Federal Communications Commission
Washington, D.C. 20554

March 2, 2004

Irene Flannery
Vice President
High Cost and Low Income Divisions
Universal Service Administrative Company
2000 L St., N.W.
Washington, DC 20036

RE: CC Docket 96-45 -- True Up of 2002 ICLS

Dear Ms. Flannery,

This letter addresses how USAC should perform the annual true up of Interstate Common Line Support (ICLS) for rate-of-return carriers for 2002 under the Commission's rules and the *MAG Order*. We conclude that USAC should prorate each revenue component of the ICLS calculation based on a uniform factor reflecting the industry-wide revenue recovery experience.

Section 54.903(b) requires USAC to use calendar year data to perform ICLS true ups. Rate-of-return carriers began receiving ICLS on July 1, 2002. Therefore, any ICLS true-ups for 2002 would relate only to the second half of the calendar year.[1] The *MAG Order* specified the manner in which the cost data should be adjusted for true up purposes ("… 50 percent of the 2002 actual costs will be attributed to the final six months of 2002"), [2] but the order did not specify precisely how 2002 revenue data should be adjusted. Because the *MAG Order* made a number of reforms to the interstate access rate structure, assigning a 50 percent share of 2002 revenues to the second half of the year would not provide an accurate calculation of the final ICLS amount that carriers require to meet their common line revenue requirements for the second half of 2002.[3]

The National Exchange Carrier Association (NECA), acting as the filing agent on behalf of nearly all rate-of-return carriers, filed data that provides the ability to calculate a uniform factor for each revenue component of the ICLS formula reflecting the industry-wide revenue

[1] Under the ICLS mechanism, rate-of-return carriers receive support based on the difference between their common line revenue requirement (or costs) and their revenues from the Subscriber Line Charge (SLC), Carrier Common Line Charge (CCLC), Long Term Support, special access surcharges, and line port costs in excess of basic analog service. 47 C.F.R § 54.901(a). Procedurally, the carriers first file projected cost and revenue data, which are used to calculate monthly ICLS payments, but later file actual cost and revenue data, which are used to "true up" the earlier payments to the correct final amount. 47 C.F.R. § 54.903.

[2] *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation*, CC Docket No. 98-77, *Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket No. 98-166, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, 16 FCC Rcd 19613, 19684-85 para. 167 (2001).

[3] Id. at 19633-46 paras. 40-68 (amending the Commission's rules governing SLC and CCLC rates).

experience. NECA filed 2002 actual cost and revenue data for the 2002 calendar year pursuant to section 54.903(a)(4). NECA also filed an alternate set of data that reflects only those revenues attributable to July 1 to December 31, 2002. These data sets show, for each revenue component of the ICLS formula, the revenues received by nearly all rate-of-return carriers in the calendar year as a whole and in the second half of the calendar year. From these data sets USAC may reasonably determine, for each revenue component of the ICLS formula, the industry-wide revenue experience for the second half of 2002, as compared to the entire year.

We conclude that USAC should utilize the revenue data provided by NECA for July 1 to December 31, 2002, to calculate factors that reflect the actual industry-wide distribution of revenues for each component of the ICLS formula between the first and second half of the 2002. For example, if rate-of-return carriers in the aggregate recovered 15 percent of their 2002 CCLC revenues in the second half of the year, for true-up purposes USAC should assign 15 percent of each carrier's 2002 annual CCLC revenues to the second half of 2002. We believe that the above calculation of a uniform factor for each revenue component would be appropriate because it would accurately reflect the industry's experienced distribution of revenues between the first and second half of 2002.

Please contact the Wireline Competition Bureau, Telecommunications Access Policy Division, if you have any further concerns with regard to this matter.

Sincerely,

Carol E. Mattey
Deputy Chief
Wireline Competition Bureau