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

In the Matter of	)	
	)	
National Exchange Carrier Association, Inc.	)	WC Docket No. 05-337
	)	
2017 Modification of Average Schedule Universal Service Support Formula	)	
	)	
High-Cost Universal Service Support	)	

ORDER

Adopted: November 9, 2016 **Released: November 9, 2016**

By the Deputy Chief, Telecommunications Access Policy Division, Wireline Competition Bureau:

I. INTRODUCTION

1. Pursuant to section 69.606(b) of the Commission's rules, the National Exchange Carrier Association, Inc. (NECA) has submitted the annual average schedule company high-cost loop support (HCLS) formula modifications for Commission review.[1] 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."[2] For the reasons discussed below, we approve NECA's proposed HCLS formula for 2017.

II. BACKGROUND

2. Pursuant to Part 54 of the Commission's rules, HCLS, also known as the loop expense adjustment, provides universal service support to carriers with high loop costs based on the extent that an individual company's cost per loop (CPL) exceeds the national average cost per loop (NACPL).[3] 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 a formula developed by NECA and approved annually by the Wireline Competition Bureau (Bureau).[4] This formula is developed by NECA using data from a sample group of average schedule carriers and similarly-situated companies that file cost data (cost companies) in addition to data (access line and exchange information) obtained from

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[1] 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 (WCB 2004) (*2005 Order*) (requiring NECA to file high-cost loop support formula and supporting data no later than September 1 annually).

[2] 47 C.F.R. § 69.606.

[3] *See* 47 C.F.R. Part 54, Subpart M.

[4] *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).

the entire population of average schedule carriers; once approved, the formula is used to determine support amounts for all average schedule carriers.

3. In December 2014, the FCC adopted a Report and Order that modified the way HCLS expense adjustments are calculated starting July 1, 2015. The targeted change to the former HCLS rule was designed to provide a more equitable distribution of HCLS among carriers by reducing support proportionally among all HCLS recipients to remain within the shrinking HCLS cap, instead of eliminating support altogether for some companies while preserving support for other companies.[5]

4. In March 2016, the Commission adopted the *Rate-of-Return Reform Order*, which among other things prescribed a new rate of return to be phased over a six- year period, beginning July 1, 2016, and adopted limits on operating expenses to be recovered through high-cost support.[6]

5. As directed by the Bureau, on May 13, 2016, NECA filed proposed modifications to the current HCLS formula for average schedule companies to reflect the decreased rate of return, and requested that they take effect on July 1, 2016 and remain in effect through December 31, 2016.[7] On June 17, 2016, the Bureau released an order adopting NECA's modifications of the average schedule universal service HCLS formula for the period from July 1, 2016 through December 31, 2016.[8]

6. On August 25, 2016, NECA filed another proposed modifications to the current HCLS formula for average schedule companies and requested that they take effect on January 1, 2017, and remain in effect through December 31, 2017.[9] The Bureau issued a public notice seeking comment on NECA's proposed formula,[10] and none was received.

III. DISCUSSION

7. Consistent with prior years, NECA proposes calculating HCLS payments for 2017 for average schedule companies based on the relationship of CPL data of sample companies to values representing the number of loops per exchange (CPL calculations).[11] To estimate current year costs,

[5] *See Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, 29 FCC Rcd 15644, 15680-84, paras. 102-114 (2014).

[6] *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087 (2016) (*Rate-of-Return Reform Order*).

[7] *See* 2016 NECA Further Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed May 13, 2016) (NECA May 2016 Filing). On May 19, 2016, the Bureau issued a public notice seeking comment on NECA's proposed modifications of the average schedule formula for HCLS. *See Comment Sought on the 2016 Further Modification of Average Schedule Company Universal Service High-Cost Loop Support Formula,* WC Docket No. 05-337, Public Notice, 31 FCC Rcd 5294 (WCB 2016). No comments were received.

[8] *See National Exchange Carrier Association, Inc.; 2016 Further Modification of Average Schedule Company Universal Service High-Cost Loop Support Formula,* WC Docket No. 05-337, Order, 31 FCC Rcd 6982 (WCB 2016). NECA estimated that its modified 2016 formula would provide an estimated $10.44 million in payments to carriers serving 191 average study areas, a decrease of 3.4 percent from the current level.

[9] *See* 2017 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 25, 2016) (NECA August 2017 Filing).

[10] *See Comment Sought on the 2017 Modification of Average Schedule Company Universal Service High-Cost Loop Support Formula*, WC Docket No. 05-337, Public Notice, 31 FCC Rcd 9653 (WCB 2016).

[11] See NECA 2017 Filing at 1-29; *see also, e.g., National Exchange Carrier Association, Inc.; 2016 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support*, WC Docket No. 05-337, Order, 30 FCC Rcd 11571, 11573, para. 5 (WCB 2015) (*2016 Order*); *2015 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support*, WC Docket No. 05-337, Order, 29 FCC Rcd 14952, 14954, para. 4 (WCB 2014) (*2015 Order*); *National Exchange Carrier Association, Inc.; 2014 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support*, WC

(continued...)

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, and uses regression analyses to predict CPLs for all average schedule carriers. Each average schedule company's derived CPL is then used to calculate the HCLS support amount consistent with section 54.1310 of the Commission's rules, as revised in 2014.[12] NECA's proposed formula for 2017 projects $15.4 million in payments to carriers serving 201 average schedule study areas.[13]

8. We find that NECA's results and CPL calculations appear to be accurate and complete, and the proposed HCLS formula should reasonably approximate the CPL of the sample average schedule companies, and thereby allocate funds appropriately to average schedule companies.[14] Therefore, we approve the HCLS formula as provided in NECA's August 25, 2016 submission.[15]

IV. ORDERING CLAUSE

9. 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 25, 2016 for high-cost loop support IS ADOPTED, as described herein, effective as of January 1, 2017.

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Docket No. 05-337, Order, 28 FCC Rcd 16885, 16887, para. 4 (WCB 2013) (*2014 Order*); *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, 27 FCC Rcd 15178, 15180, para. 6 (WCB 2012) (*2013 Order*).

[12] *See* NECA 2017 Filing at 1-29.

[13] *See* NECA 2017 Filing at 1. For 2014, 2015, and 2016, approved high-cost loop average schedule formulas were estimated to result in total payments of $11.2 million, $10.3 million and $10.6 million, respectively. *See 2014 Order,* 28 FCC Rcd at 16886, para. 4 n.10; *2015 Order,* 29 FCC Rcd at 14952, para. 4 n.10; *2016 Order,* 30 FCC Rcd at 11573, para. 5 n.11. We note that the current amount of support expected to be paid for 2016 – $10.6 million – is less than the amount that was projected when NECA submitted its original average schedule formula for 2016. *See* 2016 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 21, 2015). At that time, NECA estimated that the CPL formula would result in total payments of $11.3 million for 2016. *See id.* at 1; NECA 2017 Filing at 1.

[14] *See*, *e.g.*, *2013 Order*, 27 FCC Rcd at 15180, para. 7; *2014 Order,* 28 FCC Rcd at 16886, para. 4; *2015 Order,* 29 FCC Rcd at 14952, para. 5. *2016 Order,* 30 FCC Rcd at 11573, para. 6.

[15] In the *Rate-of-Return Reform Order*, the Commission stated that rate-of-return carriers in Alaska would not be subject to the operating expense limitations adopted in that Order pending Commission consideration of a plan to address both fixed and mobile voice and broadband service in high-cost areas of the state of Alaska. *Rate of Return Reform Order*, 31 FCC Rcd at 3090, para. 4 n.10. On August 31, 2016, the FCC released an order adopting the Alaska Plan, which specified that the operating expense limits will be applied to Alaska carriers choosing to remain on legacy support mechanisms. *See Connect America Fund, et al*., WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 10139, 10142, para. 7 n.19 (2016) (*Alaska Plan Order*). Because NECA's proposed HCLS formula for 2017 was submitted prior to the release of the *Alaska Plan Order*, NECA stated that the operating expense limitation factor would not apply to companies in Alaska. NECA August 2017 Filing at 4 n.6. Given the Commission's decision in the *Alaska Plan Order*, NECA should apply the operating expense limitation factor to average schedule carriers in Alaska that remain on legacy high-cost support mechanisms.

FEDERAL COMMUNICATIONS COMMISSION

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