

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

**ACCESS TARIFF REVISIONS
TARIFF F.C.C. NO. 5
TRANSMITTAL NO. 1444**

Description and Justification

INTRODUCTION

The National Exchange Carrier Association, Inc. (NECA) proposes to modify Tariff F.C.C. No. 5 to reassign special access rate bands for certain traffic sensitive pool members. The intent of this filing is to assign rates to these companies that better reflect their actual costs, using the most current available data.

In addition to adjusting special access rate bands for select companies, this filing also adds an additional high cost rate band to each of the special access service categories, i.e., DSL Voice-Data, DSL Data-Only, ETS, and other Special Access services.

PROPOSED RATE BAND REASSIGNMENTS

Proposed rate band reassignments are based on the most recent cost and demand information updated from that used for the July 2014 annual tariff filing.¹ For cost companies, the specific data used for rate band adjustments are the 2013 cost study revenue requirements and the first half 2014 reported actual revenues annualized and adjusted for the July 2014 rate change. For average schedule companies, the same revenues are used in combination with first half 2014 demand data applied to the average schedule formulas that went into effect on July 1, 2014. Fewer than 30 percent of traffic sensitive pool companies will see an increase in one or more of their rate bands for one or more of the special access service categories, i.e., DSL Voice-Data, DSL Data-Only, ETS and other Special Access.²

Companies affected by these rate band reassignments report more costs than revenues to the pool. Companies reporting more revenues than costs to the pool will see no rate band changes or rate increases.

NECA believes these mid-year rate band reassignments are necessary to ensure rates align more closely with costs. These reassignments will also help assure the integrity of the pool and that pool distributions remain fair and equitable for all tariff participants. As such, the rates proposed in this filing are just and reasonable and should be permitted to take effect on January 31, 2015 as scheduled.

¹ See National Exchange Carrier Association, Inc., Tariff F.C.C. No. 5, Transmittal No. 1423, filed June 16, 2014.

² Although the structure for separate and distinct ETS rate bands exists in Tariff F.C.C. No. 5, the current ETS rate band assignments follow those for other Special Access services.

REVENUE IMPACT

In addition to improving alignment of rates and costs for individual pool members, the proposed rate band reassignments are expected to generate additional overall revenue for the pool. The additional annual revenue generated by the rate band reassignments by service category in this filing are displayed in Table 1. Tables 2 through 4 display the revenue impacts by rate band for each of the three service categories, i.e., Non-DSL Special Access (including ETS), DSL Data-Only, and DSL Voice-Data, respectively. Table 5 displays the aggregate revenue impact across all special access service categories for the Traffic Sensitive pool.

Approximately \$5.4M is projected to be the result of DSL Voice-Data rate band reassignments, approximately \$1.0M is projected to be the result of DSL Data-Only rate band reassignments, and approximately \$3.9M of additional revenue is projected to be the result of the Non-DSL rate band changes, for a total of \$10.3M in additional annual revenue. Since these rate band reassignments will take effect on January 31, 2015, only five months of additional revenue, amounting to approximately \$4.3M, will be realized in the current 2014-2015 test period.

Table 1

2014-2015 Test Period # of Companies Reassigned / Dollar Amounts Due to Band Reassignments								
	DSL VD		DSL DO		Non-DSL		SP Total	
	Number of SARs	Revenues	Number of SARs	Revenues	Number of SARs	Incremental Revs at Proposed Rate Bands	Number of SARS	Revenues
Pool	224	\$5,392,085	58	\$1,060,933	109	\$3,862,698	295	\$10,315,716

Table 2

JANUARY 16, 2015 NECA ACCESS CHARGE FILING
NON DSL SPECIAL ACCESS RATE BANDING
TEST PERIOD: JULY 1, 2014 - JUNE 30, 2015

RATE BAND ¹	PROPOSED BAND RATE DISCOUNT/ PREMIUM FACTOR (A)	SPECIAL ACCESS NON-DSL REVENUE PROJECTION (CURRENT VIEW) ² (B)	SPECIAL ACCESS NON-DSL REVENUE PROJECTION (CURRENT VIEW) ² W/ RATE BAND REASSIGNMENT (C)
1	-80.00%	\$8,363,937	\$8,363,937
2	-69.78%	\$3,557,547	\$3,557,547
3	-59.56%	\$6,834,404	\$6,834,404
4	-49.34%	\$17,005,885	\$16,767,845
5	-39.12%	\$25,454,228	\$25,740,289
6	-28.90%	\$48,208,900	\$44,397,055
7	-18.68%	\$30,907,015	\$30,315,817
8	-8.46%	\$26,935,808	\$27,506,807
9	1.76%	\$32,544,264	\$32,638,606
10	11.98%	\$30,830,257	\$36,845,561
11	22.20%	\$37,154,020	\$36,758,138
12	32.42%	\$23,581,409	\$23,780,167
13	42.64%	\$33,652,060	\$30,620,502
14	52.86%	\$16,958,580	\$19,685,582
15	63.08%	\$19,842,853	\$17,357,025
16	73.30%	\$13,115,670	\$16,364,980
17	83.52%	\$13,192,643	\$13,494,602
18	93.74%	\$18,097,290	\$17,539,019
19	103.96%	\$5,681,658	\$6,269,378
20	114.18%	\$23,878,135	\$21,438,868
21	124.40%	\$17,929,399	\$20,485,060
22	182.18%	\$30,995,828	\$30,569,269
23	250.00%	\$19,587,241	\$15,041,699
24	300.00%		\$5,799,571
Total		\$504,309,031	\$508,171,729

NOTE:

1. In this filing, NECA proposes to increase the number of non-DSL rate bands from 23 to 24.
2. Based on NECA's 2014 Settlement data.

Table 3
JANUARY 16, 2015 NECA ACCESS CHARGE FILING
DSL DATA-ONLY RATE BANDING
TEST PERIOD: JULY 1, 2014 - JUNE 30, 2015

RATE BAND ¹	PROPOSED BAND RATE DISCOUNT/ PREMIUM FACTOR	SPECIAL ACCESS DSL DATA-ONLY REVENUE PROJECTION (CURRENT VIEW) ²	SPECIAL ACCESS DSL DATA-ONLY REVENUE PROJECTION (CURRENT VIEW) ² W/ RATE BAND REASSIGNMENT
	(A)	(B)	(C)
1	-50.00%	\$2,794,047	\$1,443,259
2	-33.33%	\$3,990,400	\$5,791,451
3	-26.67%	\$2,049,586	\$1,460,470
4	-20.00%	\$1,094,097	\$1,153,178
5	-13.33%	\$1,559,206	\$2,184,438
6	-6.67%	\$4,700,213	\$4,695,041
7	0.00%	\$1,644,153	\$1,639,774
8	2.48%	\$2,178,412	\$1,422,384
9	4.95%	\$2,791,645	\$1,117,511
10	7.43%	\$737,523	\$593,420
11	9.90%	\$2,334,614	\$1,438,169
12	12.38%	\$5,244,017	\$5,067,901
13	14.86%	\$4,609,823	\$3,848,608
14	17.33%	\$44,954	\$2,076,771
15	19.81%	\$5,758,770	\$6,652,818
16	21.00%	\$313,889	\$2,098,635
17	33.00%	\$222,454	\$222,454
Total		\$41,845,349	\$42,906,282

NOTE:

1. In this filing, NECA proposes to increase the number of DSL Data-Only rate bands from 16 to 17.
2. Based on NECA's 2014 Settlement data.

Table 4
JANUARY 16, 2015 NECA ACCESS CHARGE FILING
DSL VOICE-DATA RATE BANDING
TEST PERIOD: JULY 1, 2014 - JUNE 30, 2015

RATE BAND ¹	PROPOSED BAND RATE DISCOUNT/ PREMIUM FACTOR	SPECIAL ACCESS DSL VOICE-DATA REVENUE PROJECTION (CURRENT VIEW) ²	SPECIAL ACCESS DSL VOICE-DATA REVENUE PROJECTION (CURRENT VIEW) ² W/ RATE BAND REASSIGNMENT
	(A)	(B)	(C)
1	-50.00%	\$25,887,443	\$27,177,025
2	-13.33%	\$35,127,503	\$29,672,561
3	-11.34%	\$2,445,271	\$3,921,784
4	-9.35%	\$2,896,302	\$2,052,878
5	-7.36%	\$11,318,262	\$10,042,531
6	-5.37%	\$10,212,488	\$9,865,695
7	-3.38%	\$16,360,330	\$13,828,502
8	-1.39%	\$13,310,529	\$11,986,420
9	0.60%	\$4,856,628	\$5,383,201
10	2.59%	\$10,845,063	\$11,527,408
11	4.58%	\$6,945,966	\$6,674,283
12	6.57%	\$11,267,662	\$10,918,186
13	8.56%	\$5,903,175	\$5,263,196
14	10.55%	\$22,293,919	\$15,955,222
15	12.54%	\$18,762,031	\$14,291,408
16	21.00%	\$37,829,202	\$29,595,385
17	33.00%	\$33,498,177	\$33,498,177
Total		\$236,261,774	\$241,653,859

NOTE:

1. In this filing, NECA proposes to increase the number of DSL Voice-Data rate bands from 16 to 17.
2. Based on NECA's 2014 Settlement data.

Table 5

JANUARY 16, 2015 NECA ACCESS CHARGE FILING
SPECIAL ACCESS REVENUE IMPACT BY RATE BAND REASSIGNMENT
TEST PERIOD: JULY 1, 2014 - JUNE 30, 2015

SERVICE	SPECIAL ACCESS REVENUE PROJECTION (CURRENT VIEW) (A)	SPECIAL ACCESS REVENUE PROJECTION (CURRENT VIEW) W/ RATE BAND REASSIGNMENT (B)	SPECIAL ACCESS REVENUE CHANGE DUE TO RATE BAND REASSIGNMENT (C = B - A)
NON-DSL	\$504,309,031	\$508,171,729	\$3,862,698
DSL VOICE-DATA	\$236,261,774	\$241,653,859	\$5,392,085
DSL DATA-ONLY	\$41,845,349	\$42,906,282	\$1,060,933
TOTAL SPECIAL ACCESS	\$782,416,154	\$792,731,870	\$10,315,716

REVENUE IMPACT ON THE POOL

As displayed in Table 6, on June 16, 2014, NECA filed a 17.51% increase in special access rates in its annual access tariff filing, reflecting forecasted increases in special access revenue requirements along with a projected demand decrease. Based on the current view of revenue requirements and demand, the rate increase in June should have been 25.26% to achieve the authorized 11.25% rate of return for the 2014-2015 test period.

Table 6
ATTRIBUTION COMPARISON APRIL 2014 AND OCTOBER 2014 FOR 2014-2015 TEST PERIOD AMOUNTS

SPECIAL ACCESS				
	April 2014 View of 14/15 Attribution at June 2014 Rates	October 2014 View of 14/15 Attribution at June 2014 Rates	Difference Oct - Apr 14/15	BP
Billed Revenue	659.107	630.252	-28.855	-186
Total Revenue	659.107	630.252	-28.855	-186
ASRR	82.158	80.867	-1.291	8
CCRR	674.502	690.757	16.255	-105
NECA EXP	17.832	17.832	0.000	0
Total RRQ	774.492	789.456	14.964	-97
Contribution	-115.385	-159.204	-43.819	-283
Rate Change	17.51%	25.26%	7.75%	

Note: Rate changes prior to billing cycle effect.

As a result, NECA currently projects a \$43.819 million earnings shortfall in the Special Access category for the 2014-2015 test period. This dollar shortfall translates into an 8.42 percent projected rate of return, 283 basis points below the authorized rate of 11.25%.

The two main causes of the shortfall are greater-than-anticipated reductions in Special Access revenue and demand, and unexpected increases in Special Access revenue requirements reported by cost companies.

The unexpected revenue decline appears to be attributable to wireless carriers speeding up their conversion to all-IP transport networks. Member companies report wireless carriers are rapidly disconnecting higher-priced per megabit DS1 and DS3 services and replacing them with much lower-priced Ethernet services. In addition, wireless carriers are beginning to use dark fiber to connect base stations to mobile switching offices instead of purchasing lit fiber from member companies. The unexpected revenue requirement increase can largely be attributed to increased cost levels reported in

2013 cost studies received after the annual tariff filing resulting in an under forecast of revenue requirements for the 2014-2015 tariff test period.

The annual revenue shortfall displayed in Table 6 significantly exceeds the \$10.3M resulting from rate band reassignments. Nevertheless, the additional revenues from this filing are expected to help achieve a rate of return closer to the authorized level of 11.25% while assuring that rates charged by impacted companies are closer to actual unit costs.