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

In the Matter of	)	
	)	
National Exchange Carrier Association, Inc.	)	WC Docket No. 05-337
	)	
2019 Modification of Average Schedule Universal Service Support Formula	)	
	)	
High-Cost Universal Service Support	)	
	)	

ORDER

Adopted: December 18, 2018 **Released: December 18, 2018**

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 2019.

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

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[1] 47 CFR § 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 CFR § 69.606.

[3] *See* 47 CFR 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).

file cost data (cost companies) in addition to data (access line and exchange information) obtained from the entire population of average schedule carriers. Once approved, the new derived 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. On August 27, 2018, NECA filed proposed modifications to the current HCLS formula for average schedule companies and requested that they take effect on January 1, 2019 and remain in effect through December 31, 2019.[7] The Bureau issued a public notice seeking comment on NECA's proposed formula.[8] No comments were received.

III. DISCUSSION

6. Consistent with prior years, NECA proposes calculating 2019 HCLS payments 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).[9] 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. Thereafter, NECA 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.[10] The current HCLS formula approved on October 23, 2017 is expected to provide $6.24 million in payments to 97 average schedule study areas in 2018. NECA's

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[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* 2019 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 27, 2018) (NECA 2019 Filing).

[8] *See Comment Sought on the 2019 Modification of Average Schedule Company Universal Service High-Cost Loop Support Formula*, WC Docket No. 05-337, Public Notice, DA 18-916 (WCB 2018).

[9] See NECA 2019 Filing at 1-29; *see also, e.g., National Exchange Carrier Association, Inc.; 2018 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support*, WC Docket No. 05-337, Order, 32 FCC Rcd 7654, 7656, para. 7 (WCB 2017) (*2018 Order*); *2017 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support*, WC Docket No. 05-337, Order, 31 FCC Rcd 12350, 12352, para. 7 (WCB 2016) (*2017 Order*); *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*).

[10] *See* NECA 2019 Filing at 1-29.

proposed formula for 2019 projects approximately $7.01 million in payments to carriers serving 102 average schedule study areas, an increase of 12.3% over the 2017 approved estimated payments.[11]

7. 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.[12] Therefore, we approve the HCLS formula as provided in NECA's August 27, 2018 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 August 27, 2018 for high-cost loop support IS ADOPTED, as described herein, effective as of January 1, 2019.

FEDERAL COMMUNICATIONS COMMISSION

Alexander A. Minard
Deputy Chief
Telecommunications Access Policy Division
Wireline Competition Bureau

[11] *See* NECA 2019 Filing at 1. For 2016, 2017 and 2018, approved high-cost loop average schedule formulas were estimated to result in total payments of $10.6 million, $15.4 million and 6.24 million, respectively. *See 2016 Order,* 30 FCC Rcd at 11573, para. 5 n.11*; 2017 Order,* 31 FCC Rcd at 12352, para. 7 n.13; *2018 Order,* 32 FCC Rcd at 7656, para. 6 n. 11. We note that the current amount of support expected to be paid for 2018—$6.24 million—is less than the amount that was projected when NECA submitted its original average schedule formula for 2018. *See* 2018 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 30, 2017). At that time, NECA estimated that the CPL formula would result in total payments of $6.45 million for 2018. *See id*. at 1; NECA 2019 Filing at 1.

[12] *See*, *e.g.*, *2015 Order,* 29 FCC Rcd at 14952, para. 5. *2016 Order,* 30 FCC Rcd at 11573, para. 6; *2017 Order,* 31 FCC Rcd at 12352, para. 8; *2018 Order,* 32 FCC Rcd at 7656, para. 8.