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

In the Matter of	)	
	)	
National Exchange Carrier Association, Inc.	)	
	)	
2012 Second Modification of Average Schedule Universal Service Support Formulas	)	
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

ORDER

Adopted: June 29, 2012 **Released: June 29, 2012**

By the Chief, Wireline Competition Bureau:

I. INTRODUCTION

1. In this order, the Wireline Competition Bureau (Bureau) approves modifications proposed by the National Exchange Carrier Association (NECA) to the formula used to calculate universal service high-cost loop support (HCLS).[1]

II. BACKGROUND

2. On April 25, 2012, the Bureau released the *HCLS Benchmarks Implementation Order*, which implemented benchmark limits for capital costs and operating expenses for purposes of calculating high-cost loop support (HCLS).[2] In the *HCLS Benchmarks Implementation Order*, the Bureau directed NECA to propose modifications to the average schedule HCLS formula.[3] The Commission's rules require that the formula "simulate the disbursements that would be received … by a cost company that is representative of average schedule companies."[4]

3. As directed by the Bureau, on May 24, 2012, NECA filed proposed modifications to the current HCLS universal service formula for average schedule companies, and requested that they take effect on July 1, 2012, and remain in effect through December 31, 2012.[5] On June 1, 2012, the Bureau issued a public notice seeking comment on NECA's proposed modifications of the average schedule

[1] *See* 47 C.F.R. § 69.606.

[2] *Connect America Fund*, et al., WC Docket No. 10-90, et al., Order, DA 12-646, para. 10-11 (Wireline Comp. Bur. rel. Apr. 25, 2012) (*HCLS Benchmarks Implementation Order*).

[3] *See HCLS Benchmarks Implementation Order,* para. 10-11 and notes 28-29. Pursuant to section 69.606(b) of the Commission's rules, NECA files the average schedule company formula modifications for HCLS. 47 C.F.R. § 69.606(b).

[4] *See* 47 C.F.R. § 69.606.

[5] *See* 2012 NECA Second Further Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed May 24, 2012) (NECA May 2012 Filing).

formula for HCLS.[6] No comments were received.

III. DISCUSSION

4. Pursuant to Part 36 of the Commission's rules, HCLS, 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 (CPL) 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 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.[8] 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.

5. Consistent with HCLS formulas approved in prior years, NECA again proposes calculating HCLS payments for average schedule companies based on a formula that relates CPL data of sample companies, to their loops per exchange values (CPL formula).[9] This proposed CPL formula for 2012 has been developed using the same methodology as used and approved in prior years.[10] In the instant proceeding, however, NECA determined the effect of the benchmark methodology on each sample average schedule company by comparing its capital costs per loop and operating expenses costs per loop

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[6] *See Comment Sought on the 2012 Second Modification of Average Schedule Company Universal Service High-Cost Loop Support*, WC Docket No. 05-337, Public Notice, DA 12-857 (Wireline Comp. Bur. rel. Jun. 1, 2012).

[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*, 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).

[9] *See* NECA 2011 Modification of the Average Schedule Universal Service Support Formulas, CC Docket No. 05-337, 27 FCC Rcd 133 (Wireline Comp. Bur. 2012) (*2012 Order*) and NECA May 2012 Filing at 1-6; *see*, *e.g.*, National *Exchange Carrier Association, Inc. and Universal Administrative Company 2011 Modification of Average Schedule Universal Service Formulas*, CC Docket No. 96-45, Order, 25 FCC Rcd 17520, 17522, para. 5 (Wireline Comp. Bur. 2010) (*2011 Orde*r); 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*).

[10] 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 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* 2012 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 30, 2011) at 1-27.

to the benchmark formula limits.[11] NECA concluded that no average schedule company had cost per loop values exceeding its benchmarks.[12] The current HCLS formula approved on January 9, 2012 was expected to provide $15.7 million in payments for 2012 to 258 study areas.[13] NECA's proposed formula would provide an estimated annualized $14.7 million to 248 study areas starting July 1, 2012, a decrease of 6.4 percent over the January 9, 2012 approved estimated payments.[14]

6. We note that the decrease in total HCLS support provided to average schedule companies is not due to the HCLS benchmarks. Indeed, not a single average schedule company was impacted by the initial set of benchmarks. Rather, the decrease is due to several other changes since NECA's last average schedule filing: the NACPL has risen to $518 from $502; the number of average schedule companies receiving support has decreased from 258 to 248; and costs per loop for the average schedule companies have changed slightly.

7. Consistent with our prior orders, we approve NECA's proposed CPL formula for purposes of calculating average schedule company expense adjustments starting July 1, 2012. As in our prior orders, we find that the approved HCLS formula should reasonably approximate the CPL of the sample average schedule companies and allocate funds accurately to average schedule companies.[15] 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 May 24, 2012 submission.

IV. ORDERING CLAUSE

8. 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 May 24, 2012 for high-cost loop support IS ADOPTED, as described herein, effective as of July 1, 2012.

FEDERAL COMMUNICATIONS COMMISSION

Sharon E. Gillett
Chief
Wireline Competition Bureau

[11] *See* NECA May 2012 Filing at 5.

[12] *Id*.

[13] *See 2012 Order.*

[14] *See* NECA May 2012 Filing at 1 and Appendix B1-13.

[15] *See*, *e.g. 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; *2011 Order*, 25 FCC Rcd at 17522, para. 5.