filing and find that the method NECA used to develop this year's proposed formula is the same method that it used to develop the formula we approved for use during the last payment period.⁵ Accordingly, consistent with the Bureau's prior orders, we approve NECA's proposed 2002 average schedule local switching support formula.⁶

3. *USF Expense Adjustment Formulas.* USF expense adjustments are intended to provide USF support to carriers with high loop costs based on the degree that an individual company's cost per loop exceeds the national average.⁷ Because average schedule companies are not required to perform company-specific cost studies – the basis upon which a carrier's USF expense adjustment is calculated – the Commission has permitted USF expense adjustments to average schedule companies based on formulas approved by the Commission.⁸ The Bureau has made clear, however, that given the underlying policy for entitlement to high cost loop support, the costs per loop of the sample average schedule companies is a predominant factor, and that an appropriate USF expense adjustment formula should reasonably approximate the costs per loop of the sample average schedule companies and allocate funds accurately to the average schedule companies.⁹

4. The 2001 USF expense adjustment formula was the result of an order released December 26, 2000, directing NECA to retain the prior year's USF expense adjustment formula,

³ *National Exchange Carrier Association, Inc. Proposed 2001 Modification of Average Schedule Universal Service Formulas*, ASD 00-42, Order, 16 FCC Rcd 25 (Com. Car. Bur. 2000) (*2001 Order*).

⁴ *NECA 2002 Filing* at II-1 to II-13. The local switching support is a portion of the settlements that average schedule companies receive for providing interstate local switching access service. The remainder of the settlements continue to be recovered through NECA's local switching access charges. *Id.*

⁵ *Id.*; 2001 NECA Modification of Average Schedule Universal Service Formulas, National Exchange Carrier Association, Inc., October 1, 2000.

⁶ *See, e.g., 2001 Order; National Exchange Carrier Association, Inc. Proposed Modification to the 1999-2000 Interstate Average Schedule Formulas*, ASD 99-43, Order, DA 99-3021, 15 FCC Rcd 87 (Com. Car. Bur. 1999) (*2000 Order*).

⁷ *See* 47 C.F.R. Part 36, subpart F.

⁸ *See National Exchange Carrier Association, Inc. Proposed Modifications to the 1998-99 Interstate Average Schedule Formulas*, Order, FCC 99-395, 15 FCC Rcd 1819, 1819-20 para. 2 (1999) (*Commission 1999 Order*). For each annual period, NECA proposes formulas that are approved or modified by the Commission. 47 C.F.R. § 69.606(a), (b). Average schedule companies have been permitted by the Commission to estimate their access settlements and universal service support through the use of average schedules to avoid the difficulties and expenses involved with conducting company-specific cost studies. *See, e.g., ALLTEL Corp. v. FCC*, 838 F.2d 551, 553 (D.C. Cir. 1998). Company-specific cost studies, which require performance of detailed jurisdictional separations and cost allocation studies under Parts 32, 36, 64, and 69 of the Commission's rules, are used in calculating the carrier's entitlement to USF expense adjustments. *See, e.g., 47 C.F.R. Part 36, subpart F.* The costs used in calculating a carrier's average cost per loop are specified in 47 C.F.R. § 36.621(a).

⁹ *See 2001 Order*, 16 FCC Rcd at 27-30 paras. 5-8; *2000 Order*, 15 FCC Rcd at 91 paras. 3-4.

adjusted to reflect the growth in average schedule companies' working loops.¹⁰ The Bureau rejected the modifications to the expense adjustment formula proposed by NECA for 2001 because we found that NECA's proposed formula did not reasonably approximate the cost-per-loop of sample average schedule companies, and resulted in estimated costs per loop that were widely disparate from the actual costs per loop of the sample data.¹¹ The Bureau reached similar conclusions with respect to NECA's earlier proposals to modify the formula in 1999 and 2000.¹²

5. NECA's proposed modifications to the expense adjustment formula for 2002 raise the same concerns that led us to reject NECA's previous proposals. This year, in response to the Bureau's previously stated concerns, NECA also has included a cost-per-loop formula in its filing to "support the need for increases in payment levels."¹³ NECA contends, however, that the cost-per-loop formula contains a downward bias that understates the loop costs incurred by average schedule companies, and states that the formula is presented as "documentation supporting a lower bound of increased support payments to average schedule companies."¹⁴ Further review and examination of NECA's expense adjustment formula and cost-per-loop formula are necessary before we can determine whether revisions are warranted. To maintain stability in USF expense adjustment payments to average schedule companies while we complete our review, we direct NECA to retain the current USF expense adjustment formula as set forth in the *2001 Order*. Our review will proceed expeditiously so that any revised formula, if appropriate, will be implemented promptly.

6. *Safety Net and Safety Valve Formulas*. On May 23, 2001, the Commission modified the high-cost universal service support mechanism for rural carriers and adopted the safety net additive and safety valve support.¹⁵ The safety net additive provides additional support for carriers that make a significant investment in rural infrastructure, while the safety valve permits carriers that acquire access lines to receive support for additional investment in the acquired exchanges.¹⁶ In its October 1, 2001, filing, NECA proposes methodologies for distributing safety net and safety valve support to average schedule companies.¹⁷ Further review is necessary before we can determine whether NECA's proposals are appropriate. Safety net and safety valve support should not be distributed to average schedule companies until we have completed our review. As with NECA's proposed 2002 expense adjustment formula modifications, our review

¹⁰ *2001 Order*, 16 FCC Rcd at 30 para. 8.

¹¹ *Id.*

¹² *See, e.g., 2000 Order; 1999 Commission Order.*

¹³ *NECA 2002 Filing* at III-34 to III-37.

¹⁴ *Id.* at I-16 to I-21.

¹⁵ *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Fourteenth Report and Order and Twenty-Second Order on Reconsideration, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, Report and Order, 16 FCC Rcd. 11244, 11276-99 paras. 77-135 (2001) (*Rural Task Force Order*).

¹⁶ 47 C.F.R. § 36.605; 47 C.F.R. §§ 54.305(b)-(f).

¹⁷ *NECA 2002 Filing* at IV-1 to IV-4.

of NECA's safety net and safety valve proposals will proceed expeditiously.

III. ORDERING CLAUSES

7. Accordingly, IT IS ORDERED, pursuant to sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, that the average schedule formula proposed by the National Exchange Carriers Association, Inc., on October 1, 2001, for local switching support SHALL BECOME EFFECTIVE January 1, 2002.

8. IT IS FURTHER ORDERED, pursuant to sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, that the current universal service fund expense adjustment formula approved by the Commission on December 26, 2000, SHALL REMAIN IN EFFECT as of January 1, 2002.

9. IT IS FURTHER ORDERED, pursuant to sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, that safety net and safety valve support SHALL NOT BE DISTRIBUTED pursuant to the formulas for average schedule companies as proposed by NECA until approved by the Commission.

10. IT IS FURTHER ORDERED, pursuant to section 4(i) of the Communications Act of 1934, as Amended, 47 U.S.C. § 154(i), and sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, that THIS ORDER IS EFFECTIVE UPON ITS RELEASE.

FEDERAL COMMUNICATIONS COMMISSION

Sharon L. Webber
Deputy Chief, Accounting Policy Division
Common Carrier Bureau