

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

In the Matter of )  
 )  
National Exchange Carrier Association, Inc. )  
 )  
2013 Modification of Average Schedule Universal )  
Service Support Formula )  
 )  
High-Cost Universal Service Support ) WC Docket No. 05-337

ORDER

Adopted: December 13, 2012

Released: December 13, 2012

By the Chief, Wireline Competition Bureau:

I. INTRODUCTION

1. Each year, the Wireline Competition Bureau (Bureau) reviews and approves or modifies any proposed modifications to the formula used to calculate universal service high-cost loop support (HCLS) for average schedule companies.<sup>1</sup> 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 HCLS.<sup>2</sup> The Commission’s rules require that this formula “simulate the disbursements that would be received ... by a company that is representative of average schedule companies.”<sup>3</sup>

2. On April 25, 2012, the Bureau released the *HCLS Benchmarks Implementation Order*, which implemented reasonable benchmark limits for capital costs and operating expenses for purposes of calculating HCLS.<sup>4</sup> In the *HCLS Benchmarks Implementation Order*, the Bureau directed NECA to propose modifications to the average schedule HCLS formula to reflect the effects of the benchmark caps.<sup>5</sup> On May 24, 2012, NECA filed proposed modifications to the 2012 HCLS formula for average schedule companies and requested that they take effect on July 1, 2012, and remain in effect through December 31, 2012.<sup>6</sup> On June 1, 2012, the Bureau issued a public notice seeking comment on NECA’s

<sup>1</sup> See 47 C.F.R. § 69.606.

<sup>2</sup> 47 C.F.R. § 69.606(b); see also *Federal-State Joint Board on Universal Service; 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 of every year).

<sup>3</sup> See 47 C.F.R. § 69.606.

<sup>4</sup> *Connect America Fund*, et al., WC Docket No. 10-90, et al., Order, 27 FCC Rcd 4235, 4238-39, paras. 10-11 (Wireline Comp. Bur. 2012) (*HCLS Benchmarks Implementation Order*).

<sup>5</sup> See *id.* at paras. 10-11 & nn. 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).

<sup>6</sup> See *National Exchange Carrier Association, Inc. and Universal Service Administrative Company 2011 Modification of Average Schedule Universal Service Support Formulas*, WC Docket No. 05-337, Order, 27 FCC Rcd 133 (Wireline Comp. Bur. 2012) (*2012 Order*); 2012 NECA Second Further Modification of the Average

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proposed modifications of the average schedule formula for HCLS.<sup>7</sup> No comments were received. On June 29, 2012, the Bureau issued an order approving NECA's modification of the average schedule universal high-cost loop support formula for the period from July 1, 2012 through December 31, 2012.<sup>8</sup>

3. On August 30, 2012, NECA filed proposed modifications to the current HCLS universal service formula for average schedule companies and requested that they take effect on January 1, 2013, and remain in effect through December 31, 2013.<sup>9</sup> On September 12, 2012, the Bureau issued a public notice seeking comment on NECA's proposed formula for HCLS for 2013.<sup>10</sup> No comments were received.

4. For the reasons discussed below, we approve NECA's proposed HCLS formula for 2013.

## II. HIGH-COST LOOP SUPPORT FORMULA

5. 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.<sup>11</sup> 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.<sup>12</sup> 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.

6. Consistent with HCLS formulas approved in prior years, for 2013, NECA 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).<sup>13</sup> The proposed CPL formula for  
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Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed May 24, 2012) (NECA May 2012 Filing).

<sup>7</sup> 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, 27 FCC Rcd 5911 (Wireline Comp. Bur. 2012).

<sup>8</sup> See *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, 27 FCC Rcd 7315 (Wireline Comp. Bur. 2012). NECA projected that its revised 2012 formula would provide an estimated annualized \$14.7 million to 248 average schedule study areas, a decrease of 6.4 percent from the January 9, 2012 approved estimated payments.

<sup>9</sup> See 2013 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 30, 2012) (NECA 2013 Filing).

<sup>10</sup> See *Comment Sought on the 2013 Modification of Average Schedule Company Universal Service High-Cost Loop Support Formula*, WC Docket No. 05-337, Public Notice, 27 FCC Rcd 11051 (Wireline Comp. Bur. 2012).

<sup>11</sup> See 47 C.F.R. Part 36, Subpart F.

<sup>12</sup> 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).

<sup>13</sup> See NECA 2013 Filing at 1-32; see, e.g., *National Exchange Carrier Association, Inc. and Universal Administrative Company 2011 Modification of Average Schedule Universal Service Formulas*, CC Docket No. 96-  
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2013 has been developed using the same methodology as used and approved in prior years, taking into consideration, as directed, the HCLS benchmarking rule<sup>14</sup> The current approved HCLS formula is expected to provide \$12.3 million in payments for 2012 to 227 average schedule study areas.<sup>15</sup> NECA's proposed formula for 2013 is projected to result in an estimated \$15.6 million payable to 248 average schedule study areas for 2013, an increase of 26.8 percent over 2012 payments.<sup>16</sup>

7. Consistent with our prior orders, we approve NECA's proposed CPL formula for purposes of calculating average schedule company expense adjustments for 2013. As in our prior orders, we find that the appropriate HCLS formula should reasonably approximate the CPL of the sample average schedule companies and allocate funds accurately to average schedule companies.<sup>17</sup> 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 30, 2012 submission.

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45, Order, 25 FCC Rcd 17520, 17522, para. 5 (Wireline Comp. Bur. 2010) (*2011 Order*); *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*).

<sup>14</sup> 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 NECA 2013 Filing at 1-32.

<sup>15</sup> We note that the current amount of support expected to be paid for 2012 -- \$12.3 million -- is less than the amount that was projected when NECA submitted its original average schedule formula for 2012. See 2012 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, CC Docket No. 96-45 (filed Aug. 30, 2011) (NECA 2012 Filing). At that time, NECA estimated that the CPL formula would result in total payments of \$15.7 million for 2012. 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 2012 Filing at 1.

<sup>16</sup> See NECA 2013 Filing at 1. For 2010, 2011 and 2012, approved high-cost loop average schedule formulas produced total payments of \$27.3 million, \$23.4 million and \$15.7 million, respectively. See *2010 Order*, 24 FCC Rcd at 14750, para. 4 n.13; *2011 Order*, 25 FCC Rcd at 17522, para. 4 n.13; *2012 Order*, 27 FCC Rcd at 135, para. 6 n.18.

<sup>17</sup> See, e.g., *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.

**III. 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 August 30, 2012 for high-cost loop support IS ADOPTED, as described herein, effective as of January 1, 2013.

FEDERAL COMMUNICATIONS COMMISSION

Julie A. Veach  
Chief  
Wireline Competition Bureau