

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

**ACCESS TARIFF REVISIONS
TARIFF F.C.C. NO. 5
TRANSMITTAL NO. 1463**

DESCRIPTION AND JUSTIFICATION

The National Exchange Carrier Association, Inc. (NECA) proposes to decrease its Federal Universal Service Surcharge (FUSC) percentage and optional Multi-line Business End User Common Line (MLB EUCL) FUSC banded percentages in response to the recently published fourth quarter 2015 Universal Service Contribution Factor as described in the Federal Communications Commission's (FCC) September 14, 2015 Public Notice.¹

Background

On April 1, 2003 NECA changed its FUSC rate structure from a monthly end user line charge to a percentage surcharge on interstate retail revenue² to comply with the Commission's *Second Order on Reconsideration*³ which prohibits a carrier from

¹ Proposed Fourth Quarter 2015 Universal Service Contribution Factor, CC Docket No. 96-45, *Public Notice*, DA 15-1016 (rel. September 14, 2015). In this Public Notice, the Office of Managing Director announces the proposed universal service contribution factor for the fourth quarter of 2015 of 16.7%.

² National Exchange Carrier Association, Inc., Access Service Tariff F.C.C. No. 5, Transmittal No. 978, filed March 17, 2003.

³ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, 1998 Biennial Regulatory Review - Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, CC Docket No. 98-171, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, CC Docket No. 90-571, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72, Number Resource Optimization, CC Docket No. 99-200, Telephone Number Portability, CC Docket No. 95-116, Truth-in-Billing and Billing Format, CC Docket No. 98-170, *Order and Second Order on Reconsideration*, 18 FCC Rcd 4818 (*Second Order on Reconsideration*).

recovering a FUSC amount larger than the end user's interstate retail revenue multiplied by the FCC's quarterly universal service contribution factor.

The Commission's *Second Order on Reconsideration* granted an interim waiver of section 54.712 (47 C.F.R. § 54.712) to allow local exchange carriers (LECs) that continue to recover contribution costs from Centrex customers using the 1/9 equivalency ratio as allowed by section 69.153 (47 C.F.R. § 69.153) to recover remaining contribution costs associated with Centrex customers from multi-line business customers.⁴

On May 31, 2003 NECA introduced MLB EUCL FUSC optional rate banding.⁵ This is a tiered pricing structure that allows local exchange carriers (LECs) to recover contribution costs from Centrex customers using the 1/9 equivalency ratio and to recover the remaining contribution costs associated with Centrex customers from other multi-line business customers in the same tier. Each company opting for MLB EUCL FUSC rate banding was placed in a rate band designed to recover its contribution costs. NECA's optional MLB EUCL FUSC rate banding structure allows pool members to assess a percent surcharge that is consistent with its proportionate number of business Centrex customers compared to total multi-line business customers.

On August 10, 2004 NECA filed with the Commission to reduce the number of SLCs that are assessed on DS1 Channel Service from twenty-four to five⁶ in response to

⁴ *Id.* at ¶3.

⁵ National Exchange Carrier Association, Inc., Access Service Tariff F.C.C. No. 5, Transmittal No. 985, filed May 16, 2003.

⁶ National Exchange Carrier Association, Inc., Transmittal No. 1035, filed August 10, 2004.

the partial waiver of section 69.104(q) of the Commission's rules.⁷ Five SLCs for each DS1 channel service arrangement and five SLCs for each ISDN-PRI arrangement, under section 69.104 (p) (2), were used in the calculation of total multi-line business EUCL revenues. These revenues were used to develop a FUSC percent surcharge for optional MLB EUCL FUSC rate banding.

On February 14, 2008, the FCC released an Order⁸ stating local exchange carriers should not charge Payphone Service Providers (PSP) additional USF line-item amounts related to Centrex adjustments. NECA excluded the PSP lines from the calculation of MLB EUCL FUSC surcharges.

On September 14, 2015, the FCC announced the fourth quarter 2015 Universal Service Contribution Factor of 16.7%. NECA proposes to update its FUSC surcharges to reflect this updated factor.

⁷ See Order Granting Petition For Rulemaking, Notice of Proposed Rulemaking, and Order Granting Interim Partial Waiver, WC Docket No. 04-259, RM-10603, (rel. July 19, 2004).

⁸ See Order on Reconsideration, CC Docket No.96-45 (FCC 08-51).

Proposed Surcharge Percentages

The proposed FUSC surcharge to be applied to end user and special access retail revenues is presented in Table 1 and the proposed optional MLB EUCL FUSC band surcharges are summarized in Table 2:

TABLE 1: Federal Universal Service Surcharge

| <u>Current Surcharge</u> | <u>Proposed Surcharge</u> | <u>Percent Change</u> |
|--------------------------|---------------------------|-----------------------|
| 17.1 % | 16.7 % | -2.3% |

TABLE 2: Optional MLB EUCL FUSC Band Surcharges

| <u>Band</u> | <u>Current Surcharge</u> | <u>Proposed Surcharge</u> | <u>Percent Change</u> |
|-------------|--------------------------|---------------------------|-----------------------|
| 1 | 17.5% | 17.0% | -2.9% |
| 2 | 18.6% | 18.2% | -2.2% |
| 3 | 19.6% | 19.1% | -2.6% |
| 4 | 20.0% | 19.5% | -2.5% |
| 5 | 21.4% | 20.9% | -2.3% |
| 6 | 23.1% | 22.5% | -2.6% |
| 7 | 23.8% | 23.2% | -2.5% |
| 8 | 25.7% | 25.1% | -2.3% |
| 9 | 27.1% | 26.4% | -2.6% |
| 10 | 29.7% | 29.0% | -2.4% |
| 11 | 31.1% | 30.3% | -2.6% |
| 12 | 35.0% | 34.2% | -2.3% |
| 13 | 39.6% | 38.7% | -2.3% |
| 14 | 43.9% | 42.9% | -2.3% |
| 15 | 48.1% | 47.0% | -2.3% |
| 16 | 55.0% | 53.7% | -2.4% |
| 17 | 64.1% | 62.6% | -2.3% |
| 18 | 77.0% | 75.2% | -2.3% |
| 19 | 96.2% | 93.9% | -2.4% |
| 20 | 128.3% | 125.3% | -2.3% |

Calculation of Revised Support Contributions and Multi-Line FUSC Surcharges

Exhibit 1 shows adjusted projections for Federal Universal Service Support Mechanism (USSM) contributions for the fourth quarter 2015 as well as the 2015-2016 test period. The adjusted test period USSM contribution of \$117.8 M reflects a decrease of \$2.1 M from the filed amount of \$119.9 M in the *2015 Annual Filing*.⁹

Exhibit 2 displays the development of the fourth quarter 2015 optional MLB EUCL FUSC band rates and the projection of optional MLB EUCL FUSC band revenue for the fourth quarter 2015 through the second quarter 2016. Based on the test period Business Centrex and MLB band revenues in Vol. 4 Exhibit 6 of the *2015 Annual Filing*, the revised MLB EUCL FUSC band rates reflect the changes from the third quarter 2015 contribution factor of 17.1% to the fourth quarter 2015 contribution factor of 16.7%. The exhibit shows the projected MLB EUCL FUSC band revenue of \$1.8 M on Line 21.

Exhibit 3 displays the development of the projected FUSC non-banded revenue of \$86.0 M on Line 5, the projected FUSC banded revenue of \$1.8 M on Line 6, and the projected total FUSC revenue of \$87.8 M on Line 7 for the fourth quarter 2015 through the second quarter 2016.

Finally, Exhibit 4 displays the development of adjusted 2015 – 2016 test period FUSC revenue of \$117.8 M on Line 3. The adjusted test period FUSC revenue equals the adjusted test period 2015 - 2016 USSM contribution amount of Exhibit 1 Column C Line 5. Therefore, the proposed FUSC charges conform to the FCC rules.

Conclusion

The proposed FUSC surcharges comply with the Commission's rules and should be allowed to become effective on October 1, 2015.

⁹ National Exchange Carrier Association, Inc., Access Service Tariff F.C.C. No. 5, Transmittal No. 1455, filed June 16, 2015 (2015 Annual Filing).

SEPTEMBER 16, 2015 NECA ACCESS CHARGE FILING
 TEST PERIOD: JULY 1, 2015 - JUNE 30, 2016
 UNIVERSAL SERVICE SUPPORT MECHANISM (USSM) CONTRIBUTION
 QUARTERLY INTERSTATE RETAIL REVENUE OF USSM CONTRIBUTORS
 (\$ MILLION)

EXHIBIT 1

| <u>LINE NO</u> | <u>DATE</u> | <u>2015 ANNUAL FILING INTERSTATE RETAIL REVENUE (IRR) (A)</u> | <u>SOURCE / SUMMARY</u> | <u>CONTRIBUTION FACTOR¹ (B)</u> | <u>U S S M² (C = A * B)</u> |
|----------------|---------------------|---|-----------------------------------|--|--|
| 1 | 3Q 2015 | \$174.9 | 2015 ANNUAL FILING V2 EX 9 LINE 1 | 17.1% | \$29.9 |
| 2 | 4Q 2015 | \$174.9 | 2015 ANNUAL FILING V2 EX 9 LINE 2 | 16.7% | \$29.2 |
| 3 | 1Q 2016 | \$175.2 | 2015 ANNUAL FILING V2 EX 9 LINE 3 | 16.7% | \$29.3 |
| 4 | 2Q 2016 | \$175.9 | 2015 ANNUAL FILING V2 EX 9 LINE 4 | 16.7% | \$29.4 |
| 5 | ADJUSTED TP 1516 | | LINE 1 + LINE 2 + LINE 3 + LINE 4 | | \$117.8 |
| 6 | FILED TP 1516 | \$701.0 | 2015 ANNUAL FILING V2 EX 9 LINE 6 | 17.1% | \$119.9 |

NOTE

1 3Q 2015 Universal Service Contribution Factor, FCC Public Notice DA 15-695, released June 12, 2015; 4Q 2015 Universal Service Contribution Factor, FCC Public Notice DA 15-1016, released September 14, 2015.

2 Calculations are done with more digits than displayed.

SEPTEMBER 16, 2015 NECA ACCESS CHARGE FILING
DEVELOPMENT OF 4Q 2015 OPTIONAL MULTI-LINE FUSC SURCHARGE AND
4Q 2015 THROUGH 2Q 2016 OPTIONAL MULTI-LINE FUSC REVENUE

EXHIBIT 2

| LINE NO | FUSC BAND | BUSINESS CENTREX % | TEST PERIOD MULTI-LINE REVENUE ¹ | TEST PERIOD BUSINESS CENTREX REVENUE ² | 4Q 2015 MLB EUCL FUSC SURCHARGE ³ | PROJECTED 4Q 2015 - 2Q 2016 MLB FUSC REVENUE |
|---------|-----------|--------------------|---|---|--|--|
| | | | (A) | (B) | (C) | (D) = ((A - B)+ B / 9) * C * 3/4 |
| 1 | 1 | 5% | \$1,854,389 | \$42,283 | 17.0% | \$231,642 |
| 2 | 2 | 10% | \$4,143,312 | \$385,296 | 18.2% | \$518,813 |
| 3 | 3 | 15% | \$3,728,429 | \$530,251 | 19.1% | \$466,579 |
| 4 | 4 | 20% | \$989,405 | \$159,418 | 19.5% | \$123,976 |
| 5 | 5 | 25% | \$1,644,518 | \$369,840 | 20.9% | \$206,247 |
| 6 | 6 | 30% | \$212,299 | \$61,934 | 22.5% | \$26,535 |
| 7 | 7 | 35% | \$638,112 | \$202,032 | 23.2% | \$79,784 |
| 8 | 8 | 40% | \$0 | \$0 | 25.1% | \$0 |
| 9 | 9 | 45% | \$118,901 | \$49,238 | 26.4% | \$14,876 |
| 10 | 10 | 50% | \$348,864 | \$166,152 | 29.0% | \$43,755 |
| 11 | 11 | 55% | \$67,675 | \$34,224 | 30.3% | \$8,466 |
| 12 | 12 | 60% | \$0 | \$0 | 34.2% | \$0 |
| 13 | 13 | 65% | \$93,730 | \$59,947 | 38.7% | \$11,739 |
| 14 | 14 | 70% | \$547,253 | \$375,802 | 42.9% | \$68,599 |
| 15 | 15 | 75% | \$0 | \$0 | 47.0% | \$0 |
| 16 | 16 | 80% | \$0 | \$0 | 53.7% | \$0 |
| 17 | 17 | 85% | \$0 | \$0 | 62.6% | \$0 |
| 18 | 18 | 90% | \$0 | \$0 | 75.2% | \$0 |
| 19 | 19 | 95% | \$0 | \$0 | 93.9% | \$0 |
| 20 | 20 | 100% | \$0 | \$0 | 125.3% | \$0 |
| 21 | TOTAL | | \$14,386,886 | \$2,436,418 | | \$1,801,012 |

1. Following FCC Order on Reconsideration in CC Docket No. 96-45 (FCC 08-51) released on February 14, 2008, Payphone Service Provider Lines are excluded from calculation of MLB EUCL FUSC surcharges. See 2015 Annual Filing V4 EX 6 COL A.

2. 2014 Annual Filing V4 EX 6 COL B

3. The following formula is used to calculate Multi-line FUSC surcharge for each band:

$$\text{Contribution Factor} / (1 - 8/9 * \text{Business Centrex Rev} / \text{MLB Rev}).$$

For bands with no MLB revenue projected, the following formula is used to calculate Multi-line FUSC surcharge for each band:

$$\text{Contribution Factor} / (1 - 8/9 * \text{Mid-point of Band Business Centrex Percentages}).$$

SEPTEMBER 16, 2015 NECA ACCESS CHARGE FILING
DEVELOPMENT OF 4Q 2015 THROUGH 2Q 2016 FEDERAL UNIVERSAL SERVICE CHARGE REVENUE
(\$ MILLION)

EXHIBIT 3

| LINE NO. | ITEM | SOURCE | AMOUNT ¹ |
|-------------|--|--------------------------------------|---------------------|
| 1 | PROJECTED INTERSTATE RETAIL REVENUE | Sum of EX1 Col A Line 2 to Line 4 | \$526.1 |
| 2 | PROJECTED BANDED MLB REVENUE | EX 2 COL A LINE 21 / 1,000,000 * 3/4 | \$10.8 |
| 3 | PROJECTED INTERSTATE RETAIL REVENUE EXCLUDING BANDED MLB REVENUE | LINE 1 - LINE 2 | \$515.2 |
| 4 | FUSC SURCHARGE | EX 1 COL B LINE 2 | 16.7% |
| 5 | PROJECTED FUSC SURCHARGE FROM NON-BANDED REVENUE | LINE 3 * LINE 4 | \$86.0 |
| 6 | PROJECTED FUSC SURCHARGE FROM BANDED MLB REVENUE | EX 2 COL D LINE 21 /1,000,000 | \$1.8 |
| 7 | PROJECTED 4Q 2015 THROUGH 2Q 2016 FUSC REVENUE | LINE 5 + LINE 6 | \$87.8 |

NOTE

1 Calculations are done with more digits than displayed.

SEPTEMBER 16, 2015 NECA ACCESS CHARGE FILING

TEST PERIOD: JULY 1, 2015 - JUNE 30, 2016

DEVELOPMENT OF ADJUSTED TEST PERIOD FEDERAL UNIVERSAL SERVICE CHARGE REVENUE

EXHIBIT 4

(\$ MILLION)

| <u>LINE NO.</u> | <u>ITEM</u> | <u>SOURCE</u> | <u>AMOUNT</u> ¹ |
|-----------------|--|-----------------------------------|----------------------------|
| 1 | 3Q 2015 FUSC REVENUE | EX 1 COL C LINE 1 | \$29.9 |
| 2 | PROJECTED 4Q 2015 THROUGH 2Q 2016 FUSC REVENUE | EX 3 LINE 7 | \$87.8 |
| 3 | ADJUSTED TEST PERIOD FUSC REVENUE | LINE 1 + LINE 2 | \$117.8 |
| 4 | FILED TEST PERIOD FUSC REVENUE | 2015 ANNUAL FILING V4 EX 7 LINE 9 | \$119.9 |

NOTE

1 Calculations are done with more digits than displayed.