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

In the Matter of	)	
	)	
National Exchange Carrier Association, Inc.	)	WC Docket No. 05-337
	)	
2023 Modification of Average Schedule Universal Service Support Formula	)	WC Docket No. 10-90
	)	
High-Cost Universal Service Support	)	
	)	

ORDER

Adopted: December 8, 2022 **Released: December 8, 2022**

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 2023.

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

[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).

companies) in addition to data (access line and exchange information) obtained from the entire population of average schedule carriers. Average schedule companies that participate in the NECA pools are required to report access line count data to NECA each month based on their billing of End User Common Line (EUCL) charges associated with basic local exchange service.[5] Once approved, the newly derived formula is used to determine support amounts for all average schedule carriers.

3. In December 2014, the Commission 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.[6]

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 in over a six-year period, beginning July 1, 2016, and adopted limits on operating expenses to be recovered through high-cost support.[7]

5. On August 30, 2022, NECA filed proposed modifications to the current HCLS formula for average schedule companies and requested that they take effect on January 1, 2023 and remain in effect through December 31, 2023.[8] The Bureau issued a public notice seeking comment on NECA's proposed formula.[9] No comments were received.

III. DISCUSSION

6. Consistent with prior years, NECA proposes calculating 2023 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).[10] 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.[11] The current HCLS formula approved on December 13, 2021 is

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[5] *See* 2023 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337, at 7 (filed Aug. 30, 2022) (NECA 2023 Filing).

[6] *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).

[7] *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*).

[8] *See* NECA 2023 Filing.

[9] *See Comment Sought on the 2023 Modification of Average Schedule Company Universal Service High-Cost Loop Support Formula*, WC Docket Nos. 05-337 and 10-90, Public Notice, DA 22-957 (WCB 2022).

[10] *See* NECA 2023 Filing at 1-28; *see also, e.g.*, *National Exchange Carrier Association, Inc.; 2022 Modifications of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support,* WC Docket No. 05-337, Order, DA 21-1552, Para. 6 (WCB 2021) (*2022 Order*); *National Exchange Carrier Association, Inc.; 2021 Modifications of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support,* WC Docket No. 05- 337, Order, 35 FCC Rcd 14019, 14021, Para. 6 (WCB 2020) (*2021 Order*); *2020 Modifications of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support,* WC Docket No. 05-337, Order, 34 FCC Rcd 11205, 11207, Para. 6 (WCB 2019) (*2020 Order*)*; 2019 Modifications of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support,* WC Docket No. 05-337, Order, 33 FCC Rcd 12227, 12229, Para. 6 (WCB 2018) (*2019 Order*).

[11] *See* NECA 2023 Filing at 1-28.

expected to provide $5.827 million in payments to 71 average schedule study areas in 2022. NECA's proposed formula for 2023 projects approximately $6.975 million in payments to carriers serving 70 average schedule study areas, an increase of 19.7% over the 2021 approved estimated payments.[12] While the increase is significant relative to 2022 average schedule HCLS, average schedule HCLS is a small fraction – 2.1 percent – of all HCLS,[13] and will therefore have minimal impact on the overall HCLS cap. We note that such fluctuations may be expected because, when an average schedule company's estimated CPL is close to the support threshold (as is the case with most average schedule companies), small changes in the CPL can have a relatively large effect on the company's HCLS support.[14]

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.[15] Therefore, we approve the HCLS formula as provided in NECA's August 30, 2022 submission.

IV. ORDERING CLAUSE

8. Accordingly, IT IS ORDERED, pursuant to sections 0.91 and 0.291 of the Commission's rules, 47 CFR §§ 0.91, 0.291, that the average schedule cost per loop formula proposed by the National Exchange Carrier Association, Inc. on August 30, 2022 for high-cost loop support IS ADOPTED, as described herein, effective as of January 1, 2023.

FEDERAL COMMUNICATIONS COMMISSION

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[12] *See* NECA 2023 Filing at 1. We note that 82 average schedule carriers are eligible for HCLS, but 12 receive no HCLS pursuant to the formula we adopt here. *Id.* at 2. In addition, 192 average schedule companies receive support pursuant the Alternative Connect America Model or Alaska Plan, and are not eligible for HCLS. *Id.* at 2 n.9.

[13] *Id.* at 2.

[14] For 2019, 2020, 2021 and 2022, approved high-cost loop average schedule formulas were estimated to result in total payments of $7.01 million, $3.245 million, $4.022, and $6.034 million, respectively. *See See 2019 Order*, 33 FCC Rcd at 12229, para. 6 n.11, *2020 Order*, 34 FCC Rcd at 11207, para. 6 n. 11. *2021 Order*, 35 FCC Rcd at 14020, para. 6 n. 11. *2022 Order*, DA 21-1552 at 3, para. 6 n 11. We note that the current amount of support expected to be paid for 2022—$5.827 million—is less than the amount that was projected when NECA submitted its original average schedule formula for 2022. *See* 2022 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 27, 2021). At that time, NECA estimated that the CPL formula would result in total payments of $6.034 million for 2022. *See id*. at 1; NECA 2023 Filing at 1.

[15] *See*, *e.g.*, *2019 Order*, 33 FCC Rcd at 12229, para. 7*; 2020 Order*, 34 FCC Rcd at 11207, para. 7. *2021 Order*, 35 FCC Rcd at 14021, para. 7; *2022 Order* DA 21-1552 at 3, para. 7.