

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

In the Matter of)
National Exchange Carrier Association, Inc. and)
Universal Service Administrative Company)
2010 Modification of Average Schedule Universal)
Service Support Formulas)
High-Cost Universal Service Support) WC Docket No. 05-337

ORDER

Adopted: December 20, 2010

Released: December 20, 2010

By the Chief, Wireline Competition Bureau:

I. INTRODUCTION

1. Each year, the Commission must review and approve or modify any proposed modifications to the formulas used to calculate universal service high-cost loop support and local switching support for average schedule companies. Pursuant to section 69.606(b) of the Commission's rules, the National Exchange Carrier Association, Inc. (NECA) files the annual average schedule company formula modifications for high-cost loop support. Pursuant to section 54.301(f) of the Commission's rules, the Universal Service Administrative Company (USAC) submits the proposed formula for local switching support. The Commission's rules require that these formulas "simulate the disbursements that would be received ... by a company that is representative of average schedule companies."

2. On August 24, 2010, NECA filed proposed modifications to the current high-cost loop support universal service formula for average schedule companies, and it requested that they take effect on January 1, 2011, and remain in effect through December 31, 2011. On September 30, 2010, USAC filed proposed modifications to the current local switching support formula for average schedule

1 See 47 C.F.R. §§ 69.606, 54.301(f).

2 47 C.F.R. § 69.606(b); see also National Exchange Carrier Association, Inc. 2005 Modification of Average Schedule Universal Service Formulas, CC Docket No. 96-45, Order, 19 FCC Rcd 24998, 25002, para. 7 (Wireline Comp. Bur. 2004) (2005 Order) (requiring NECA to file high-cost loop support formula and supporting data no later than September 1).

3 47 C.F.R. § 54.301(f).

4 See 47 C.F.R. §§ 69.606, 54.301(f).

5 See 2011 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 24, 2010) (NECA 2011 Filing).

companies which, if approved, will be effective from January 1, 2011, through December 31, 2011.⁶ On October 13, 2010, the Wireline Competition Bureau (Bureau) issued a public notice seeking comment on NECA's and USAC's proposed formulas.⁷ For the reasons discussed below, we approve NECA's proposed high-cost loop support formula and USAC's proposed local switching support formula.

II. HIGH-COST LOOP SUPPORT FORMULA

3. Pursuant to Part 36 of the Commission's rules, high-cost loop support, also known as the loop expense adjustment, is intended to provide universal service support to carriers with high loop costs based on the degree that an individual company's cost per loop exceeds the national average.⁸ Because average schedule companies are not required to perform company-specific cost studies – the basis upon which a carrier's expense adjustment is calculated – the Commission has permitted expense adjustments for average schedule companies to be calculated pursuant to formulas developed by NECA and approved or modified annually by the Bureau.⁹ These formulas are developed by NECA using data from a sample group of average schedule carriers and from similarly situated companies that file cost data, and are used to determine support amounts for all average schedule carriers.

4. Consistent with high-cost loop support formulas approved in prior years, for 2011, NECA proposes calculating high-cost loop support payments for average schedule companies based on a formula that relates cost per loop (CPL) data of sample companies to their loops per exchange values (CPL formula).¹⁰ The proposed CPL formula for 2011 has been developed using the same methodology as used and approved in prior years.¹¹ The current approved high-cost loop support formula is expected to

⁶ See Letter from Karen M. Majcher, USAC, to Marlene H. Dortch, FCC, WC Docket No. 05-337 (filed Sept. 30, 2010) (USAC 2011 Filing) (attaching 2011 average schedule local switching support formula).

⁷ See *Comment Sought on the 2011 Modification of Average Schedule Company Universal Service High-Cost Loop Support and Local Switching Support Formulas*, WC Docket No. 05-337, Public Notice, DA 10-1967 (Wireline Comp. Bur. rel. Oct. 13, 2010). No comments were filed in response to the public notice.

⁸ See 47 C.F.R. Part 36, subpart F.

⁹ See *National Exchange Carrier Association, Inc. Proposed Modifications to the 1998-99 Interstate Average Schedule Formulas*, ASD 98-96, Order, 15 FCC Rcd 1819, 1819-20, para. 2 (1999). 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 company-specific cost studies. See, e.g., *ALLTEL Corp. v. FCC*, 838 F.2d 551, 553 (D.C. Cir. 1988).

¹⁰ See NECA 2011 Filing at 1-27; see, e.g., *National Exchange Carrier Association, Inc. and Universal Administrative Company 2010 Modification of Average Schedule Universal Service Formulas*, CC Docket No. 96-45, Order, 24 FCC Rcd 14748, 14750, para. 5 (Wireline Comp. Bur. 2009) (2010 Order); *National Exchange Carrier Association, Inc. and Universal Administrative Company 2009 Modification of Average Schedule Universal Service Formulas*, CC Docket No. 96-45, Order, 23 FCC Rcd 17876, 17878, para. 5 (Wireline Comp. Bur. 2008) (2009 Order); *National Exchange Carrier Association, Inc. and Universal Administrative Company 2008 Modification of Average Schedule Universal Service Formulas*, CC Docket No. 96-45, Order, 22 FCC Rcd 21806, 21808, para. 5 (Wireline Comp. Bur. 2007) (2008 Order); *National Exchange Carrier Association, Inc. and Universal Service Administrative Company 2007 Modification of Average Schedule Universal Service Formulas*, CC Docket No. 96-45, Order, 22 FCC Rcd 179, 183, para. 7 (Wireline Comp. Bur. 2007) (2007 Order).

¹¹ According to NECA, it uses regression analyses to develop the CPL formula. NECA collects account data from a sample group of average schedule carriers. To estimate current year costs, NECA applies forecasted growth factors to data collected from sample average schedule carriers one and two years prior to the current year. NECA then applies cost allocation factors—developed from the cost studies of similarly situated cost companies—to the account balances of each sample average schedule company to estimate a CPL for each of the sample companies. NECA

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provide \$19.6 million in payments for 2010 to 334 study areas.¹² NECA's proposed formula for 2011 would provide an estimated \$23.4 million payable to 286 study areas for 2011, an increase of 19.4 percent over 2010 payments.¹³

5. Consistent with our prior orders, we approve NECA's proposed CPL formula for purposes of calculating average schedule company expense adjustments for 2011. As in our prior orders, we find that the appropriate high-cost loop support formula should reasonably approximate the CPL of the sample average schedule companies and allocate funds accurately to average schedule companies.¹⁴ NECA's submission of the results derived from the CPL formula appear to be accurate and complete; therefore, we approve the CPL formula as provided in NECA's August 24, 2010 submission.

III. LOCAL SWITCHING SUPPORT FORMULA

6. The local switching support formula is used to determine the amount of support for switching costs that will be provided to average schedule companies from the Commission's universal service high-cost support mechanism.¹⁵ The current interstate local switching support formula was approved on December 30, 2009.¹⁶ In its September 30, 2010 filing, USAC proposes a formula for 2011 which, if approved, would increase total annual payments for local switching support to average schedule companies from approximately \$53.2 million in 2010 to approximately \$62.1 million in 2011, an increase of approximately 16.7 percent.¹⁷ We have reviewed USAC's filing and the supporting information in NECA's 2010 modification of average schedules filing and find that the methodology used to develop this year's proposed formula is the same methodology used to develop the formula we approved during

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then uses regression analyses to predict CPLs for all average schedule carriers. Each average schedule company's derived CPL is then used to calculate the appropriate support amount. *See* NECA 2011 Filing at 1-27.

¹² We note that the current amount of \$19.6 million is less than the amount that was indicated in NECA's 2010 filing using the CPL formula. *See* 2010 NECA Modification of the Average Schedule Universal Service High Cost Loop Support Formula, CC Docket No. 96-45 (filed Aug. 27, 2009) (NECA 2010 Filing). In its 2010 filing NECA estimated that the CPL formula would result in total payments of \$27.3 million. Due to adjustments made to the national average cost per loop to ensure that the amount of high-cost loop support disbursed remains under the indexed cap, however, payments to all cost companies and average schedule companies were reduced. *See* NECA 2011 Filing at 1.

¹³ *See* NECA 2011 Filing at 1. We note that although the high-cost loop support for average schedule companies is projected to increase from \$19.6 to \$23.4 million, or by 19.4 percent, the projected amount for 2011 is below amounts paid in earlier years. For 2007, 2008 and 2009, approved high-cost loop average schedule formulas produced total payments of \$45.3 million, \$48.1 million, and \$39.9 million, respectively. *See* 2007 Order, 22 FCC Rcd at 182, note 24; 2008 Order, 22 FCC Rcd at 21808, note 12; 2009 Order, 23 FCC Rcd at 17878, note 12.

¹⁴ *See, e.g.,* 2007 Order, 22 FCC Rcd at 183, para. 7; 2008 Order, 22 FCC Rcd at 21808, para. 5; 2009 Order, 23 FCC Rcd at 17878, para. 5; 2010 Order, 24 FCC Rcd at 14750, para. 5.

¹⁵ Local switching support is a portion of the settlements that average schedule companies receive for providing interstate local switching access service. Average schedule companies recover the remaining costs of providing interstate local switching access service through NECA's local switching access charges.

¹⁶ *See* 2010 Order, 24 FCC Rcd at 14750, para. 6.

¹⁷ *See* USAC 2010 Filing; Letter from Karen M. Majcher, USAC, to Marlene H. Dortch, FCC, WC Docket No. 05-337 (filed Sept. 30, 2010) (attaching 2011 estimate of local switching support for average schedule companies).

the last payment period.¹⁸ Consistent with the Bureau's prior orders, we approve USAC's proposed 2011 average schedule local switching support formula.¹⁹

IV. 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 cost per loop formula proposed by the National Exchange Carrier Association, Inc. on August 24, 2010, for high-cost loop support IS ADOPTED, effective as of January 1, 2011.

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 universal service support formula proposed by the Universal Service Administrative Company on September 30, 2010, for local switching support IS ADOPTED, effective as of January 1, 2011.

FEDERAL COMMUNICATIONS COMMISSION

Sharon E. Gillett
Chief
Wireline Competition Bureau

¹⁸ USAC's average schedule local switching support formula is developed by studies documented in NECA's annual modification of average schedules filing. *See* National Exchange Carrier Association, Inc., 2010 Modification of Average Schedules, WC Docket No. 05-337 (filed Aug. 27, 2009) (NECA's 2010 Modification of Average Schedules); USAC 2011 Filing (attaching 2011 average schedule local switching support formula); *2010 Order*, 24 FCC Rcd at 14750, para. 6.

¹⁹ *See, e.g., 2007 Order*, 22 FCC Rcd at 180, para. 3; *2008 Order*, 22 FCC Rcd at 21808, para. 6; *2009 Order*, 23 FCC Rcd at 17878, para. 6; *2010 Order*, 24 FCC Rcd at 14750, para. 6.