

**The High Cost Program
Initial Statistical Analysis of Data from the 2006/2007
Compliance Audits**

By

Office of Inspector General
Federal Communications Commission

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Background and Introduction

This report contains a statistical analysis of data from the 2006/2007 audit of the High Cost (“HC”) Program of the Federal Communications Commission (“FCC” or “Commission”). The audits examined funding provided during FY2005. The data indicates that the program is at risk and that administrative problems exist within the HC Program of Universal Service Fund (“USF”).

The HC program was audited to determine the extent to which HC beneficiaries were in compliance with the FCC’s, orders and interpretive opinions. The audits were also intended to produce data that would provide the basis for statistical estimates of the erroneous payment rate and the amount of erroneous payments as defined in the Improper Payments Information Act of 2002 (“IPIA”).¹ Under the IPIA, estimates of both the erroneous payment rate and amount of erroneous payments may assist the Commission in assessing risk associated with the HC Program. Under IPIA standards, a program is at risk if the erroneous payment rate exceeds 2.5 percent and the amount of erroneous payments is greater than \$10 million.

To assess compliance and risk, a simple random sample of 65 Service Area Providers (“SAC”) was drawn and compliance attestation examinations/audits were completed. Statistical results from this sample indicate that the program is at risk. The estimated erroneous payment rate is 16.56 percent.

High Cost Program Description

Overview

The Communications Act of 1934 (the “Act”), as amended, requires the Commission to promote universal service by ensuring that consumers in all regions of the nation have access to affordable, quality telecommunications services.² In section 254 of the Act, Congress directed the Commission, after consultation with the Federal-State Joint Board on Universal Service (“Joint Board”), to establish specific, predictable, and sufficient support mechanisms to preserve and advance universal service.³ Among other things, section 254 provides that consumers in rural, insular, and high-cost areas should have access to telecommunications services at rates that are “reasonably comparable to rates charged for similar services in urban areas.”⁴

¹ Pub. L. 107-300, 116 Stat. 2350.

² Communications Act of 1934, as amended, 47 U.S.C. §§ 151, *et seq.* The Telecommunications Act of 1996 amended the Communications Act of 1934. Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (1996 Act).

³ 47 U.S.C. § 254.

⁴ 47 U.S.C. § 254(b)(3).

The federal high-cost support mechanism includes five major components:

High-Cost Loop Support (“HCLS”) — provides support for intrastate network costs to rural incumbent local exchange carriers (“LEC”s) in service areas where the cost to provide service exceeds 115 percent of the national average. Rural incumbent LECs may also receive support under two additional sub-mechanisms in limited circumstances:

Safety net additive support - carriers may qualify for additional support if they demonstrate significant investment in infrastructure.

Safety valve support - carriers may be eligible for additional support in instances where they acquire exchanges and invest in that infrastructure.

Local Switching Support (“LSS”) — provides intrastate support for switching costs for companies that serve 50,000 or fewer access lines.

High-Cost Model Support (“HCMS”) — provides support for intrastate network costs to non-rural incumbent LECs in service areas where the cost to provide service exceeds two standard deviations above the national average cost per line.

Interstate Access Support (“IAS”) — provides support for price cap carriers to offset certain reductions in interstate access charges.

Interstate Common Line Support (“ICLS”) — provides support to rate-of-return carriers, to the extent that subscriber line charge (“SLC”) caps do not permit such carriers to recover their common line revenue requirements.

The type of support an incumbent LEC receives depends generally on study area size. Larger incumbent LECs are non-rural for purposes of receiving federal support for a portion of their intrastate costs,⁵ and typically are price-cap carriers for purposes of

⁵ The term “non-rural carriers” refers to incumbent LECs that do not meet the statutory definition of a rural telephone company. See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8943, para. 310 (1997) (*Universal Service First Report and Order*) (subsequent history omitted). A rural telephone company is a LEC operating entity to the extent that the entity:

(A) provides common carrier service to any local exchange carrier study area that does not include either:

(i) any incorporated place of 10,000 inhabitants or more, or any part thereof, based on the most recently available population statistics of the Bureau of the Census; or

(ii) any territory, incorporated or unincorporated, included in an urbanized area, as defined by the Bureau of the Census as of August 10, 1993;

(B) provides telephone exchange service, including exchange access, to fewer than 50,000 access lines;

(C) provides telephone exchange service to any local exchange carrier study area with fewer than 100,000 access lines; or

receiving IAS for a portion of their interstate costs.⁶ Smaller incumbent LECs are “rural” for purposes of receiving federal support for a portion of their intrastate costs, and typically are rate-of-return carriers for purposes of receiving ICLS for a portion of their interstate costs.⁷ The table below illustrates the typical pattern.

	Intrastate	Interstate
Rural Carriers/ Rate-of-Return Carriers	<ul style="list-style-type: none"> • High-Cost Loop Support • Local Switching Support 	<ul style="list-style-type: none"> • Interstate Common Line Support
Non-Rural Carriers/ Price-Cap Carriers	<ul style="list-style-type: none"> • High-Cost Model Support 	<ul style="list-style-type: none"> • Interstate Access Support

Competitive eligible telecommunications carriers (“ETC”s) receive the same per-line support as the incumbent LEC in whose study area the competitive ETC provides service.

Carriers must be designated as ETCs by their state commissions or by the Commission pursuant to section 214(e) of the Act and section 54.201 of the Commission’s rules to receive high-cost support.⁸ States have the primary responsibility for designating ETCs, and carriers must first check with their state commissions to determine whether the state has jurisdiction over the designation of ETCs. If the state does not have jurisdiction over ETC designations, the carrier may seek designation from the Commission pursuant to section 214(e)(6) of the Act and section 54.202 of the Commission’s rules.⁹

Pursuant to section 214(e) of the Act, in order to be designated as an ETC, carriers must satisfy the following requirements:

offer the services that are supported by the Federal Universal Service mechanisms under section 254(c) of the Act, either using their own facilities or a combination of their own

(D) has less than 15 percent of its access lines in communities of more than 50,000 on the date of enactment of the Telecommunications Act of 1996.

47 U.S.C. § 153(37).

⁶ Price cap carriers are those carriers subject to price cap regulation (i.e., those that have their prices limited by specified indexes) pursuant to Part 61 of the Commission’s rules. 47 C.F.R. § 61.3(ee).

⁷ LECs subject to rate-of-return regulation are limited to earning a prescribed return on investment. Rural holding companies that have purchased price cap exchanges or opted for price cap regulation in some study areas may have both rate-of-return and price cap study areas. *See Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Low-Volume Long-Distance Users; Federal-State Joint Board on Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962, 12968, para. 15 (2000).

⁸ 47 U.S.C. § 214(e); 47 C.F.R. § 54.201.

⁹ 47 U.S.C. § 214(e)(6); 47 C.F.R. § 54.202.

facilities and resale of another carrier's services; and advertise the availability of [supported] services and the charges therefore using media of general distribution.¹⁰

In addition, carriers seeking ETC designation from the Commission must also demonstrate:

- a commitment and ability to provide services, including providing service to all customers within its proposed service area;
- how it will remain functional in emergency situations;
- that it will satisfy consumer protection and service quality standards;
- that it offers local usage comparable to that offered by the incumbent LEC; and
- an understanding that it may be required to provide equal access if all other ETCs in the designated service area relinquish their designations pursuant to section 214(e)(4) of the Act.¹¹

Administration of High-Cost Support

Subject to Commission oversight, a neutral third-party administrator, the Universal Service Administrative Company ("USAC"), currently administers the USF, including the high-cost support mechanisms, on a day-to-day basis. As the administrator of the federal universal service fund, USAC is responsible for billing, collection and disbursement functions.

To receive USF support under the high-cost mechanisms, service providers must submit an FCC Service Provider Information Number and Contact Information Form (FCC "Form 498"), providing USAC information including the service provider name, address, telephone number, contact names, and other information. USAC assigns a Service Provider Information Number (SPIN) to each company that files a Form 498. USAC will not disburse high-cost support to a carrier without a valid SPIN.

To ensure that federal high-cost support is being distributed and used in conformance with the Act and the Commission's rules, the Commission requires information to be filed by carriers and state commissions. Specifically, carriers are required to file line count data, state commissions and carriers are required to file certifications regarding proper use of high-cost support, and incumbent LEC ETCs are

¹⁰ 47 U.S.C. § 214(e).

¹¹ 47 C.F.R. § 54.202(a).

required to file cost data to receive support under certain federal high-cost mechanisms.¹² The Commission's rules contain deadlines for filing this information.

High-Cost Loop Support and Local Switching Support¹³

Filing Date	Timeframe of Reported Data	Type of Report	Affects Payment for
July 31	Lines served as of December 31 of the previous year.	Mandatory.	Fourth quarter of the current year.
September 30	Lines served as of March 31 of the current year.	Mandatory (voluntary for rural ILECs until a CETC reports line counts).	First quarter of the following year.
December 30	Lines served as of June 30 of the current year.	Mandatory (voluntary for rural ILECs until a CETC reports line counts).	Second quarter of the following year.
March 30	Lines served as of September 30 of the previous year.	Mandatory (voluntary for rural ILECs until a CETC reports line counts).	Third and fourth quarters of the current year.

High-Cost Model Support¹⁴

Filing Date	Timeframe of Reported Data	Type of Report	Affects Payment for
July 31	Lines served as of December 31 of the previous year.	Mandatory.	Fourth quarter of the current year.
September 30	Lines served as of March 31 of the current year.	Mandatory.	First quarter of the following year.
December 30	Lines served as of June 30 of the current year.	Mandatory.	Second quarter of the following year.
March 30	Lines served as of September 30 of the previous year.	Mandatory.	Third quarter of the current year.

Interstate Common Line Support¹⁵

¹² Pursuant to section 54.307 of the Commission's rules, a non-incumbent LEC ETC, (a competitive ETC) receives high-cost support on each line it serves in a particular service area based on the support the incumbent LEC would receive for such line. 47 C.F.R. § 54.307.

¹³ 47 C.F.R. §§ 36.611, 36.612(a) (for incumbent LECs); 47 C.F.R. § 54.307(b)-(c) (for competitive ETCs); Competitive Carriers High Cost Data Submission, FCC Form 525, OMB 3060-0986 (Jan. 2005); Local Switching Support Data Collection Form, Cost Company, OMB 3060-0814 (Feb. 2005), Local Switching Support Data Collection Form, Average Schedule Company, OMB 3060-0814 (Feb. 2005).

¹⁴ 47 C.F.R. §§ 54.309; *see also* 47 C.F.R. §§ 36.611, 36.612(a) (for incumbent LECs); 47 C.F.R. § 54.307(c) (for competitive ETCs).

Filing Date	Timeframe of Reported Data	Type of Report	Affects Payment for
July 31	Lines served as of December 31 of the previous year.	Mandatory.	Fourth quarter of the current year.
September 30	Lines served as of March 31 of the current year.	Mandatory (voluntary for rural ILECs until a CETC reports line counts).	First quarter of the following year.
December 30	Lines served as of June 30 of the current year.	Mandatory (voluntary for rural ILECs until a CETC reports line counts).	Second quarter of the following year.
March 30	Lines served as of September 30 of the previous year.	Mandatory (voluntary for rural ILECs until a CETC reports line counts).	Third quarter of the current year.

Interstate Access Support¹⁶

Filing Date	Timeframe of Reported Data	Type of Report	Affects Payment for
Last business day of June	Lines served for the period ending March 31 of the current year.	Mandatory.	Third quarter of the current year.
Last business day of September	Lines served for the period ending June 30 of the current year.	Mandatory.	Fourth quarter of the current year.
Last business day of December	Lines served for the period ending September 30 of the current year.	Mandatory.	First Quarter of the following year.
Last business day of March	Lines served for the period ending December 31 of the previous year.	Mandatory.	Second quarter of the current year.

Newly Designated ETCs¹⁷

Filing Date	Receive support in
Within 60 days of designation	Newly designated ETC will receive support as of effective date of designation if it submits the required data within 60 days of designation.

Cost data is required to be submitted in accord with the following schedules:

¹⁵ 47 C.F.R. § 54.903; *see also* 47 C.F.R. § 36.611, 36.612 (for incumbent LECs); 47 C.F.R. § 54.307 (for competitive ETCs).

¹⁶ 47 C.F.R. § 54.802(a).

¹⁷ 47 C.F.R. § 54.307(d).

High-Cost Loop Support¹⁸

Filing Date	Timeframe of Reported Data	Type of Report	Affects Payment for
July 31	Incumbent LECs must submit investment and expense data to the National Exchange Carrier Association, Inc. (NECA).	Mandatory.	Following calendar year.

Local Switching Support¹⁹

Filing Date	Timeframe of Reported Data	Type of Report	Affects Payment for
October 1	Projected cost data for the following calendar year subject to true-up no later than 12 months after the end of that calendar year.	Mandatory.	Following calendar year.

Interstate Common Line Support²⁰

Filing Date	Timeframe of Reported Data	Type of Report	Affects Payment for
March 31	Rate-of-return incumbent LECs must submit projected revenue requirement data on the ICLS Projected Annual Common Line Revenue Requirement Form (Form 508).	Mandatory.	The ICLS upcoming program year beginning July 1 through June 30.
April 1-June 30	Revisions to projected revenue data.	Optional.	The ICLS upcoming program year beginning July 1 through June 30.
June 30	Revisions to projected data of the ending ICLS program year.	Optional.	The remainder of the current ICLS program year.
December 31	Actual results of operations must be reported on the ICLS Annual Common Line Actual Cost Data Collection Form (Form 509) that shows the ICLS results of operations for the preceding calendar year.	Mandatory.	The remainder of the current ICLS program year.

¹⁸ 47 C.F.R. § 36.611.

¹⁹ 47 C.F.R. § 54.301.

²⁰ 47 C.F.R. § 54.903.

Certifications must be submitted in accord with the following schedules.

Non-Rural Carriers²¹

States must file annual certifications for non-rural incumbent LECs or ETCs serving lines in the service area of non-rural incumbent LECs²² – or, if the carrier is not subject to state jurisdiction, the carrier itself must file an annual certification²³ – stating that all federal high-cost support provided to such carriers will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

Filing Date	Receive support in
October 1	First, second, third and fourth quarters of succeeding year
January 1	Second, third and fourth quarters of that year
April 1	Third and fourth quarters of that year
July 1	Fourth quarter of that year
After July 1	No support for that year
Within 60 days of designation	Newly designated ETCs will receive support as of the effective date of designation if certification is filed within 60 days ²⁴

Rural Carriers²⁵

States must file annual certifications for rural incumbent LECs or ETCs serving lines in the service area of rural incumbent LECs²⁶ – or, if the carrier is not subject to state jurisdiction, the carrier itself must file an annual certification²⁷ – stating that all federal high-cost support provided to such carriers will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

Filing Date	Receive support in
October 1	First, second, third and fourth quarters of succeeding year
January 1	Second, third and fourth quarters of that year
April 1	Third and fourth quarters of that year
July 1	Fourth quarter of that year

²¹ 47 C.F.R. § 54.313.
²² 47 C.F.R. § 54.313(a).
²³ 47 C.F.R. § 54.313(b).
²⁴ 47 C.F.R. § 54.313(d)(2)(vi).
²⁵ 47 C.F.R. § 54.314.
²⁶ 47 C.F.R. § 54.314(a).
²⁷ 47 C.F.R. § 54.314(b).

After July 1	No support for that year
Within 60 days of designation	Newly designated ETCs will receive support as of the effective date of designation if certification is filed within 60 days ²⁸

Interstate Access Support Certification²⁹

Price-cap LECs or ETCs serving lines in the service area of a price-cap LEC must file an annual certification on the date they first file line count information pursuant to section 54.802 of the Commission's rules,³⁰ and thereafter on June 30 of each year, stating that all IAS provided to such carriers will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

Filing Date	Receive support in
June 30	Third and fourth quarters of that year, first and second quarters of succeeding year
September 30	Fourth quarter of that year, first and second quarters of succeeding year
December 31	First and second quarters of succeeding year
March 31	Second quarter of succeeding year

Interstate Common Line Support Certification³¹

Rate-of-return carriers or ETCs serving lines in the service area of a rate-of-return carrier must file an annual certification on the date they first file line count information pursuant to section 54.903 of the Commission's rules,³² and thereafter on June 30 of each year, stating that all ICLS provided to such carriers will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

Filing Date	Receive support in
June 30	Third and fourth quarters of that year, first and second quarters of succeeding year
If untimely	The carrier will not become eligible for support until the second calendar quarter after the certification is filed (e.g., if filed after March 30, 2007, but on or before June 30, 2007, the carrier would not be eligible for support until the fourth quarter of 2007).

²⁸ 47 C.F.R. § 54.314(d)(6).

²⁹ 47 C.F.R. § 54.809.

³⁰ 47 C.F.R. § 54.802.

³¹ 47 C.F.R. § 54.904.

³² 47 C.F.R. § 54.903.

Compliance and IPIA Audits

In early 2006, the IG established two objectives that each audit of the HC Program was to achieve. The first objective was to determine the extent to which compliance with FCC rules, orders and interpretive opinions had occurred. In order to determine compliance (as captured within the general administrative processes described above), a compliance attestation audit of each auditee was undertaken. Under a compliance audit, the auditee (management of the HC USF support recipient) is required to sign an assertion letter acknowledging its responsibility for compliance with applicable requirements of FCC rules (*e.g.*, 47 C.F.R. Part 54, Subparts C, D, J and K and Part 36, Subpart F) with respect to disbursements made from the USF and to make specific assertions relative to an applicant's compliance with those rules. Auditors validated or invalidated the assertions, and provided the cause(s) for the failure of an assertion. That is, auditors determined whether a beneficiary of the HC program is in compliance with FCC rules and, if the beneficiary is not in compliance, the auditors provide the cause(s) of, or reason(s) for, non-compliance.

Because the HC program was also considered at risk,³³ another objective of the audit was to provide a statistical measure of the erroneous payment rate so as to better inform future decision making under the IPIA. Table 1 contains the assertion letter that each auditee signed. Data generated from compliance attestation audits, which were based on the assertions set out in the Assertion Section below were then analyzed statistically.

TABLE 1

High Cost Assertions

Management of [Beneficiary Name] (the "Beneficiary") is responsible for ensuring the Beneficiary's compliance with applicable requirements of 47 C.F.R. Part 54, Subparts C, D, J and K and Part 36, Subpart F of the Federal Communications Commission's (FCC) Rules as well as FCC Orders governing Universal Service Support for the High Cost Program (HCP).

Management has performed an evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54, Subparts C, D, J and K and Part 36, Subpart F with respect to disbursements made from the Universal Service Fund (USF) during the year ended [insert date] on our behalf relative to Study Area Code ("SAC") No. XXX for the HCP. Based on this evaluation, we assert that as of [insert date], the Beneficiary complied with all applicable requirements of 47 C.F.R. Part 54, Subparts C, D, J and K and Part 36, Subpart F in all material respects.

³³ See FCC Report to Congress on Improper Payments, March 31, 2004.

The Beneficiary represents the following assertions per the applicable FCC Rules and related FCC Orders (which are identified herein with each assertion) with respect to HCP disbursements received from the USF during the year ended [insert date] on our behalf relative to SAC No. XXX³⁴:

A. Part 54: Subpart C – Carriers Eligible for Universal Service Support – The Beneficiary (SAC No. XXX) has obtained designation as an Eligible Telecommunications Carrier (“ETC”) (47 C.F.R. § 54.201(d)).

B. Part 54: Subpart D – Universal Service Support for High Cost Areas – The Beneficiary (SAC No. XXX):

1. *Local switching support* - is an incumbent local exchange carrier (ILEC) and has determined that it serves 50,000 or fewer access lines for [insert date] and thus is eligible to receive local switching support (47 C.F.R. § 54.301(a)).
2. *Local switching support* - is an ILEC and has provided the Universal Service Administrative Company (USAC) with projected total unseparated dollar amount assigned to each account listed in 47 C.F.R. § 54.301 (b) (I) – (IV)^{35,36} for the calendar year [insert date] (47 C.F.R. § 54.301(b)).
3. *Local switching support* – is an ILEC and has provided USAC with the historical total unseparated dollar amount assigned to each account listed in 47 C.F.R. § 54.301(b) (I) – (IV)³⁷ and pursuant to 47 C.F.R. § 32.12 (b)³⁸ for the calendar year [insert date] (47 C.F.R. § 54.301(e) and 47 C.F.R. § 32.12(b)).
4. *Sale or transfer of exchanges - (for safety valve support)* is a rural incumbent local exchange carrier and has provided written notice to USAC that the Beneficiary has acquired access lines on [insert date] that may be eligible for safety valve support (47 C.F.R. § 54.305(f)).
5. *Support to competitive eligible telecommunications carrier* - is a competitive eligible telecommunications carrier and has provided USAC with the number of

³⁴ Essential requirements of the rules are set forth in the Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Part 54, Subparts C, D, J and K, Part 36, Subpart F and Part 32, Section 12 of the Federal Communications Commission’s Rules and Orders (“Management’s Assertion”). The full text of each rule as of October 1, 2005 is provided in appendices to Management’s Assertion.

³⁵ Data may be provided using the “Local Switching Support Data Collection Form Cost Company” template (for cost companies) or the “Local Switching Support Data Collection Form Average Schedule Company” template (for average schedule companies) or data provided by the Beneficiary or Beneficiary’s agent consistent with the data requirements of the aforementioned templates.

³⁶ Refer to Appendix 1 for 47 C.F.R. § 54.301(b) (I) – (IV).

³⁷ Refer to Appendix 1 for 47 C.F.R. § 54.301(b) (I) – (IV).

³⁸ Refer to Appendix 2 for 47 C.F.R. § 32.12(b).

working loops³⁹ pursuant to the schedule set forth in 47 C.F.R. § 54.307(c) or (d)⁴⁰, as applicable (47 C.F.R. § 54.307(b)).

6. *State certification of support for rural and non-rural carriers* - has verified that the annual certification on behalf of the Beneficiary (in compliance with the format and filing deadline described in 47 C.F.R. § 54.313(c) and (d)⁴¹ and 47 C.F.R. § 54.314(c) and (d)⁴²) was filed with USAC and the Commission⁴³ stating that all federal high cost support provided to the Beneficiary within the state will be used only for the provision, maintenance and upgrading of facilities and services for which support is intended (47 C.F.R. § 54.313(a),(b) and 47 C.F.R. § 54.314(a),(b)).
7. *Carriers not subject to State jurisdiction* - has filed the annual certification (in compliance with the format and filing deadline described in 47 C.F.R. § 54.313(c) and (d)⁴⁴ and 47 C.F.R. § 54.314(c) and (d)⁴⁵) with USAC and the Commission⁴⁶ stating that all federal high cost support provided to the Beneficiary within the state will be used only for the provision, maintenance and upgrading of facilities and services for which support is intended (47 C.F.R. § 54.313(a),(b) and 47 C.F.R. § 54.314(a),(b)).
8. *Disaggregation and targeting of high-cost support* - is a rural ILEC or a rate-of-return carrier and has filed a disaggregation path with the state commission or the FCC⁴⁷ pursuant to 47 C.F.R. § 54.315(b) - (f)⁴⁸ (47 C.F.R. § 54.315(b) – (f)).

C. Part 54: Subpart J – Interstate Access Universal Service Support Mechanism – The Beneficiary (SAC No. XXX):

1. *Obligations* - is a local exchange carrier (LEC) and an ETC and has submitted to USAC, on a quarterly basis of [insert year], line count data⁴⁹ showing the number

³⁹ Data may be provided using FCC Form 525 “High Cost Support Mechanism – Competitive Carrier Line Count Report” or data provided by the Beneficiary or Beneficiary’s agent consistent with the data requirements of FCC Form 525.

⁴⁰ Refer to Appendix 3 for 47 C.F.R. § 54.307(c) and (d).

⁴¹ Refer to Appendix 4 for 47 C.F.R. § 54.313(c) and (d).

⁴² Refer to Appendix 5 for 47 C.F.R. § 54.314(c) and (d).

⁴³ The Commission relies on the certification provided to USAC.

⁴⁴ Refer to Appendix 4 for 47 C.F.R. § 54.313(c) and (d).

⁴⁵ Refer to Appendix 5 for 47 C.F.R. § 54.314(c) and (d).

⁴⁶ The Commission relies on the certification provided to USAC.

⁴⁷ 47 C.F.R. §§ 54.315 (b) (5), 54.315 (c)(6), and 54.315 (d)(6) provide that carriers not subject to the jurisdiction of a state, e.g., certain tribally owned carriers, may select Path 1, Path 2 or Path 3, but must provide the certification to the FCC.

⁴⁸ Refer to Appendix 6 for 47 C.F.R. § 54.315 (b) – (f).

of lines it serves for the period ending three months prior to the reporting date, within each price cap local exchange carrier study area disaggregated by Unbundled Network Element (“UNE”) zone if UNE zones have been established within that study area, showing residential/single-line business and multi-line business line counts separately in a manner consistent with the requirements of 47 C.F.R. § 54.802(a) (47 C.F.R. § 54.802(a)).

2. *Obligations* - is a price cap LEC and has submitted to USAC on June, 30 2000; October 15 2000; April 16, 2001; and annually thereafter the following:
 - a) average Price Cap Common Line Marketing Transport Interconnection Charge (“CMT”) Revenue per Line per month for each of its study areas calculated pursuant to the guidelines established in 47 C.F.R. § 61.3 (d).^{50,51} (47 C.F.R. § 54.802(b)(1)(i)); and
 - b) rates established for UNE Loops and UNE Line Ports, by zone in those study areas where UNE Zones have been established as of the date of filing^{52,53} (47 C.F.R. § 54.802(b)(1)(ii)); and
 - c) information sufficient to determine the boundaries of each UNE Zone within each of its study areas where such zones have been established^{54,55} (47 C.F.R. §.54.802(b)(1)(iii)); or
 - d) After the June 30, 2000 filing, a statement that no changes have been made to the UNE Zones since its previous filing. (47 C.F.R. § 54.802(b)(2)).
3. *Carrier certification* – has filed the annual certification (in compliance with the format and filing deadline described in 47 C.F.R. § 54.809(b) and (c)⁵⁶) with USAC and the FCC stating that all interstate access universal service support provided to the Beneficiary will be used only for the provision, maintenance and

⁴⁹ Data may be provided using the “Interstate Access Support Line Count” template or data provided by the Beneficiary or Beneficiary’s agent consistent with the data requirements of the aforementioned template.

⁵⁰ Refer to Appendix 7 for 47 C.F.R. § 61.3 (d).

⁵¹ Data may be provided using the “CMT Revenue per Line by Study Area” template or data provided by the Beneficiary or Beneficiary’s agent consistent with the data requirements of the aforementioned template.

⁵² UNE rates are tariffed by the state commission.

⁵³ Data may be provided using the “Access USF – UNE Rates by Zone” template or data provided by the Beneficiary or Beneficiary’s agent consistent with the data requirements of the aforementioned template.

⁵⁴ UNE Zone boundaries are established by the state commission. Information filed by the Beneficiary is segregated by wire center and CLLI code.

⁵⁵ Data may be provided using the “Access USF – Wirecenter Assignment to Zones” template or data provided by the Beneficiary or Beneficiary’s agent consistent with the data requirements of the aforementioned template.

⁵⁶ Refer to Appendix 8 for 47 C.F.R. § 54.809 (b) and (c).

upgrading of facilities and services for which support is intended (47 C.F.R. § 54.809(a)).

D. Part 54: Subpart K – Interstate Common Line Support Mechanism for Rate-of-Return Carriers –The Beneficiary (SAC No. XXX):

1. *Obligations* – is a rate-of-return carrier that submitted FCC Form 507 “Interstate Common Line Support Mechanism Line Count Report”, FCC Form 508 “Interstate Common Line Support Mechanism Projected Annual Common Line Revenue Requirement Form” and FCC Form 509 “Interstate Common Line Support Mechanism Annual Common Line Actual Cost Data Collection Form”⁵⁷ pursuant to the guidelines set forth in 47 C.F.R. § 54.903(a)(1) – (4)⁵⁸ (47 C.F.R. § 54.903(a)(1) – (4)).
2. *Carrier certification* - has filed the annual certification (in compliance with the format and filing deadline described in 47 C.F.R. § 54.904(b) and (d)⁵⁹) with USAC and the FCC stating that all Interstate Common Line support provided to the Beneficiary will be used only for the provision, maintenance and upgrading of facilities and services for which support is intended⁶⁰ (47 C.F.R. § 54.904(a)).

E. Part 36: Subpart F –Universal Service Fund – The Beneficiary (SAC No. XXX):

1. *Calculation of safety net additive* - is a rural ILEC that has provided written notice to USAC that they met the requirements of 47 C.F.R. § 36.605⁶¹ for [insert date] and thus is eligible for safety net additive support (47 C.F.R. § 36.605).
2. *Submission of information to the National Exchange Carrier Association (“NECA”)* – is an ILEC that has submitted data by July 31 [insert year] to NECA pursuant to the guidelines set forth in 47 C.F.R. § 36.611(a) – (h)⁶² and pursuant to 47 C.F.R. § 32.12 (b)⁶³ (47 C.F.R. § 36.611 and 47 C.F.R. § 32.12 (b)).
3. *Updating information submitted to NECA* – is a rural telephone company where an ETC has initiated service and reported line count data pursuant to 47 C.F.R. §

⁵⁷ Actual annual common line revenue requirement by study area amounts are calculated pursuant to the guidelines established in 47 C.F.R. § 69.104 (n) (o) (p), 47 C.F.R. § 69.105, 47 C.F.R. 69.115, 47 C.F.R. 69.130 and 47 C.F.R. 54.303 – refer to Appendix 9 for these guidelines.

⁵⁸ Refer to Appendix 10 for 47 C.F.R. § 54.903 (a) (1) – (4).

⁵⁹ Refer to Appendix 11 for 47 C.F.R. § 54.904 (b) and (d).

⁶⁰ Certification is filed in accordance with two FCC Orders: In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, et al, 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. 19,613, FCC 01-304, ¶ 176 (2001) (located in Appendix 12) and *In the Matter of Federal-State Joint Board on Universal Service*, Report and Order, CC Docket No. 96-45, 20 FCC Rcd. 6371, FCC 05-46 ¶ 93 (2005) (located in Appendix 13).

⁶¹ Refer to Appendix 14 for 47 C.F.R. § 36.605 (a) – (c).

⁶² Refer to Appendix 15 for 47 C.F.R. § 36.611 (a) – (h).

⁶³ Refer to Appendix 2 for 47 C.F.R. § 32.12 (b).

54.307(c) that has submitted data pursuant to the guidelines set forth in 47 C.F.R. § 36.611 (h)⁶⁴ covering the following:

- a) the last nine months of the previous calendar year and the first three months of the existing calendar year no later than September 30th of the existing year (47 C.F.R. § 36.612(a)(1)); and/or
- b) the last six months of the previous calendar year and the first six months of the existing calendar year no later than December 30th of the existing year (47 C.F.R. § 36.612(a)(2)); and/or the last three months of the second previous calendar year and the first nine months of the previous calendar year no later than March 30th of the existing year (47 C.F.R. § 36.612(a) (3)).

Sample Design

The HC program sample design was a simple random sample of 65 Service Area Providers (SAPs). The sample represented the population well with regard to total disbursements. For example, the mean total disbursement in the sample was \$2.16 million compared to \$1.97 million in the population of all 1,896 providers.

The sample size of 65 was based on an analysis of a series of 14 non-random audits of High Cost monthly transactions ranging from October 2002 to January 2006. That data indicated that the sample size was sufficient to estimate the percentage of erroneous payments with a margin of error of 2.5 percent at the 90 percent confidence level. Although basing a sample size decision on a small number of non-random audits based on transactions rather than service areas did not provide a high level of confidence, it was the only data available.

Sample Selection

The sample was selected from the sampling frame of all 1,896 Service Area Providers using the SAS procedure PROC SURVEYSELECT. The procedure selected a simple random sample of 80 providers, which were then randomly ordered. The first 65 in the randomly ordered list formed the sample, with the last 15 reserved for replacements for ineligible in the top 65 or additions to the sample.

Estimation Formulas

The estimated proportion of erroneous payments is the ratio of the total erroneous payments to the total disbursements for the audited entities in the sample.

The remainder of this section gives the formulas to compute the ratio estimator and its margin of error. The following notation is used:

⁶⁴ Refer to Appendix 15 for 47 C.F.R. § 36.611 (a) – (h).

x_i = amount dispersed to unit i .

y_i = absolute value of improper payment amount for unit i .

N = Number of SAC in population = 1,896.

n = sample size = 65.

$\bar{Y} = \frac{1}{n} \sum_i y_i$ = sample mean of absolute values of improper payments.

$\bar{X} = \frac{1}{n} \sum_i x_i$ = sample mean of total disbursements.

$\hat{p} = \frac{\bar{Y}}{\bar{X}}$ = estimated proportion of erroneous payments.

$d_i = y_i - \hat{p}x_i$ = residual.

$s_d^2 = \frac{1}{n-1} \sum_i d_i^2$ = sample variance of residuals d .

$ME = (1.645) \sqrt{\left(\frac{1}{n} - \frac{1}{N}\right) \frac{s_d}{\bar{X}}} = 90$ percent margin of error for estimated proportion.

Issues Associated with Sampling

There was one replacement in the sample: Kings Deer Telephone Co., which had \$0 disbursed, was replaced by the 66th provider in the random list, Alaska Communications Systems Holding, Inc., which had \$6.4 million disbursed. This replacement did not bias the sample.

Twelve of the 65 audits or 18.46 percent of audits resulted in disclaimers due to lack of sufficient documentation for the audit companies to give an opinion. Consequently, the entire amount disbursed to these twelve providers must be regarded as erroneous payments under the Improper Payment Information Act, as interpreted by the Office of Management and Budget.⁶⁵

Estimation Results

⁶⁵ Office of Management and Budget, Memorandum for Heads of Executive Departments and Agencies (Aug. 10, 2006), Appendix C to OMB Circular A-123 at 2.

The erroneous payment rate is estimated at 16.6 percent with a margin of error ± 10.0 percent at the 90 percent confidence level.⁶⁶ Among the 53 providers for which the auditors did provide opinions, the erroneous payment rate was 6.0 percent.

Estimation of Compliance Rates

Compliance determinations are limited to the 53 providers for which the auditors were able to give an opinion. Since not all assertions were applicable to all providers, the number of determinations was significantly less than 53 for most assertions. Problem areas that could be identified included: Historical account of unseparated dollars (58 percent compliance), Number of working loops (9 percent), Form 507, 508, 509 submission (61 percent), and NECA submission (63 percent). All results from 53 providers are contained in TABLE 1 below.

TABLE 1

High Cost

Random Sample Size = 65

Assertion A: Carrier Eligibility

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance	47	51	92.2 percent
Non-Compliance*	3	51	5.9%
1-Material Non-Compliance			
Other	1	51	2.0%

Assertion B.1 50K Customer ILEC Limit

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance	32	33	97.0%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	33	3.0%

⁶⁶ During that period, approximately \$3.7 billion was disbursed to Service Area Providers in the High Cost program.

Assertion B.2: Projected Account Unseparated Dollars

	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	26	28	92.9%
Non-Compliance*	1	28	3.6%
1-Material Non-Compliance	1	28	3.6%
Other	1	28	3.6%

Assertion B.3: Historical Account Unseparated Dollars

	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	14	24	58.3%
Non-Compliance*	9	24	37.5%
1-Material Non-Compliance	5	24	20.8%
Other	1	24	4.2%

Assertion B.4: Safety Valve Support Reported Total Revenue

	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	2	3	66.7%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	3	33.3%

Assertion B.5: Number of Working Loops

	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	1	11	9.1%
Non-Compliance*	9	11	81.8%
1-Material Non-Compliance	4	11	36.4%
Other	1	11	9.1%

Assertion B.6: State Certification of Maintenance Costs

	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	39	40	97.5%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	40	2.5%

Assertion B.7: Non-State Certification of Maintenance Costs

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance	1	2	50.0%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	2	50.0%

Assertion B.8: Filed Disaggregation Path with State

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance	32	33	97.0%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	33	3.0%

Assertion C.1: Quarterly Line Count Submission

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance			
Non-Compliance*	4	5	80.0%
1-Material Non-Compliance	1	5	20.0%
Other	1	5	20.0%

Assertion C.2.a: Average Price CMT Revenues

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance	2	3	66.7%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	3	33.3%

Assertion C.2.b: UNE Loops/Port Pricing Lines 503-510

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance	1	3	33.3%
Non-Compliance*	1	3	33.3%
1-Material Non-Compliance	1	3	33.3%
Other	1	3	33.3%

Assertion C.2.c: UNE Zone Demarcation

	Observed Occurrences X	Sample Size N	Proportion P
0-Compliance	2	3	66.7%

Non-Compliance*			
1-Material Non-Compliance			
Other	1	3	33.3%
Assertion C.2.d: No UNE Charges Certification			
	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	2	3	66.7%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	3	33.3%
Assertion C.3: UNE Annual Certification Documentation			
	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	6	7	85.7%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	7	14.3%
Assertion D.1: Form 507, 508, 509 Submission			
	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	23	38	60.5%
Non-Compliance*	14	38	36.8%
1-Material Non-Compliance	3	38	7.9%
Other	1	38	2.6%
Assertion D.2: Common Line Annual Certification			
	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	38	40	95.0%
Non-Compliance*	1	40	2.5%
1-Material Non-Compliance	1	40	2.5%
3-Other	1	40	2.5%
Assertion E.1: Calculation of Safety Net Additive			
	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	10	11	90.9%
Non-Compliance*			
1-Material Non-Compliance			
Other	1	11	9.1%

Assertion E.2: NECA Submission

	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	19	30	63.3%
Non-Compliance*	10	30	33.3%
1-Material Non-Compliance	2	30	6.7%
3-Other****	1	30	3.3%

Assertion E.3: Updated NECA Submission

	Observed Occurrences	Sample Size	Proportion
	X	N	P
0-Compliance	16	21	76.2%
Non-Compliance*	4	21	19.0%
1-Material Non-Compliance	1	21	4.8%
	1	21	4.8%

* Non-Compliance includes both Material Non-Compliance and Non-Material Non-Compliance

Causes of Non-Compliance

When there was non-compliance on any assertion, data were collected on causes of non-compliance. Data were collected such that, if an auditor found multiple causes of non-compliance, all information would be presented. Because of the small sample and consequently the small number of incidents on non-compliance with most assertions, there is little data on causality. It appears that causes "7-inadequate document retention," "8-inadequate auditee processes and/or policies and procedures," and "9- inadequate systems for collecting, reporting, and/or monitoring data" occur most frequently across the board. TABLE 2 contain the results.

TABLE 2

TABLE HIGH COST: CAUSE

Random Sample Size = 65

Assertion A: Carrier Eligibility

Non-Compliance: Causes*

	Observed Occurrences	Sample Size
	X	N
A.1 - Imprecise FCC Rule/s	2	3
A.5 - Followed State Rule/s (apparent conflict with FCC Rule/s)	1	3
Other	1	1

Assertion B.1: 50K Customer ILEC Limit		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
Other	1	1

Assertion B.2: Projected Account Unseparated Dollars		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
B.2.7 - Inadequate Documentation Retention	1	1
B.2.8 - Inadequate Auditee Processes and/or Policies and Procedures	1	1
B.2.9-Inadequate Systems for Collecting, Reporting, and/or Monitoring Data	1	1
Other	1	1

Assertion B.3: :Historical Account Unseparated Dollars		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
B.3.1 - Imprecise FCC Rule/s	1	9
B.3.7 - Inadequate Documentation Retention	4	9
B.3.8 - Inadequate Auditee Processes and/or Policies and Procedures	2	9
B.3.9 - Inadequate Systems for Collecting, Reporting, and/or Monitoring Data	2	9
B.3.12 -Applicant/Auditee Weak Internal Controls	2	9
B.3.13 - Applicant/Auditee Data Entry Error	1	9
Other	1	1

Assertion B.4: Safety Valve Support		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
Other	1	1

Assertion B.5: Number of Working Loops		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
B.5.7 - Inadequate Documentation Retention	3	9

B.5.8 - Inadequate Auditee Processes and/or Policies and Procedures	3	9
B.5.9 - Inadequate Systems for Collecting, Reporting, and/or Monitoring Data	3	9
B.5.12 - Applicant/Auditee Weak Internal Controls	2	9
B.5.13 - Applicant/Auditee Data Entry Error	2	9
Other	1	1

Assertion B.6: State Certification of Maintenance Costs

Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
Other	1	1

Assertion B.7: Non-State Certification of Maintenance Costs

Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
Other	1	1

Assertion B.8: Filed Disaggregation Path with State

Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
Other	1	1

Assertion C.1: Quarterly Line Count Submission

Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
C.1.7 - Inadequate Documentation Retention	2	4
C.1.8 - Inadequate Auditee Processes and/or Policies and Procedures	2	4
C.1.9 - Inadequate Systems for Collecting, Reporting, and/or Monitoring Data	2	4
Other	1	1

Assertion C.2.a: Average Price CMT Revenues

Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N

Other	1	1
Assertion C.2.b: UNE Loops/Port Pricing Non-Compliance: Causes*		
	Observed Occurrences	Sample Size
	X	N
C.2.b.8 - Inadequate Auditee Processes and/or Policies and Procedures	1	1
C.2.b.9 - Inadequate Systems for Collecting, Reporting, and/or Monitoring Data	1	1
Other	1	1
Assertion C.2.c: UNE Zone Demarcation Non-Compliance: Causes*		
	Observed Occurrences	Sample Size
	X	N
Other	1	1
Assertion C.2.d: No UNE Charges Certification Non-Compliance: Causes*		
	Observed Occurrences	Sample Size
	X	N
Other	1	1
Assertion C.3: UNE Annual Certification Non-Compliance: Causes*		
	Observed Occurrences	Sample Size
	X	N
Other	1	1
Assertion D.1: Form 507, 508, 509 Submission Non-Compliance: Causes*		
	Observed Occurrences	Sample Size
	X	N
D.1.1 - Imprecise FCC Rule/s	2	14
D.1.7 - Inadequate Documentation Retention	3	14
D.1.8 - Inadequate Auditee Processes and/or Policies and Procedures	2	14
D.1.9 - Inadequate Systems for Collecting, Reporting, and/or Monitoring Data	2	14
D.1.12 - Applicant/Auditee Weak Internal Controls	3	14
D.1.13 - Applicant/Auditee Data Entry Error	1	14
D.1.16 - Service Provider Error (other)	3	14
Other	1	1

Assertion D.2: Common Line Annual Certification		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
D.2.12 - Applicant/Auditee Weak Internal Controls	1	1
Other	1	1

Assertion E.1 Calculation of Safety Net Additive		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
Other	1	1

Assertion E.2: NECA Submission		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
E.2.1 - Imprecise FCC Rule/s	2	10
E.2.4 - Disregarded FCC Rule/s	1	10
E.2.7 - Inadequate Documentation Retention	2	10
E.2.9 - Inadequate Systems for Collecting, Reporting, and/or Monitoring Data	1	10
E.2.12 - Applicant/Auditee Weak Internal Controls	2	10
E.2.13 - Applicant/Auditee Data Entry Error	3	10
E.2.16 - Service Provider Error (other)	1	10
Other	1	1

Assertion E.3: Updated NECA Submission		
Non-Compliance: Causes*	Observed Occurrences	Sample Size
	X	N
E.3.1 - Imprecise FCC Rule/s	1	4
E.3.7 - Inadequate Documentation Retention	1	4
E.3.13 - Applicant/Auditee Data Entry Error	1	4
E.3.14 - Service Provider Weak Internal Controls	1	4
Other	1	1

* Non-Compliance includes both Material Non-Compliance and Non-Material Non-Compliance

**Other refers to an assertion category not a cause. For example if other appeared as a cause on Assertion E.3., it would appear as E.3.21

Discussion and Conclusions

In our view, with an estimated erroneous payment rate of 16.6 percent given the size of the HC Program of USF is at risk as that term is defined by the IPIA. There was, however, general compliance with FCC rules and regulations. Why are both regulatory compliance and the erroneous payment rate high? Of the 65 compliance attestation audits twelve (18.46 percent of the audits) were disclaimed opinions by auditors. In these twelve audits, no opinion was provided as to whether the HC support provided to the telecommunications carrier was in compliance with Commission Rules and Regulations. The fundamental cause of the disclaimed opinions was insufficient information or documentation to permit the auditor to render an opinion. When the Commission is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, IPIA standards require that the payment be considered in error.⁶⁷ Because 18.46 percent of the audits were disclaimed opinions, the disclaimed opinions/audits are excluded from compliance calculations, but total disbursements of the disclaimed opinions/audits are included in the calculation of the erroneous payment rate and the erroneous payment amount, explaining the high compliance rates and the high erroneous payment rates. Given the large number of disclaimed audits and the lack of appropriate documentation in the sample study, non-compliance may be more widespread than the results suggest. Our results suggest that, for 18.46 percent of the population of beneficiaries of the HC Program, opinions cannot be rendered on compliance with FCC rules and regulations, and therefore, that the full range of reasons for non-compliance were not susceptible for analysis.

Where auditors could render opinions on compliance/non-compliance with FCC rules, more frequently observed causes of non-compliance were: Inadequate Documentation Retention; Inadequate Auditee Processes and/or Policies and Procedures; Inadequate Systems for Collecting, Reporting, and/or Monitoring Data; Weak Auditee Internal Controls; and Auditee Data Entry Error. The problem of the lack of documentation is disturbing not only because it complicates (negates) the process of determining compliance with Commission rules, but also because the HC Program provides millions of dollars in subsidies to companies based on reported numbers. Without documents supporting the reported numbers, it is impossible to determine if the amounts claimed comport with Commission rules and are otherwise appropriate. For example, for rate of return regulation, documentation of plant, depreciation, and operating expenses is required to insure that carriers receive an authorized rate of return

⁶⁷ Memorandum For Heads of Executive Departments and Agencies – Issuance of Appendix C to OMB Circular A-123. Executive Office of the President, Office of Management and Budget (August 10 2006), Appendix C at 2.

and that consumers are charged reasonable prices. The economic literature stresses, and the Commission has recognized,⁶⁸ that, in rate of return regulation, incentives exist to inflate operating expenses and gold-plate plant on which the rate of return is calculated. For at least 18.46 percent of the beneficiaries receiving high cost, inadequate documentation makes it impossible to determine if HC support, virtually all of which is funded through consumer end-users charges, does not contain inflated expenses or gold-plated investments, or is otherwise improper.

⁶⁸ *Cf. Policy and Rules Concerning Dominant Carriers*, Second Report and Order, CC Docket No. 87-313, 5 FCC Rcd. 6786 (1990) (subsequent history omitted).

Appendix 1

47 C.F.R. § 54.301 – Local switching support.

(b) Submission of data to the Administrator.

Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide the Administrator with the projected total unseparated dollar amount assigned to each account listed below for the calendar year following each filing. This information must be provided to the Administrator no later than October 1 of each year. The Administrator shall use this information to calculate the projected annual unseparated local switching revenue requirement pursuant to paragraph (d) of this section.

I

Telecommunications Plant in Service (TPIS)	Account 2001
Telecommunications Plant – Other	Accounts 2002, 2003, 2005
General Support Assets	Account 2110
Central Office Assets	Accounts 2210, 2220, 2230
Central Office-switching, Category 3 (local switching)	Account 2210, Category 3
Information Origination / Termination Assets	Account 2310
Cable and Wire Facilities Assets	Account 2410
Amortizable Tangible Assets	Account 2680
Intangibles	Account 2690

II

Rural Telephone Bank (RTB) Stock	Included in Account 1410
Materials and Supplies	Account 1220.1
Cash Working Capital	Defined in 47 CFR 65.820(d)

III

Accumulated Depreciation	Account 3100
Accumulated Amortization	Included in Accounts 2005, 2680, 2690,

Net Deferred Operating Income Taxes	Accounts 4100, 4340
Network Support Expenses	Account 6110
General Support Expenses	Account 6120
Central Office Switching, Operator Systems, and Central	Accounts 6210, 6220, 6230

Office Transmission Expenses	
Information Origination/ Termination Expenses	Account 6310
Cable and Wire Facilities Expenses	Account 6410
Other Property, Plant and Equipment Expenses	Account 6510
Network Operations Expenses	Account 6530
Access Expense	Account 6540
Depreciation and Amortization Expense	Account 6560
Marketing Expense	Account 6610
Services Expense	Account 6620
Corporate Operations Expense	Account 6720
Operating Taxes	Accounts 7230, 7240
Federal Investment Tax Credits	Account 7210
Provision for Deferred Operating Income Taxes-Net	Account 7250
Allowance for Funds Used During Construction	Included in Account 7300
Charitable Contributions	Included in Account 7300
Interest and Related Items	Account 7500
IV	
Other Non-Current Assets	Included in Account 1410
Deferred Maintenance and Retirements	Included in Account 1438
Deferred Charges	Included in Account 1438
Other Jurisdictional Assets and Liabilities	Accounts 1500, 4370
Customers' Deposits	Account 4040
Other Long-Term Liabilities	Included in Account 4300

Appendix 2

47 C.F.R. § 32.12 - Records.

(b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.

Appendix 3

47 C.F.R. § 54.307 – Support to a competitive eligible telecommunications carrier.

(c) A competitive eligible telecommunications carrier must submit the data required pursuant to paragraph (b) of this section according to the schedule.

- 1 No later than July 31st of each year, submit data as of December 31st of the previous calendar year;
- 2 No later than September 30th of each year, submit data as of March 31st of the existing calendar year;
- 3 No later than December 30th of each year, submit data as of June 30th of the existing calendar year;
- 4 No later than March 30th of each year, submit data as of September 30th of the previous calendar year.

(d) *Newly designated eligible telecommunications carriers.* Notwithstanding the deadlines in paragraph (c) of this section, a carrier shall be eligible to receive support as of the effective date of its designation as an eligible telecommunications carrier under section 214(e)(2) or (e)(6), provided that it submits the data required pursuant to paragraph (b) of this section within 60 days of that effective date. Thereafter, the eligible telecommunications carrier must submit the data required in paragraph (b) of this section pursuant to the schedule in paragraph (c) of this section.

Appendix 4

47 C.F.R. § 54.313 – State certification of support for non-rural carriers.

(c) *Certification format* - A certification pursuant to this section may be filed in the form of a letter from the appropriate regulatory authority for the State, and must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth in paragraph (d) of this section. If provided by the appropriate regulatory authority for the state, the annual certification must identify which carriers in the State are eligible to receive federal support during the applicable 12-month period, and must certify that those carriers will only use support for the provision, maintenance, and upgrading of facilities and services for which support is intended. A State may file a supplemental certification for carriers not subject to the State's annual certification. All certificates filed by a State pursuant to this section shall become part of the public record maintained by the Commission. Non-rural incumbent local exchange carriers not subject to the jurisdiction of a state or eligible telecommunications carrier not subject to the jurisdiction of a state serving lines in the service area of a non-rural incumbent local exchange carrier, shall file a sworn affidavit executed by a corporate officer attesting to the use of the support for the provision, maintenance, and upgrading of facilities and services for which support is intended. The affidavit must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth in paragraph (d) of this section. All affidavits filed pursuant to this section shall become part of the public record maintained by the Commission.

(d) *Filing deadlines* - In order for a non-rural incumbent local exchange carrier in a particular State, and/or an eligible telecommunications carrier serving lines in the service area of a non-rural incumbent local exchange carrier, to receive federal high-cost support, the State must file an annual certification, as described in paragraph (c) of this section, with both the Administrator and the Commission. Support shall be provided in accordance with the following schedule:

- 1 First program year (January 1, 2000-December 31, 2000). During the first program year (January 1, 2000-December 31, 2000), a carrier in a particular State shall receive support pursuant to Section 54.311. If a State files the certification described in this section during the first program year, carriers eligible for support pursuant to Section 54.309 shall receive such support pursuant to the following schedule:
 - I. Certifications filed on or before April 1, 2000. Carriers subject to certifications that apply to the first and second quarters of 2000, and are filed on or before April 1, 2000, shall receive support pursuant to Section 54.309 for the first and third quarters of 2000 in the third quarter of 2000, and support for the second and fourth quarters of 2000 in the fourth quarter of 2000. Such support shall be net of any support provided pursuant to section 54.311 for the first or second quarters of 2000.
 - II. Certifications filed on or before July 1, 2000. Carriers subject to certifications filed on or before July 1, 2000, shall receive support pursuant to Section 54.309 for the fourth quarter of 2000 in the fourth quarter of 2000.
 - III. Certifications filed after July 1, 2000. Carriers subject to certifications filed after July 1, 2000, shall not receive support pursuant to Section 54.309 in 2000.
- 2 Second program year (January 1, 2001-December 31, 2001). During the second program year (January 1, 2001-December 31, 2001), a carrier in a particular State shall not receive support pursuant to Section. 54.309 or 54.311 until such time as the State files the certification described in this section. Upon the filing of the certification described in this section, support shall be provided pursuant to the following schedule:
 - I. Certifications filed on or before October 1, 2000. Carriers subject to certifications filed on or before October 1, 2000 shall receive support pursuant to Section 54.309 or 54.311, whichever is applicable, in the first, second, third, and fourth quarters of 2001.
 - II. Certifications filed on or before January 1, 2001. Carriers subject to certifications filed on or before January 1, 2001 shall receive support pursuant to Section 54.309 or 54.311, whichever is applicable, in the second, third, and fourth quarters of 2001. Such carriers shall not receive

support pursuant to Section 54.309 or 54.311, whichever is applicable, in the first quarter of 2001.

- III. Certifications filed on or before April 1, 2001. Carriers subject to certifications filed on or before April 1, 2001 shall receive support pursuant to Section 54.309 or 54.311, whichever is applicable, in the third and fourth quarters of 2001. Such carriers shall not receive support pursuant to Section 54.309 or 54.311, whichever is applicable, in the first or second quarters of 2001.
- IV. Certifications filed on or before July 1, 2001. Carriers subject to certifications filed on or before July 1, 2001 shall receive support pursuant to Section 54.309 or 54.311, whichever is applicable, in the fourth quarter of 2001. Such carriers shall not receive support pursuant to Section 54.309 or 54.311, whichever is applicable, in the first, second, or third quarters of 2001.
- V. Certifications filed after July 1, 2001. Carriers subject to certifications filed after July 1, 2001 shall not receive support pursuant to Section 54.309 or 54.311, whichever is applicable, in 2001.

3 Subsequent program years (January 1-December 31). During the program years subsequent to the second program year (January 1, 2001-December 31, 2001), a carrier in a particular State shall not receive support pursuant to Section 54.309 or Section 54.311 until such time as the State files the certification described in this section. Upon the filing of the certification described in this section, support shall be provided pursuant to the following schedule:

- I. Certifications filed on or before October 1. Carriers subject to certifications filed on or before October 1 shall receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, in the first, second, third, and fourth quarters of the succeeding year.
- II. Certifications filed on or before January 1. Carriers subject to certifications filed on or before January 1 shall receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, in the second, third, and fourth quarters of that year. Such carriers shall not receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, in the first quarter of that year.
- III. Certifications filed on or before April 1. Carriers subject to certifications filed on or before April 1 shall receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, in the third and fourth quarters of that year. Such carriers shall not receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, in the first or second quarters of that year.
- IV. Certifications filed on or before July 1. Carriers subject to certifications filed on or before July 1 shall receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, beginning in the fourth quarter of that year. Such carriers shall not receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, in the first, second, or third quarters of that year.
- V. Certifications filed after July 1. Carriers subject to certifications filed after July 1 shall not receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, in that year.
- VI. Newly designated eligible telecommunications carriers. Notwithstanding the deadlines in paragraph (d) of this section, a carrier shall be eligible to receive support pursuant to Section 54.309 or Section 54.311, whichever is applicable, as of the effective date of its designation as an eligible telecommunications carrier under section 214(e)(2) or (e)(6), provided that it files the certification described in paragraph (b) of this section or the state commission files the certification described in paragraph (a) of this section within 60 days of the effective date of the carrier's designation as an eligible telecommunications carrier. Thereafter, the certification required by paragraphs (a) or (b) of this section must be submitted pursuant to the schedule in paragraph (d) of this section.

Appendix 5

47 C.F.R. § 54.314 – State certification of support for rural carriers.

(c) *Certification format* - A certification pursuant to this section may be filed in the form of a letter from the appropriate regulatory authority for the State, and shall be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth in paragraph (d) of this section. If provided by the appropriate regulatory authority for the state, the annual certification must identify which carriers in the State are eligible to receive federal support during the applicable 12- month period, and must certify that those carriers will only use support for the provision, maintenance, and upgrading of facilities and services for which support is intended. A State may file a supplemental certification for carriers not subject to the State's annual certification. All certificates filed by a State pursuant to this section shall become part of the public record maintained by the Commission. Rural incumbent local exchange carriers not subject to the jurisdiction of a state or eligible telecommunications carriers not subject to the jurisdiction of a state serving lines in the service area of a rural incumbent local exchange carrier, shall file a sworn affidavit executed by a corporate officer attesting to the use of the support for the provision, maintenance, and upgrading of facilities and services for which support is intended. The affidavit must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth in paragraph (d) of this section. All affidavits filed pursuant to this section shall become part of the public record maintained by the Commission.

(d) *Filing deadlines* - Upon the filing of the certification described in paragraph (c) of this section, support shall be provided pursuant to the following schedule:

- 1 Certifications filed on or before October 1. Carriers for which certifications are filed on or before October 1 shall receive support pursuant to Sections 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter, in the first, second, third, and fourth quarters of the succeeding year.
- 2 Certifications filed on or before January 1. Carriers for which certifications are filed on or before January 1 shall receive support pursuant to Sections 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter, in the second, third, and fourth quarters of that year. Such carriers shall not receive support pursuant to Sections 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter in the first quarter of that year.
- 3 Certifications filed on or before April 1. Carriers for which certifications are filed on or before April 1 shall receive support pursuant to Section 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter, in the third and fourth quarters of that year. Such carriers shall not receive support pursuant to Sections 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter in the first and second quarters of that year.
- 4 Certifications filed on or before July 1. Carriers for which certifications are filed on or before July 1 shall receive support pursuant to Sections 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter, in the fourth quarter of that year. Such carriers shall not receive support pursuant to Sections 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter in the first, second, or third quarters of that year.
- 5 Certifications filed after July 1. Carriers for which certifications are filed after July 1 shall not receive support pursuant to Sections 54.301, 54.305, and/or 54.307 and/or Part 36, Subpart F of this chapter, in that year.
- 6 Newly designated eligible telecommunications carriers. Notwithstanding the deadlines in paragraph (d) of this section, a carrier shall be eligible to receive support pursuant to Sections 54.301, 54.305 or Section 54.307 or Part 36, Subpart F of this chapter, whichever is applicable, as of the effective date of its designation as an eligible telecommunications carrier under section 214(e)(2) or (e)(6), provided that it files the certification described in paragraph (b) of this section or the state commission files the certification described in paragraph (a) of this section within 60 days of the effective date of the carrier's designation as an eligible telecommunications carrier. Thereafter, the certification required by

paragraphs (a) or (b) of this section must be submitted pursuant to the schedule in paragraph (d) of this section.

Appendix 6

47 C.F.R. § 54.315 – Disaggregation and targeting of high-cost support.

(b) *Path 1 - Carriers Not Disaggregating and Targeting High-Cost Support:*

- 1 A carrier may certify to the state commission that it will not disaggregate and target high-cost universal service support.
- 2 A carrier's election of this path becomes effective upon certification by the carrier to the state commission.
- 3 This path shall remain in place for such carrier for at least four years from the date of certification to the state commission except as provided in paragraph (b)(4) of this section.
- 4 A state commission may require, on its own motion, upon petition by an interested party, or upon petition by the rural incumbent local exchange carrier or rate-of-return carrier, the disaggregation and targeting of support under paragraphs (c) or (d) of this section.
- 5 A carrier not subject to the jurisdiction of a state, e.g., certain tribally owned carriers, may select Path 1, but must certify to the Federal Communications Commission as described in paragraphs (1) through (4) of this section.

(c) *Path 2 - Carriers Seeking Prior Regulatory Approval for the Disaggregation and Targeting of Support:*

- 1 A carrier electing to disaggregate and target support under this paragraph must file a disaggregation and targeting plan with the state commission.
- 2 Under this paragraph a carrier may propose any method of disaggregation and targeting of support consistent with the general requirements detailed in paragraph (e) of this section.
- 3 A disaggregation and targeting plan under this paragraph becomes effective upon approval by the state commission.
- 4 A carrier shall disaggregate and target support under this path for at least four years from the date of approval by the state commission except as provided in paragraph (c)(5) of this section.
- 5 A state commission may require, on its own motion, upon petition by an interested party, or upon petition by the rural incumbent local exchange carrier or rate-of-return carrier, the disaggregation and targeting of support in a different manner.
- 6 A carrier not subject to the jurisdiction of a state, e.g., certain tribally owned carriers, may select Path 2, but must seek approval from the Federal Communications Commission as described in paragraphs (c) (1) through (5) of this section.

(d) *Path 3 – Self-Certification of the Disaggregation and Targeting of Support:*

- 1 A carrier may file a disaggregation and targeting plan with the state commission along with a statement certifying each of the following:
 - I. It has disaggregated support to the wire center level; or
 - II. It has disaggregated support into no more than two cost zones per wire center; or
 - III. That the carrier's disaggregation plan complies with a prior regulatory determination made by the state commission.
- 2 Any disaggregation plan submitted pursuant to this paragraph must meet the following requirements:
 - I. The plan must be supported by a description of the rationale used, including the methods and data relied upon to develop the disaggregation zones, and a discussion of how the plan complies with the requirements of this paragraph. Such filing must provide information sufficient for interested parties to make a meaningful analysis of how the carrier derived its disaggregation plan.
 - II. The plan must be reasonably related to the cost of providing service for each disaggregation zone within each disaggregated category of support.

- III. The plan must clearly specify the per-line level of support for each category of high-cost universal service support provided pursuant to Sections 54.301, 54.303, and/or 54.305 and/or Part 36, Subpart F of this chapter in each disaggregation zone.
 - IV. If the plan uses a benchmark, the carrier must provide detailed information explaining what the benchmark is and how it was determined. The benchmark must be generally consistent with how the total study area level of support for each category of costs is derived to enable a competitive eligible telecommunications carrier to compare the disaggregated costs used to determine support for each cost zone.
- 3 A carrier's election of this path becomes effective upon certification by the carrier to the state commission.
 - 4 A carrier shall disaggregate and target support under this path for at least four years from the date of certification to the state commission except as provided in paragraph (d)(5) of this section.
 - 5 A state commission may require, on its own motion, upon petition by an interested party, or upon petition by the rural incumbent local exchange carrier, modification to the disaggregation and targeting of support selected under this path.
 - 6 A carrier not subject to the jurisdiction of a state, e.g., certain tribally owned carriers, may select Path 3, but must certify to the Federal Communications Commission as described in paragraphs (d) (1) through (5) of this section.
- (e) Additional Procedures Governing the Operation of Path 2 and Path 3 - Disaggregation and targeting plan adopted under paragraphs (c) or (d) of this section shall be subject to the following general requirements:
- 1 Support available to the carrier's study area under its disaggregation plan shall equal the total support available to the study area without disaggregation.
 - 2 The ratio of per-line support between disaggregation zones for each disaggregated category of support shall remain fixed over time, except as changes are allowed pursuant to paragraph (c) and (d) of this section.
 - 3 The ratio of per-line support shall be publicly available.
 - 4 Per-line support amounts for each disaggregation zone shall be recalculated whenever the carrier's total annual support amount changes using the changed support amount and lines at that point in time.
 - 5 Per-line support for each category of support in each disaggregation zone shall be determined such that the ratio of support between disaggregation zones is maintained and that the product of all of the carrier's lines for each disaggregation zone multiplied by the per-line support for those zones when added together equals the sum of the carrier's total support.
 - 6 Until a competitive eligible telecommunications carrier is certified in a study area, monthly payments to the incumbent carrier will be made based on total annual amounts for its study area divided by 12.
 - 7 When a competitive eligible telecommunications carrier is certified in a study area, per-line amounts used to determine the competitive eligible telecommunications carrier's disaggregated support shall be based on the incumbent carrier's then-current total support levels, lines, disaggregated support relationships, and, in the case of support calculated under Subpart K of this Part, customer classes.
- (f) Submission of Information to the Administrator:
- 1 A carrier certifying under paragraph (b) of this section that it will not disaggregate and target high-cost universal service support shall submit to the Administrator a copy of the certification submitted to the state commission, or the Federal Communications Commission, when not subject to state jurisdiction.
 - 2 A carrier electing to disaggregate and target support under paragraph (c) of this section shall submit to the Administrator a copy of the order approving the disaggregation and targeting plan submitted by the carrier to the state commission, or the Federal Communications Commission, when not subject to state jurisdiction, and a copy of the disaggregation and targeting plan approved by the state commission or the Federal Communications Commission.

- 3 A carrier electing to disaggregate and target support under paragraph (d) of this section shall submit to the Administrator a copy of the self-certification plan including the information submitted to the state commission pursuant to paragraphs (d)(2)(i) and (d)(2)(iv) of this section or the Federal Communications Commission.
- 4 A carrier electing to disaggregate and target support under paragraph (c) or (d) of this section must submit to the Administrator maps which precisely identify the boundaries of the designated disaggregation zones of support within the carrier's study area.

Appendix 7

47 C.F.R. § 61.3 – Definitions.

(d) Average Price Cap CMT Revenue per Line month.

(1) Price Cap CMT Revenue (as defined in Sec. 61.3(cc)) per month as of July 1, 2000 (adjusted to remove Universal Service Contributions assessed to local exchange carriers pursuant to Sec. 54.702 of this chapter) using 2000 annual filing base period demand, divided by the 2000 annual filing base period demand. In filing entities with multiple study areas, if it becomes necessary to calculate the Average Price Cap CMT Revenue per Line month for a specific study area, then the Average Price Cap CMT Revenue per Line month for that study area is determined as follows, using base period demand revenues (adjusted to remove Universal Service Contributions assessed to Local Exchange Carriers pursuant to Sec. 54.702 of this chapter), Base Factor Portion (BFP) and 2000 annual filing base period lines: Average Price Cap CMT Revenue per Line Month in a study area = Price Cap CMT Revenue x (BFP in the study area / (BFP in the Filing Entity) / (Lines in the study area).

(2) Nothing in this definition precludes a price cap local exchange carrier from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules.

(3) Average Price Cap CMT Revenues per Line month may be adjusted after July 1, 2000 to reflect exogenous costs pursuant to Sec. 61.45(d).

(4) Average Price Cap CMT Revenues per Line month may also be adjusted pursuant to Sec. 61.45 (b) (1) (iii).

Appendix 8

47 C.F.R. § 54.809 – Carrier certification

(b) *Certification format* – A certification pursuant to this section may be filed in the form of a letter from an authorized representative for the carrier, and must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the interstate access universal service support mechanism, on or before the filing deadlines set forth in paragraph (c) of this section. All of the certifications filed by carriers pursuant to this section shall become part of the public record maintained by the Commission.

(c) *Filing deadlines* – In order for a price cap local exchange carrier or an eligible telecommunications carrier serving lines in the service area of a price cap local exchange carrier to receive interstate access universal service support, such carrier shall file an annual certification, as described in paragraph (b) of this section, on the date that it first files its line count information pursuant to Section 54.802, and thereafter on June 30 of each year. Such carrier that files its line count information after the June 30 deadline shall receive support pursuant to the following schedule:

- 1 Carriers that file no later than September 30 shall receive support for the fourth quarter of that year and the first and second quarters of the subsequent year.
- 2 Carriers that file no later than December 31 shall receive support for the first and second quarters of the subsequent year.
- 3 Carriers that file no later than March 31 of the subsequent year shall receive support for the second quarter of the subsequent year.

Appendix 9

47 C.F.R. § 69.104 - End user common line for non-price cap incumbent local exchange carriers.

(n)

(1) Beginning January 1, 2002, except as provided in paragraph (r) of this section, the maximum monthly charge for each residential or single-line business local exchange service subscriber line shall be the lesser of:

- i) One-twelfth of the projected annual revenue requirement for the End User Common Line element divided by the projected average number of local exchange service subscriber lines in use during such annual period; or
- ii) The following:
 - A. Beginning January 1, 2002, \$5.00.
 - B. Beginning July 1, 2002, \$6.00.
 - C. Beginning July 1, 2003, \$6.50.

(2) In the event that GDP-PI exceeds 6.5% or is less than 0%, the maximum monthly charge in paragraph (n)(1)(ii) of this section will be adjusted in the same manner as the adjustment in Sec. 69.152(d)(2).

(o)

(1) Beginning on January 1, 2002, except as provided in paragraph (r) of this section, the maximum monthly End User Common Line Charge for multi-line business lines will be the lesser of:

- i) \$9.20; or
- ii) One-twelfth of the projected annual revenue requirement for the End User Common Line element divided by the projected average number of local exchange service subscriber lines in use during such annual period;

(2) In the event that GDP-PI is greater than 6.5% or is less than 0%, the maximum monthly charge in paragraph (o)(1)(i) of this section will be adjusted in the same manner as the adjustment in Sec. 69.152(k)(2).

(p)

Beginning January 1, 2002, non-price cap local exchange carriers shall assess:

- i) No more than one End User Common Line charge as calculated under the applicable method under paragraph (n) of this section for Basic Rate Interface integrated services digital network (ISDN) service.

No more than five End User Common Line charges as calculated under paragraph (o) of this section for Primary Rate Interface ISDN service.

47 C.F.R. § 69.105 – Carrier common line for non-price cap local exchange carriers.

(a) This section is applicable only to local exchange carriers that are not subject to price cap regulation as that term is defined in Sec. 61.3(ee) of this chapter. Until June 30, 2003, a charge that is expressed in dollars and cents per line per access minute of use shall be assessed upon all interexchange carriers that use local exchange common line facilities for the provision of interstate or foreign telecommunications services, except that the charge shall not be assessed upon interexchange carriers to the extent they resell MTS or MTS-type services of other common carriers (OCCs).

(b)(1) For purposes of this section and Sec. 69.113:

- i) A carrier or other person shall be deemed to receive premium access if access is provided through a local exchange switch that has the capability to provide access for an MTS-WATS equivalent

service that is substantially equivalent to the access provided for MTS or WATS, except that access provided for an MTS-WATS equivalent service that does not use such capability shall not be deemed to be premium access until six months after the carrier that provides such MTS-WATS equivalent service receives actual notice that such equivalent access is or will be available at such switch;

- ii) The term open end of a call describes the origination or termination of a call that utilizes exchange carrier common line plant (a call can have no, one, or two open ends); and
- iii) All open end minutes on calls with one open end (e.g., an 800 or FX call) shall be treated as terminating minutes.

(2) For association Carrier Common Line tariff participants:

- i) The premium originating Carrier Common Line charge shall be one cent per minute, except as described in Sec. 69.105(b)(3), and
- ii) The premium terminating Carrier Common Line charge shall be computed as follows:
 - A. For each telephone company subject to price cap regulation, multiply the company's proposed premium originating rate by a number equal to the sum of the premium originating base period minutes and a number equal to 0.45 multiplied by the non-premium originating base period minutes of that telephone company;
 - B. For each telephone company subject to price cap regulation, multiply the company's proposed premium terminating rate by a number equal to the sum of the premium terminating base period minutes and a number equal to 0.45 multiplied by the non-premium terminating base period minutes of that telephone company;
 - C. Sum the numbers computed in paragraphs (b)(2)(ii) (A) and (B) of this section for all companies subject to price cap regulation;
 - D. From the number computed in paragraph (b)(2)(ii)(C) of this section, subtract a number equal to one cent times the sum of the premium originating base period minutes and a number equal to 0.45 multiplied by the non-premium originating base period minutes of all telephone companies subject to price cap regulation, and;
 - E. Divide the number computed in paragraph (b)(2)(ii)(D) of this section by the sum of the premium terminating base period minutes and a number equal to 0.45 multiplied by the non-premium terminating base period minutes of all telephone companies subject to price cap regulation.

(3) If the calculations described in Sec. 69.105(b)(2) result in a per minute charge on premium terminating minutes that is less than one cent, both the originating and terminating premium charges for the association CCL tariff participants shall be computed by dividing the number computed in paragraph (b)(2)(ii)(C) of this section by a number equal to the sum of the premium originating and terminating base period minutes and a number equal to 0.45 multiplied by the sum of the non-premium originating and terminating base period minutes of all telephone companies subject to price cap regulation.

(4) The Carrier Common Line charges of telephone companies that are not association Carrier Common Line tariff participants shall be computed at the level of Carrier Common Line access element aggregation selected by such telephone companies pursuant to Sec. 69.3(e)(7). For each such Carrier Common Line access element tariff-- (i) The premium originating Carrier Common Line charge shall be one cent per minute, and [[Page 409]] (ii) The premium terminating Carrier Common Line charge shall be computed by subtracting the projected revenues generated by the originating Carrier Common Line charges (both premium and non-premium) from the Carrier Common Line revenue requirement for the companies participating in that tariff, and dividing the remainder by the sum of the projected premium terminating minutes and a number equal to .45 multiplied by the projected non-premium terminating minutes for such companies.

(5) If the calculations described in Sec. 69.105(b)(4) result in a per minute charge on premium terminating minutes that is less than one cent, both the originating and terminating premium charges for the companies participating in said Carrier Common Line tariff shall be computed by dividing the projected Carrier

Common Line revenue requirement for such companies by the sum of the projected premium minutes and a number equal to .45 multiplied by the projected non- premium minutes for such companies.

(6) Telephone companies that are not association Carrier Common Line tariff participants shall submit to the Commission and to the association whatever data the Commission shall determine are necessary to calculate the charges described in this section.

(c) Any interexchange carrier shall receive a credit for Carrier Common Line charges to the extent that it resells services for which these charges have already been assessed (e.g., MTS or MTS-type service of other common carriers).

(d) From July 1, 2002, to June 30, 2003, the carrier common line charge calculations pursuant to this section shall be limited to an amount equal to the number of projected residential and single-line business lines multiplied by the difference between the residential and single-line business End User Common Line rate cap and the lesser of \$6.50 or the non-price cap local exchange carrier's average cost per line.

47 C.F.R. § 69.115 – Special access surcharges

(a) Pending the development of techniques accurately to measure usage of exchange facilities that are interconnected by users with means of interstate or foreign telecommunications, a surcharge that is expressed in dollars and cents per line termination per month shall be assessed upon users that subscribe to private line services or WATS services that are not exempt from assessment pursuant to paragraph (e) of this section.

(b) Such surcharge shall be computed to reflect a reasonable approximation of the carrier usage charges which, assuming non-premium interconnection, would have been paid for average interstate or foreign usage of common lines, end office facilities, and transport facilities, attributable to each Special Access line termination which is not exempt from assessment pursuant to paragraph (e) of this section.

(c) If the association, carrier or carriers that file the tariff are unable to estimate such average usage for a period ending May 31, 1985, the surcharge for such period shall be twenty-five dollars (\$25) per line termination per month. As of June 30, 2000, these rates will remain and be capped at the current levels until June 30, 2005.

(d) A telephone company may propose reasonable and nondiscriminatory end user surcharges, to be filed in its federal access tariffs and to be applied to the use of exchange facilities which are interconnected by users with means of interstate or foreign telecommunication which are not provided by the telephone company, and which are not exempt from assessment pursuant to paragraph (e) of this section. Telephone companies which wish to avail themselves of this option must undertake to use reasonable efforts to identify such means of interstate or foreign telecommunication, and to assess end user surcharges in a reasonable and nondiscriminatory manner.

(e) No special access surcharges shall be assessed for any of the following terminations:

1. The open end termination in a telephone company switch of an FX line, including CCSA and CCSA-equivalent ONALs;
2. Any termination of an analog channel that is used for radio or television program transmission;
3. Any termination of a line that is used for telex service;
4. Any termination of a line that by nature of its operating characteristics could not make use of common lines; and
5. Any termination of a line that is subject to carrier usage charges pursuant to Sec. 69.5.
6. Any termination of a line that the customer certifies to the exchange carrier is not connected to a PBX or other device capable of interconnecting a local exchange subscriber line with the private line or WATS access line.

47 C.F.R. § 69.130 – Line port costs in excess of basic analog service.

To the extent that the costs of ISDN line ports, and line ports associated with other services, exceed the costs of a line port used for basic, analog service, non-price cap local exchange carriers may recover the difference through a separate monthly end-user charge, provided that no portion of such excess cost may be recovered through other common line access charges, or through Interstate Common Line Support.

47 C.F.R. § 54.303 – Long term support.

(a) Beginning January 1, 1998, an eligible telecommunications carrier that participates in the association Common Line pool shall receive Long Term Support. Beginning July 1, 2004, no carrier shall receive Long Term Support.

(b) Long Term Support shall be calculated as prescribed in this paragraph.

1. To calculate the unadjusted base-level of Long Term Support for 1998, the Administrator shall calculate the difference between the projected Common Line revenue requirement of association Common Line tariff participants projected to be recovered in 1997 and the sum of end user common line charges and the 1997 projected revenue recovered by the association Carrier Common Line charge as calculated pursuant to Sec. 69.105(b)(2) of this chapter.
2. To calculate Long Term Support for calendar year 1998, the Administrator shall adjust the base-level of Long Term Support calculated in paragraph (b)(1) of this section to reflect the annual percentage change in the actual nationwide average unseparated loop cost per working loop as filed by the Administrator in the previous calendar year, pursuant to Sec. 36.622 of this chapter.
3. To calculate Long Term Support for calendar year 1999, the Administrator shall adjust the level of support calculated in paragraph (b)(2) of this section to reflect the annual percentage change in the actual nationwide average unseparated loop cost per working loop as filed by the Administrator in the previous calendar year, pursuant to Sec. 36.622 of this chapter.
4. Beginning January 1, 2000, the Administrator shall calculate Long Term Support annually by adjusting the previous year's level of support to reflect the annual percentage change in the Department of Commerce's Gross Domestic Product-Chained Price Index (GDP-CPI).
5. (i) Beginning July 1, 2002, each carrier will be eligible to receive LTS equal to the lesser of: (A) The LTS for which the carrier would be eligible pursuant to paragraph (b)(4) of this section, or (B) Its common line revenue requirement as calculated in accordance with part 69 of this chapter, minus: (1) The study area revenues obtained from end-user common line charges at their allowable maximum as determined by Sec. Sec. 69.104(n) and 69.104(o) of this chapter; (2) The carrier common line charge revenues to be phased out pursuant to Sec. 69.105 of this chapter; (3) The special access surcharges pursuant to Sec. 69.114 of this chapter; and (4) The line port costs in excess of basic analog service pursuant to Sec. 69.130 of this chapter.
(ii) Under no circumstance shall a carrier have LTS that is less than zero.
(iii) In calculating an LTS amount pursuant to paragraph (b)(5)(i)(B) of this section, the Administrator shall use data filed pursuant to Sec. 54.903 of this chapter.

Appendix 10

47 C.F.R. § 54.903 – Obligations of rate-of-return carriers and the Administrator.

(a) To be eligible for Interstate Common Line Support, each rate-of- return carrier shall make the following filings with the Administrator.

- 1 On April 18, 2002, each rate-of-return carrier shall submit to the Administrator the number of lines it serves as of September 30, 2001, within each rate-of-return carrier study area, by disaggregation zone if disaggregation zones have been established within that study area pursuant to Section 54.315, showing residential and single-line business line counts and multi-line business line counts separately. For purposes of this report, and for purposes of computing support under this subpart, the residential and single-line business class lines reported include lines assessed the residential and single-line business End User Common Line charge pursuant to Section 69.104 of this chapter, and the multi-line business class lines reported include lines assessed the multi-line business End User Common Line charge pursuant to Section 69.104 of this chapter. For purposes of this report, and for purposes of computing support under this subpart, lines served using resale of the rate-of-return local exchange carrier's service pursuant to section 251(c)(4) of the Communications Act of 1934, as amended, shall be considered lines served by the rate-of-return carrier only and must be reported accordingly. Beginning July 31, 2002, each rate-of-return carrier shall submit the information described in this paragraph in accordance with the schedule in Section 36.611 of this chapter.
- 2 Each rate-of-return carrier in service areas where a competitive eligible telecommunications carrier has initiated service and reported line count data pursuant to Section 54.307(c) shall submit the information in paragraph (a) of this section in accordance with the schedule in Section 36.612 of this chapter. A rate-of-return carrier may submit the information in paragraph (a) of this section in accordance with the schedule in Section 36.612 of this chapter, even if it is not required to do so. If a rate-of-return carrier makes a filing under this paragraph, it shall separately indicate any lines that it has acquired from another carrier that it has not previously reported pursuant to paragraph (a) of this section, identified by customer class and the carrier from which the lines were acquired.
- 3 Each rate-of-return carrier shall submit to the Administrator annually on March 31st projected data necessary to calculate the carrier's prospective Interstate Common Line Support, including common line cost and revenue data, for each of its study areas in the upcoming funding year. The funding year shall be July 1st of the current year through June 30th of the next year. Each rate-of-return carrier will be permitted to submit a correction to the projected data filed on March 31st until June 30th for the upcoming funding year. On June 30th each rate- of-return carrier will be permitted to submit to the Administrator an update to the projected data for the funding year ending on that date.
- 4 Each rate-of-return carrier shall submit to the Administrator on December 31st of each year the data necessary to calculate a carrier's Interstate Common Line Support, including common line cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line Interstate Common Line Support amounts in the final two quarters of the following calendar year to the extent of any differences between the carrier's ICLS received based on projected common line cost and revenue data and the ICLS for which the carrier is ultimately eligible based on its actual common line cost and revenue data during the relevant period.

Appendix 11

47 C.F.R. § 54.904 – Carrier certification.

(b) *Certification format* – A certification pursuant to this section may be filed in the form of a letter from an authorized representative for the carrier, and must be filed with both the Administrator and the Office of the Secretary of the Federal Communication Commission clearly referencing CC Docket No. 96-45, on or before the filing deadlines set forth in paragraph (d) of this section.

(d) *Filing deadlines* – In order for a rate-of-return carrier, and/or an eligible telecommunications carrier serving lines in the service area of a rate-of-return carrier, to receive Interstate Common Line Support, such carrier must file an annual certification, as described in paragraph (b) of this section, on the date that it first files its line count information pursuant to Section 54.903, and thereafter on June 30th of each year.

Appendix 12

FCC Order 01-304

176. In the *Rural Task Force Order*, we addressed federal universal service support for intrastate rates and we required states to file a certification of section 254(e) compliance with the Commission because states have jurisdiction over rates for intrastate services. In this Order, we address federal support for interstate rates, a matter over which the Commission has jurisdiction.⁴⁵⁴ Thus, to ensure that carriers receiving Interstate Common Line Support and LTS will use that support in a manner consistent with section 254(e), we shall require carriers seeking such support to file a certification with the Commission and the Administrator. This requirement is consistent with rules adopted in the *Interstate Access Support Order*.⁴⁵⁵ This certification requirement will be applicable to rate-of-return carriers and competitive eligible telecommunications carriers seeking support from our Interstate Common Line Support mechanism. The certification shall be filed with the Commission and the Administrator on March 31, 2002, at the same time a carrier files its first set of line count data with the Administrator. Such certification shall be filed in CC Docket No. 96-45 annually thereafter on June 30. The certification may be filed in the form of a letter and must state that the carrier will use its Interstate Common Line Support and LTS only for the provision, maintenance, and upgrading of facilities and service for which support is intended. In the event that a certification is filed untimely, the carrier will not become eligible for support until the second calendar quarter after the certification is filed.⁴⁵⁶ Failure to file a certification will preclude a carrier from receiving Interstate Common Line Support or LTS. Carriers that fail to abide by their certification, or otherwise violate section 254(e), shall be subject to enforcement action by the Commission.

Appendix 13

FCC Order 05-46

93. *Background.*

Section 54.809(c) of the Commission's rules states that in order for an ETC to receive Interstate Access Support (IAS), the ETC must file an annual certification on the date that it first files line count information and thereafter on June 30 of each year.²⁶³ As a result, the current rule prohibits an otherwise eligible carrier from receiving IAS for as much as a year if it misses the annual certification deadline. In the *MAG Order*, the Commission determined that a carrier that untimely files its annual certification for Interstate Common Line Support (ICLS) would not be eligible for support until the second calendar quarter after the certification is filed.²⁶⁴ For example, if a carrier untimely files its required annual June 30 certification on July 15, it will be eligible to receive ICLS support beginning January 1 of the following year. Therefore, the *MAG Order* establishes a supplemental certified filing process that prevents an ETC from losing ICLS for an entire year if it misses the June 30 certification deadline.²⁶⁵ In the *ETC Designation NPRM*, the Commission proposed adopting a similar supplemental process for accepting untimely certifications for the receipt of IAS.

Appendix 14

47 C.F.R. § 36.605 – Calculation of safety net additive.

(a) Safety net additive support

A rural incumbent local exchange carrier shall receive safety net additive support if it satisfies the conditions set forth in paragraph (c) of this section. Safety net additive support is support available to rural telephone companies, as conditioned in paragraph (c) of this section, in addition to support calculated pursuant to Section 36.631. Safety net additive support shall not be available to rural telephone companies for exchange(s) that are subject to Section 54.305 of this chapter.

(b) Calculation of safety net additive support

Safety net additive support is equal to the amount of capped support calculated pursuant to this Subpart F in the qualifying year minus the amount of support in the year prior to qualifying for support subtracted from the difference between the uncapped expense adjustment for the study area in the qualifying year minus the uncapped expense adjustment in the year prior to qualifying for support as shown in the following equation: Safety net additive support = (Uncapped support in the qualifying year - Uncapped support in the base year) - (Capped support in the qualifying year - Amount of support received in the base year).

(c) Operation of safety net additive support

- 1 In any year in which the total carrier loop cost expense adjustment is limited by the provisions of Section 36.603 a rural incumbent local exchange carrier shall receive safety net additive support as calculated in paragraph (b) of this section, if in any study area, the rural incumbent local exchange carrier realizes growth in end of period Telecommunications Plant in Service (TPIS), as prescribed in Section 32.2001 of this chapter, on a per loop basis, of at least 14 percent more than the study area's TPIS per loop investment at the end of the prior period.
- 2 If paragraph (c) (1) of this section is met, the rural incumbent local exchange carrier must notify the Administrator; failure to properly notify the Administrator of eligibility shall result in disqualification of that study area for safety net additive, requiring the rural incumbent local exchange carrier to again meet the eligibility requirements in paragraph (c) (1) of this section for that study area in a subsequent period.
- 3 Upon completion of verification by the Administrator that the study area meets the stated criterion in paragraphs (a), (b), (c) of this section, the Administrator shall:
 - I. Pay to any qualifying rural telephone company, safety net additive support for the qualifying study area in accordance with the calculation set forth in paragraph (b) of this section; and
 - II. Continue to pay safety net additive support in any of the four succeeding years in which the total carrier loop expense adjustment is limited by the provisions of Section 36.603. Safety net additive support in the succeeding four years shall be the lesser of:
 - A. The sum of capped support and the safety net additive support received in the qualifying year; or
 - B. The rural telephone company's uncapped support.

Appendix 15

47 C.F.R. § 36.611 – Submission of information to the National Exchange Carrier Association (NECA).

In order to allow determination of the study areas and wire centers that are entitled to an expense adjustment pursuant to Section 36.631, each incumbent local exchange carrier (LEC) must provide the National Exchange Carrier Association (NECA) (established pursuant to part 69 of this chapter) with the information listed for each study area in which such incumbent LEC operates, with the exception of the information listed in paragraph (h) of this section, which must be provided for each study area and, if applicable, for each wire center, as defined in Part 54 of this chapter, and each disaggregation zone as established pursuant to Section 54.315 of this chapter. This information is to be filed with NECA by July 31st of each year. The information provided pursuant to paragraph (h) of this section must be updated pursuant to Section 36.612. Rural telephone companies that acquired exchanges subsequent to May 7, [[Page 445]] 1997, and incorporated those acquired exchanges into existing study areas shall separately provide the information required by paragraphs (a) through (h) of this section for both the acquired and existing exchanges.

(a) Unseparated, i.e., state and interstate, gross plant investment in Exchange Line Cable and Wire Facilities (C&WF) Subcategory 1.3 and Exchange Line Central Office (CO) Circuit Equipment Category 4.13. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing.

(b) Unseparated accumulated depreciation and noncurrent deferred federal income taxes, attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. These amounts shall be calculated as of December 31st of the calendar year preceding each July 31st filing, and shall be stated separately.

(c) Unseparated depreciation expense attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. This amount shall be the actual depreciation expense for the calendar year preceding each July 31st filing.

(d) Unseparated maintenance expense attributable to Exchange Line C&WF Subcategory 1.3 investment and Exchange Line CO Circuit Equipment Category 4.13 investment. This amount shall be the actual repair expense for the calendar year preceding each July 31st filing.

(e) Unseparated corporate operations expenses, operating taxes, and the benefits and rent proportions of operating expenses. The amount for each of these categories of expense shall be the actual amount for that expense for the calendar year preceding each July 31st filing. The amount for each category of expense listed shall be stated separately.

(f) Unseparated gross telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing.

(g) Unseparated accumulated depreciation and noncurrent deferred federal income taxes attributable to local unseparated telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing.

(h) For rural telephone companies, as that term is defined in Section 51.5 of this chapter, the number of working loops for each study area. For non-rural telephone companies, the number of working loops for each study area and for each wire center. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing.

