

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

ACCESS SERVICE
TARIFF F.C.C. No. 5

TRANSMITTAL NO. 1489
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VOLUME 1: DESCRIPTION AND JUSTIFICATION

Defines the purpose of the filing, describes the rate structure of the access services and summarizes results.

VOLUME 1-2: TARIFF REVIEW PLAN

VOLUME 2: DEVELOPMENT OF ACCESS ELEMENT REVENUE
REQUIREMENTS

Provides a projection of the companies' interstate investments, expenses, revenues and taxes for the past year cost of service study and test year.

VOLUME 3: DEVELOPMENT OF BASELINE DEMAND AND REVENUES

Provides the development of the demand quantities and revenues for the test year at current rates.

VOLUME 4: COMMON LINE RATE DEVELOPMENT

Describes and documents the procedures used to develop Common Line Rates and Federal Universal Service Charges.

VOLUME 5: TRAFFIC SENSITIVE RATE DEVELOPMENT

Describes and documents the procedures to develop recurring and non-recurring rate levels for Switched Access and Special Access services. It also describes the procedures used to develop miscellaneous charges for additional engineering, maintenance and testing of these services, as well as describing the development of Eligible Recovery, ARC rates, and CAF ICC support estimates.

TRANSMITTAL NO. 1489

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL UNIVERSAL SERVICE
CHARGES

TABLE OF CONTENTS

Section 1		
	INTRODUCTION	1
Section 2		
A.	OVERVIEW	2
B.	CALCULATION OF SUBSCRIBER LINE CHARGES AND REVENUES	2
	1. Calculation of Subscriber Line Charges	2
	2. End User SLC Revenues and Special Access Surcharge Revenues	5
C.	ISDN AND DS1 CHANNEL SERVICE LINE PORT CHARGES AND REVENUE	5
	1. Background	5
	2. Cost Support.....	6
	3. Rate Development.....	6
Section 3		
	FEDERAL UNIVERSAL SERVICE CHARGE DEVELOPMENT	8
A.	OVERVIEW	8
B.	DEVELOPMENT OF FEDERAL UNIVERSAL SERVICE CHARGES	8
EXHIBITS 1 – 7		

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL
UNIVERSAL SERVICE CHARGES

Section 1

INTRODUCTION

This Volume describes the rate development process for common line (CL) access rate elements as well as the Federal Universal Service Charge (FUSC). CL rate elements recover non-traffic sensitive (NTS) plant costs assigned to the base factor portion (BFP). The FUSC recovers universal service contributions.¹

The CL access element revenue requirements are recovered through five revenue sources: subscriber line charges (SLCs); Integrated Services Digital Network (ISDN) line port charges; DS1 line port charges; special access surcharges (SAS); and Connect America Fund Broadband Loop Support Voice (CAF BLS Voice) formerly known as Interstate Common Line Support (ICLS).² SLC charges, ISDN line port charges, DS1 line port charges, and SAS are billed to local exchange carrier (LEC) customers. NECA pool members receive CAF BLS Voice from the federal universal service program as described in Volume 2. FUSC is a surcharge applied to interstate retail service revenue, including all common line end user revenue, special access retail revenue, and Access Recovery Charge (ARC) revenue.

The development of SLCs, ISDN and DS1 line port charges is addressed in Section 2. Section 3 describes the development of the FUSC surcharge.

¹ See 47 C.F.R. § 69.131.

² 47 C.F.R. § 54.901.

Volume 4

**DEVELOPMENT OF COMMON LINE RATES AND FEDERAL
UNIVERSAL SERVICE CHARGES**

Section 2

SUBSCRIBER LINE CHARGES, ISDN AND DS1 LINE PORT CHARGES

A. OVERVIEW

This section discusses the development of SLCs for companies participating in NECA's end user tariff as well as the development of ISDN line port charges and DS1 line port charges. In addition, it explains the development of projected end user revenues for the NECA CL pool in total.

B. CALCULATION OF SUBSCRIBER LINE CHARGES AND REVENUES

1. Calculation of Subscriber Line Charges

SLCs recover a portion of total interstate NTS subscriber loop costs through fixed end user monthly charges. They are assessed on a per customer premises termination (CPT) basis, as if each customer subscribed to single-party service and had an individual local exchange line between the customer's premises and the LEC's Class 5 end office.

Sections 69.104(n), (o), and (p) of the Commission's rules describe the end user common line rate levels for non-price cap LECs. These rules state the maximum monthly charge for each residential or single-line business local exchange subscriber line shall be the lesser of:

- (1) 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,
- (2) \$6.50.³

The maximum monthly SLC for multi-line business lines is the lesser of \$9.20 or 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.⁴

On September 26, 2002, NECA filed a petition for rulemaking requesting the Commission assess the same number of SLCs for DS1 channel services⁵ as it does for Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI) services and amend its rules to require that no more than five multi-line business SLCs be assessed for loops used to provide DS1 channel services.⁶ In its July 19, 2004 Order, the FCC granted an interim partial waiver of section 69.104(q) of its rules to permit rate-of-return carriers to reduce from twenty-four to five the number of multi-line business SLCs they assess on customers of derived channel T-1 service where the customer provides the terminating channelization equipment.⁷

³ 47 C.F.R. § 69.104(n)(1).

⁴ 47 C.F.R. § 69.104(o).

⁵ DS1 Channel Service arrangements are also known as Channelized T1 Digital Transport Service or DCS.

⁶ See National Exchange Carrier Association, Inc. Petition to Amend Section 69.104 of the Commission's Rules, RM-10603, Petition for Rulemaking (filed Sept. 26, 2002).

⁷ See National Exchange Carrier Association Petition to Amend Section 69.104 of the Commission's Rules, *Order Granting Petition For Rulemaking, Notice of Proposed Rulemaking, and Order Granting Interim Partial Waiver*, WC Docket No. 04-259, RM-10603, 19 FCC Rcd 13591 (2004) (*Interim Partial Waiver Order*).

One single-line SLC applies for an Integrated Services Digital Network (ISDN) Basic Rate Interface (BRI) service and no more than five multi-line business SLCs apply for an ISDN PRI service.⁸ Five multi-line business SLCs apply for each DS1 Channel Service arrangement.⁹

To determine the applicable SLCs for LECs participating in NECA's end user tariff, NECA divided one-twelfth of each study area's projected end user common line annual revenue requirement less its ISDN line port, DS1 line port and SAS revenues plus projected uncollectibles by its projected average number of local exchange service subscriber lines for the 2016/2017 test period.¹⁰ Based on the computed monthly cost per line (CPL), each study area was assigned to one of fifteen target rate bands. For the 2016/2017 test period all study areas have their CPL above \$9.20 and are assigned to the same rate band group.

Monthly rate levels for each target rate band were calculated based on the average cost for study areas falling within that rate band. The calculation of the banded rates is displayed in Exhibit 1. Study area rate band assignments for multi-line business SLCs are listed in Section 17.5.1 of NECA Tariff F.C.C. No. 5.

⁸ 47 C.F.R. § 69.104(p).

⁹ See National Exchange Carrier Association, Inc., Revisions to Tariff F.C.C. No. 5, Transmittal No. 1035, filed August 10, 2004.

¹⁰ Projected uncollectibles are calculated by applying the 2015 uncollectible percentage (*i.e.*, carrier's ratio of historical settlement uncollectible amount to historical SLC revenue) to common line revenue requirement minus ISDN line port, DS1 line port and SAS revenues.

2. End User SLC Revenues and Special Access Surcharge Revenues

For NECA end user tariff participants, projected end user revenues were calculated at the study area level as follows:

- (1) Test period chargeable CPT counts for residence / single-line business and multi-line business lines were summed separately for each study area.
- (2) Monthly revenues were calculated by multiplying single-line and multi-line CPT totals by their respective SLCs.
- (3) Monthly revenues were annualized by multiplying by 12.
- (4) End user SLC revenues were then summed for all end user service categories.

Exhibit 2 displays the details of end user SLC and special access surcharge revenues. Projected test period SLC revenue for the end user tariff participants is \$301.9 million. For companies participating in NECA's CL tariff but filing their own end user tariffs, projected test period SLC revenue is \$3.0 million. The projected SLC uncollectible for all CL tariff participants is \$0.5 million. The projected net SLC revenue was calculated as end user SLC revenues less projected uncollectibles. The projected net SLC revenue is \$304.4 million. The Special Access Surcharge (SAS) revenues are projected to be \$0.005 million. The total projected SLC and SAS net revenue is \$304.4 million.

C. ISDN AND DS1 CHANNEL SERVICE LINE PORT CHARGES AND REVENUE

1. Background

Section 69.130 of the Commission's rules permits rate of return carriers to recover through separate end user charges the costs of ISDN line ports exceeding the costs of a line port

used for basic analog service.¹¹

In its August 10, 2004 filing, NECA filed revisions to implement the partial waiver of section 69.104(q) and proposed the same rate for the DS1 line port element as the ISDN PRI line port element.¹²

2. Cost Support

In 2006, Rate Development Task Group (RDTG)¹³ members supplied underlying cost information related to common equipment, software, and per line costs for both ISDN PRI and DS1 channel service arrangements.¹⁴ In addition, RDTG members supplied the same type of underlying cost information for basic local exchange service.

3. Rate Development

As displayed in Exhibit 3, the proposed rate for DS1 line ports and ISDN PRI line ports is \$23.51. The proposed rate for ISDN BRI line ports is \$2.23. The resulting total line port revenue of \$2.0 million is displayed in Exhibit 4.

¹¹ 47 C.F.R. § 69.130.

¹² See note 9, *supra*.

¹³ The Rate Development Task Group is a group of selected participants (See Volume 5, Exhibit 1, Workpaper 1) in the NECA Traffic Sensitive (TS) and Common Line (CL) Pools. Members of the RDTG represent approximately 7.6 percent of the TS Pool revenue and about 0.3 million of 3.6 million access lines in the CL Pool. Other companies may participate as associates to the RDTG on an ad hoc basis, and did in this exercise. NECA uses the RDTG to develop cost characteristics representative of pooling companies and to facilitate the rate development process and provide supporting information for NECA tariff filings.

¹⁴ 2006 NECA Ports Investment Cost Study.

Details of proposed common line revenues collected from SLCs, ISDN line ports, DS1 line ports, SAS and CAF BLS VOICE are displayed in Exhibit 5. Test period CAF BLS VOICE for companies in NECA's common line pool is projected to be \$967.6 million as shown on Exhibit 5 line 4. The total 2015-2016 test period common line proposed revenue of \$1,274.0 million is shown on Exhibit 5 line 5.

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL
UNIVERSAL SERVICE CHARGES

Section 3

FEDERAL UNIVERSAL SERVICE CHARGE DEVELOPMENT

A. OVERVIEW

This section discusses the development of FUSC surcharges for NECA CL pool participants listed in Section 17.7 (A) of NECA Tariff F.C.C. No. 5.

B. DEVELOPMENT OF FEDERAL UNIVERSAL SERVICE CHARGES

The Universal Service funding obligation is recovered through a surcharge on interstate end user common line access retail revenues, ARC revenues, and interstate end user special access retail revenues.¹⁵ Only companies required to contribute to the Universal Service fund, listed in Section 17.7 (A) of NECA Tariff F.C.C. No. 5, will apply these charges to their end users.

The end user common line, ARC and special access retail revenue FUSC surcharge is set at 17.9 percent, which is equal to the third quarter 2016 Universal Service Contribution Factor.¹⁶ This factor is applied to end user common line, ARC and special access retail revenues for all companies listed in Section 17.7 (A) of NECA Tariff F.C.C. No. 5, except for those companies

¹⁵ See Volume 2, Exhibit 9.

¹⁶ *Proposed Third Quarter 2016 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, DA 16-658 (rel. June 14, 2016).

opting for MLB EUCL FUSC optional rate banding, listed in Section 17.7 (B) of NECA Tariff F.C.C. No. 5.¹⁷ These companies apply the MLB EUCL FUSC banded rates discussed below to their multi-line business EUCL customers.

On February 14, 2008, the FCC released an Order stating local exchange carriers should not charge Payphone Service Providers (PSP) additional USF line-item amounts related to Centrex adjustments.¹⁸ NECA excluded PSP lines from the calculation of MLB EUCL FUSC surcharges.

NECA introduced MLB EUCL FUSC optional rate banding in May 2003.¹⁹ This is a tiered pricing structure allowing LECs to recover contribution costs from Centrex customers using the 1/9 equivalency ratio and recover the remaining contribution costs associated with Centrex customers from other multi-line business EUCL customers.²⁰

¹⁷ The FUSC surcharge is applied to ARC revenue of NECA Traffic Sensitive Pool members.

¹⁸ See Federal-State Joint Board on Universal Service, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, *Order on Reconsideration*, 23 FCC Rcd 2567 (2008).

¹⁹ See National Exchange Carrier Association, Inc., Access Tariff Revisions, Transmittal No. 985, filed May 16, 2003.

²⁰ 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, *Report and Order and Second Further Notice of Proposed Rulemaking*, 17 FCC Rcd 24952 (2002); *Order and Second Order on Reconsideration*, 18 FCC Rcd 4818 at ¶3 (2003).

Each company opting for MLB EUCL FUSC rate banding was placed in a rate band designed to recover contribution costs of that band using the following methodology:

- The rate banding process begins with a preliminary range of rate bands and associated rates.
- A company's projected multi-line business retail revenue is multiplied by the contribution factor set by the Commission. This is the MLB Federal Universal Service Charge Revenue Requirement.
- Forecasted business Centrex lines are separated from other multi-line business lines.
- Companies with similar business Centrex shares of total multi-line business lines are placed in the same band.²¹
- Using the 1/9th rule for assessing business Centrex lines, a band's MLB EUCL FUSC contribution factor is derived as:

$$\text{Contribution Factor} / (1 - 8 / 9 * \text{band business Centrex revenue share}).$$

Applying the 1/9th equivalency ratio for Centrex business access lines, the banded MLB EUCL FUSC surcharge yields the same FUSC revenue as the contribution requirement of the band. Exhibit 6 shows the optional MLB EUCL FUSC surcharges by band and their projected FUSC revenue from multi-line business services. Exhibit 7 shows the total test period FUSC revenue projection of \$120.2 million.

²¹ Entities were assigned to bands based on their proportion of business Centrex lines to total multi-lines. Where business Centrex represents between 0% and 5% of total business multi-lines, the entities are assigned to Band 1. Entities with between 5% and 10% Centrex lines are assigned to Band 2. For each higher band, the minimum and maximum percent of Centrex lines is increased by 5%.