

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

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| In the Matter of                            | ) |           |
|   | ) |           |
| National Exchange Carrier Association, Inc. | ) | ASD 99-43 |
| Proposed Modifications to the 1999-2000     | ) |           |
| Interstate Average Schedule Formulas        | ) |           |

**ORDER**

Adopted: December 28, 1999

Released: December 29, 1999

By the Chief, Accounting Safeguards Division, Common Carrier Bureau:

**I. Introduction**

1. On October 1, 1999, the National Exchange Carrier Association, Inc. ("NECA") filed proposed modifications to the current universal service formulas for average schedule companies.<sup>1</sup> These formulas, which under NECA's proposal would take effect on January 1, 2000 and remain in effect through December 31, 2000, include a local switching support formula and a universal service fund ("USF") expense adjustment formula. On October 7, 1999, the Accounting Safeguards Division issued a public notice soliciting comments on the NECA filing.<sup>2</sup> Two parties filed comments.<sup>3</sup> As discussed below, we approve NECA's modified local switching support formula. Regarding the USF expense adjustment formula, however, further review of NECA's proposed revision to the USF expense adjustment formula is necessary. Until this review is complete, we direct NECA to retain the current USF expense adjustment formula.

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<sup>1</sup> See 2000 NECA Modification of Average Schedule Universal Service Formulas, National Exchange Carrier Association, Inc., October 1, 1999. ("NECA Filing").

<sup>2</sup> Pleading Cycle Established for Comments on NECA's Proposed Modification of Average Schedule Universal Service Formulas, ASD 99-43, DA 99-2105 (rel. October 7, 1999).

<sup>3</sup> Comments were filed in support of NECA's proposed formula revisions by the National Telephone Cooperative Association ("NTCA") and the Organization for the Promotion and Advancement of Small Telecommunications Companies ("OPASTCO") (November 3, 1999).

## II. Discussion

2. *Local Switching Support Formula.* The local switching support formula is used to determine the amount of support for switching costs that will be provided from universal service support mechanisms. The current interstate local switching support formula was approved on December 22, 1998.<sup>4</sup> NECA proposes minor modifications to the current local switching support formula which, if approved, would increase the local switching support for average schedule companies by approximately \$240,000 per month.<sup>5</sup> We have reviewed NECA's proposed changes to this formula and find it consistent with our requirements. We therefore approve it.

3. *USF Expense Adjustment Formula.* The current USF expense adjustment formula is the result of an Order dated March 17, 1999,<sup>6</sup> directing NECA to retain the USF expense adjustment formula approved in June 1998,<sup>7</sup> adjusted to reflect the growth in average schedule companies' working loops and to ensure no carrier's support would be unreasonably reduced.<sup>8</sup> In adopting the current USF expense adjustment formula, we rejected modifications proposed by NECA because we found that NECA's proposed formula did not reasonably approximate the cost per loop of sample average companies, and resulted in estimated costs per loop that were widely disparate from the actual costs per loop of the sample data.<sup>9</sup>

4. NECA's proposed modifications in the instant proceeding raise the same concerns that led us to reject NECA's previous proposal.<sup>10</sup> For instance, under NECA's proposed formula, the USF expense adjustment increase for average schedule companies would be

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<sup>4</sup> See National Exchange Carrier Association, Inc., Proposed Modifications to the 1998-99 Interstate Average Schedule Formulas, *Order*, ASD 98-96, DA 98-2587, December 22, 1998.

<sup>5</sup> See NECA Filing at II-11. The local switching support is a portion of the settlements that average schedule companies receive for providing interstate local switching access service. The remainder of settlements continue to be recovered through NECA's local switching access charges. *Id.* at II-1.

<sup>6</sup> See National Exchange Carrier Association, Inc., Proposed Modifications to the 1998-99 Interstate Average Schedule Formulas, *Order*, ASD 98-96, DA 99-530, March 17, 1999 (*March 1999 Order*).

<sup>7</sup> See National Exchange Carrier Association, Inc. Proposed Modifications to the 1998-1999 Interstate Average Schedule Formulas, *Order*, AAD 98-20, DA 98-1297, June 29, 1998.

<sup>8</sup> The current USF expense adjustment formula is effective through December 31, 1999.

<sup>9</sup> See *March 1999 Order* at ¶¶ 8-12. We pointed out that USF expense adjustments are provided to carriers for high cost loop support, and therefore, an appropriate USF expense formula should reasonably approximate the actual costs per loop of the sample companies and should allocate funds accurately to the average schedule companies. *Id.* at ¶ 6. We found that NECA's proposed formula had an apparent upward bias that resulted in a significant overstatement of costs per loop and would misallocate USF funds in many cases. *Id.* at ¶ 9.

<sup>10</sup> NECA sought Commission review of the *March 1999 Order*. See Application for Review filed by the National Exchange Carrier Association, Inc., In the Matter of National Exchange Modifications to the 1998-99 Interstate Average Schedule Formulas, ASD 98-96, DA 99-530 (filed April 16, 1999). The Commission recently denied NECA's Application for Review and sustained the Bureau's findings in the matter below. See In the Matter of National Exchange Carrier Association, Inc. Proposed Modifications to the 1998-99 Interstate Average Schedule Formulas, ASD 98-96, FCC 99-395, December 20, 1999.

substantially greater than the increase in the growth of loops for these companies.<sup>11</sup> Further review and examination of NECA's proposed modifications to the current USF expense adjustment formula is necessary before we can determine whether revisions are warranted. To maintain stability in USF expense adjustment payments to average schedule companies while we complete our review, we direct NECA to retain the current USF expense adjustment formula as set forth in the *March 1999 Order*. Our review will proceed expeditiously so that any revised formula, if appropriate, will be implemented promptly.

### III. Ordering Clause

5. Accordingly, IT IS ORDERED, pursuant to Sections 0.91 and 0.291 of the Commission rules, 47 C.F.R. §§ 0.91, 9.291, that the average schedule formula proposed by the National Exchange Carriers Association, Inc. on October 1, 1999, for local switching support SHALL BECOME EFFECTIVE January, 1 2000.

6. IT IS FURTHER ORDERED, pursuant to Sections 0.91 and 0.291 of the Commission rules, 47 C.F.R. §§ 0.91, 9.291, that the current universal service fund expense adjustment formula approved by the Commission on March 17, 1999, SHALL REMAIN IN EFFECT January 1, 2000.

7. IT IS FURTHER ORDERED, pursuant to Section 4(i) of the Communications Act of 1934, as Amended, 47 U.S.C. § 154(i), and Sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, that THIS ORDER IS EFFECTIVE UPON ITS RELEASE.

FEDERAL COMMUNICATIONS COMMISSION

Kenneth P. Moran  
Chief, Accounting Safeguard Division

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<sup>11</sup> NECA proposes an increase of approximately 20 percent in USF expense adjustments (*see* NECA Filing at III-24), while the growth in loops for these companies is only approximately 5 percent (*see* NECA Filing at Appendix D and *ex parte* letter from Regina McNeil, NECA to Ms. Salas, FCC, dated June 11, 1999 in ASD 98-96).