

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

ACCESS TARIFF REVISIONS TARIFF F.C.C. NO. 5
TRANSMITTAL NO. 1503

Description and Justification

TABLE OF CONTENTS

I. Introduction and Summary

II. Revenue Requirement Changes

III. Rate Development Overview

a. Consumer Broadband-Only Loop

b. A/SDSL Data-Only Second Mile

IV. Changes to CAF ICC Support

I. INTRODUCTION AND SUMMARY

On March 30, 2016, the Federal Communications Commission (FCC or Commission) released its Universal Service Fund Rate of Return Reform Order.¹ Based on that order, this filing reassigns costs from the special access category to the new Consumer Broadband-Only Loop (CBOL) category in common line, using the FCC-mandated estimation method.² This filing also introduces regulations and rates for company-specific CBOL charges; reduces Asymmetric/Symmetric Digital Subscriber Loop (A/SDSL) data-only monthly rates to reflect the removal of loop costs, leaving where applicable costs associated with the provision of second mile service; and makes a number of company-specific A/SDSL data-only rate band assignment changes.

This filing covers the period from January 1, 2017 through June 30, 2017. The cost and demand projections underlying NECA's *2016 Annual Filing*³ have been used for this filing, with the exception of broadband-only data updates. This filing describes rate development for the CBOL rates and A/SDSL data-only second mile rates. No other rates beyond those mentioned have been adjusted. The cost and the corresponding revenue shift from special access to the new CBOL category resulted in a *de minimis* net effect to remaining special access rates. Therefore rates for both common line and special access services continue to be targeted to earn at the authorized 11.0 percent rate of return.

¹ See Connect America Fund; ETC Annual Reports and Certifications; Developing a Unified Inter-carrier Compensation Regime, WC Docket No. 10-90, WC Docket No. 14-58 and CC Docket No. 01-92, Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087 (2016) (*USF RoR Reform Order*).

² 47 C.F.R § 69.311 and 69.416.

³ See National Exchange Carrier Association, Inc., Tariff FCC No. 5, Transmittal No. 1489 filed June 16, 2016 (*2016 Annual Filing*).

This filing includes reductions to certain carriers' CAF ICC support amounts in compliance with the requirement to impute Access Recovery Charges (ARCs) to consumer broadband-only loops.⁴ There are 379 companies in the Traffic Sensitive Pool with broadband-only demand. These companies will therefore experience reductions in projected CAF ICC support. The imputation was done using a weighted average ARC rate by study area, per the Commission's October 6, 2016 order.⁵ There are no proposed changes to currently effective ARC rates assessed on voice and voice/data lines in this filing as the imputation was a reduction to the carriers' CAF ICC support amounts, not their Eligible Recovery amounts.

Data displayed in this filing reflects common line pool exits for 24 FairPoint study areas. These study areas are exiting the common line pool effective January 1, 2017 under authority of special permission No. 16-012.⁶ A listing of these FairPoint study areas is provided in Exhibit 1. The number of study areas participating in NECA's common line pool for the remainder of the current 2016/2017 tariff test period has now changed from 1,110 to 1,086.

Required carrier certifications are contained in Appendices A and B. Appendix A contains carrier certifications attesting to the accuracy of data supplied by carriers to NECA in support of estimated CAF ICC calculations.⁷ Appendix B contains carrier certifications attesting to the accuracy of the carriers' CAF BLS data. These certifications were obtained via the Form 508 certification filed on October 3, 2016

⁴ *USF RoR Reform Order*, 31 FCC Rcd at 3161-62, para. 203

⁵ *See Access Charge Tariff Filings Introducing Broadband-Only Loop Service Order*, WC Docket No. 16-317, Order, 31 FCC Rcd 11017 (2016) (*Procedures Order*).

⁶ *See Letter from Pamela S. Arluk, Chief, Pricing Policy Division, Wireline Competition Bureau, to Karen Brinkmann, FairPoint Communications, Special Permission No. 16-012 (Dec.13, 2016).*

⁷ These certifications will be filed with USAC on December 19, 2016 in support of carrier data underlying calculations of ARC rates and CAF ICC support amounts.

with USAC; or for companies with updated consumer broadband-only loops after the filings with USAC, with new certifications attesting to the accuracy of a carrier's underlying data submitted with this filing.

II. REVENUE REQUIREMENT CHANGES

Common line and special access revenue requirement projections underlying this filing reflect the cost reassignment of consumer broadband-only loops from the traffic sensitive (TS) special access category to the new CBOL category, as specified in the *USF RoR Reform Order*. The cost of consumer broadband-only loops removed from TS special access was determined by using the estimation method set forth in sections 69.311 and 69.416 of the Commission's rules.

For purposes of deriving the amount of CBOL costs to be removed from the TS special access category, uncapped common line (CL) investment and expenses from the 2016/2017 projections for each study area were calculated using an interstate allocation of 100 percent. The CL investment and expenses produced by this calculation were divided by the number of projected voice and voice/data lines in each study area underlying the *2016 Annual Filing* to derive the interstate CL investment and expenses per line. These uncapped interstate CL amounts per line were multiplied by the number of projected consumer broadband-only loops to derive the consumer broadband-only loop investment and expenses to be removed from the TS special access category. CBOL costs derived in this manner were removed for the 221 rate-of-return companies with broadband-only demand that currently participate in NECA's DSL tariff.

CBOL costs removed from the TS special access category for study areas in NECA's DSL tariff, for the six month period January 1 to June 30, 2017, equal \$19.5M.

The CBOL revenue requirement transferred to the CBOL category was calculated using the capped projected CL investment and expenses for each study area based on the methodology described above. The capped interstate CL revenue requirement per line was multiplied by the number of projected consumer broadband-only loops to derive the consumer broadband-only loop revenue requirement to be assigned to the CBOL category. CBOL costs derived in this manner have been assigned to the new CBOL category for the 328 NECA CL pool members that have opted to have NECA tariff their CBOL rate.⁸ CBOL costs assigned to the CBOL category in CL for the six month period January 1 to June 30, 2017 equal \$55.6M.

The reassignment of CBOL costs results in a revised 2016/2017 test period TS special access revenue requirement of \$608.3M, holding all non-CBOL cost projections at the *2016 Annual Filing* level as noted above. This includes a \$5.7M increase due to CBOL loops not included in the *2016 Annual Filing's* projected special access revenue requirement. Based on NECA's current view of special access cost and demand, with the data-only DSL rate changes proposed herein, the difference between total projected special access revenues and costs for the 2016/2017 test period would be only \$73K (\$0.073M).

⁸ Of the companies in the common line pool with projected CBOL demand, approximately 75% elected to have NECA tariff their CBOL rate.

III. RATE DEVELOPMENT OVERVIEW

This section describes the rate development processes used by NECA for this filing.

A. CBOL

NECA calculated a CBOL charge for each study area in accordance with section 69.132 of the Commission's rules, using certified broadband-only data for the six month period January 1 to June 30, 2017. CBOL charges are not rate banded.

An illustrative CBOL rate calculation is shown in the table below. Line 1 displays a hypothetical projected CBOL revenue requirement, computed as described in Section II above. CAF BLS broadband-only support in Line 2 and the CAF BLS broadband-only support reduction where a study area exceeds the current \$250 per line per month support cap (Line 3) are netted from the revenue requirement in Line 1⁹, yielding the amount on Line 4. This amount was then divided by average monthly broadband-only loops (Line 5), divided by 6, yielding the CBOL charge per month on Line 6. The calculated monthly CBOL charge ranges from \$4.32 to \$353.17 for study areas that elected to have NECA tariff their CBOL charge.

⁹ *Wireline Competition Bureau Announces Availability of Budget Control Mechanism Calculations for Rate-of-Return Carriers for the Period From January 1, 2017 Through June 30, 2017*, WC Docket No. 10-90, Public Notice, 31 FCC Rcd. 11838 (2016). NECA estimated CAF BLS support following the USAC methodology for study areas that updated and certified broadband-only data subsequent to the Form 508 filing with USAC in October 2016.

Illustrative CBOL Rate Calculation

Line	Description	Value
1	CBOL revenue requirement, Jan. - Jun. 2017	\$200,000
2	CAF BLS attributed to broadband-only, Jan. - Jun. 2017	\$10,000
3	Reduction in CAF BLS broadband-only due to \$250/loop/month support cap, Jan. - Jun.2017	\$1,000
4	Line 1 - Line 2 - Line 3	\$189,000
5	Average consumer broadband-only loops	350
6	CBOL charge per month Jan. – Jun. 2017 (Line 4 / Line 5 / 6)	\$90.00

Study areas were given the option to have NECA tariff a CBOL charge lower than the calculated CBOL charge; 106 study areas elected this option. The tariffed monthly CBOL charge for these 106 study areas ranges from \$0.00 to \$73.00. Study areas are required, however, to impute revenues at the calculated CBOL charge for purposes of reporting CAF BLS data to USAC and for pool settlement distribution and support true-up calculations. The imputed projected consumer broadband-only revenues for January 1 through June 30, 2017 for the 328 study areas amount to \$33.9M.

CAF BLS broadband-only support filed October 3, 2016 for NECA CL tariff participants totaled \$44.0M for the first half of 2017. CAF BLS broadband-only support for the 328 companies that have opted to have NECA tariff their CBOL totals \$21.8M for the first half of 2017.

B. A/SDSL DATA-ONLY RATE ADJUSTMENTS

The Commission's *USF ROR Reform Order* expands the Interstate Common Line Support (ICLS) mechanism to a new Connect America Fund Broadband Loop Support (CAF BLS) mechanism intended to recover consumer broadband-only loop costs. This requires that an amount equal to data-only loop revenue requirement be shifted from the special access category to the new CBOL category. NECA proposes to reduce A/SDSL data-only rates to reflect this reassignment of loop costs. The proposed rates will recover A/SDSL second mile transport costs.

Second mile transport is defined as interoffice facility connecting the DSL serving wire center (SWC) and the SWC where the DSL access service connection point (ASCP) is located. No second mile transport is present in a study area if no interoffice facility is used, i.e. if a study area has a DSL ASCP at each of its DSL SWCs.

Based on study area network configurations in FCC Tariff No. 4, NECA identified 368 study areas with no second mile transport out of 585 DSL tariff participants. NECA proposes to reassign this group of study areas to A/SDSL data-only Rate Band 1, which has a proposed monthly recurring rate of \$0.00 for all A/SDSL speed options to reflect the removal of loop related costs and the absence of second mile costs.

For 217 companies that have second mile transport in their network configuration, NECA used data-only loop and second mile costs reported in the 2015 Cost Study to develop the ratio of second mile revenue requirement to total data-only revenue requirement. NECA applied this ratio to the 2016/2017 test period data-only revenue requirement to estimate second mile revenue requirement for the second half of the 2016/2017 test period. Study areas with a second mile cost per line that were significantly different from the average were reassigned to a lower or higher rate band. NECA kept A/SDSL data-only rate band assignments unchanged for most companies in this group and implemented an overall A/SDSL data-only

rate reduction across all rate bands to reflect the removal of data-only revenue requirement related to loops. NECA has maintained the total number of A/SDSL data-only rate bands at 50.

Exhibit 2 summarizes the derivation of the special access A/SDSL data-only rate change for the remaining six months of the 2016/2017 test period. For study areas with no second mile transport, NECA estimates \$5.9M data-only revenue at current rates and bands and \$0 revenue requirement after revenue requirement related to loops is removed. NECA proposes a -100% rate change for these study areas with no second mile transport. For study areas with second mile transport, NECA estimates \$6.5M data-only revenue at current rates and bands and \$0.338M revenue requirement after revenue requirement related to loops is removed. NECA proposes an average -94.79% rate reduction for study areas with second mile transport. Overall, for all DSL participants, NECA estimates \$12.39M data-only revenue at current rates and \$0.338M revenue requirement for second mile transport costs. NECA proposes for all DSL tariff participants an average -97.27% rate reduction for A/SDSL data-only service. Exhibit 3 shows projected data-only revenue for the six-month period for each rate band. As indicated above, Band 1 has a monthly rate of \$0 for all A/SDSL data-only speed options.

IV. CHANGES TO CAF ICC SUPPORT

The *USF/ICC Transformation Order* established CAF ICC support as a universal service support mechanism designed to recover switched access Eligible Recovery not recovered through ARC rates. The *USF ROR Reform Order* required Rate-of-Return carriers to begin imputing ARC revenues for broadband-only lines in January 2017 to avoid unintentional increases in CAF ICC support.¹⁰ The imputed ARC revenue is derived by multiplying the weighted average ARC per line per month by the

¹⁰ See *USF RoR Reform Order*, 31 FCC Rcd at 3087.

broadband-only lines at the study area level.¹¹ The imputed ARC revenue is calculated for six months to reflect the impact of the first six months of 2017. FairPoint companies were exempted from this imputation due to their unique situation relative to USF support.¹²

Exhibit 4 displays estimated CAF ICC support produced by subtracting the imputed ARC revenue from the CAF ICC support (post true-up view) in the *2016 Annual Filing* and subsequent amendments.¹³ The imputation reduced CAF ICC for the first six months of 2017 by \$1.7M. CAF ICC support for NECA TS pool members is now estimated to be \$320.3M for the 2016/2017 tariff period.

¹¹ See *Procedures Order*, 31 FCC Rcd at 11017.

¹² See *Connect America Fund*, WC Docket No. 10-90, *ETC Annual Reports and Certifications*, WC Docket No. 14-58, *Developing a Unified Intercarrier Compensation, Regime*, CC Docket No. 01-92, Order, DA 16-1384, n.21 (rel. Dec. 14, 2016).

¹³ The forecasted CAF ICC support, ARC revenue and access lines are from the *2016 Annual Filing*, as amended on November 16, 2016.

List of FairPoint Study Areas Exiting
NECA's Common Line Pool on January 1, 2017

<u>Study Area Number</u>	<u>Company</u>	<u>State</u>	<u>Settlement Type</u>
170145	Bentleyville Communications Corporation t/d/b/a The Bentleyville Telephone Company	PA	A
150073	Berkshire Telephone Company	NY	C
462192	Big Sandy Telecom, Inc.	CO	C
411835	Bluestem Telephone Company/Sunflower Telephone Company, Inc.	KS	C
150078	Chautauqua & Erie Tel. Corp.	NY	C
431981	Chouteau Telephone Company	OK	C
462204	Columbine Acquisition Corp. d/b/a Columbine Telecom Company	CO	C
300604	Columbus Grove Telephone Company	OH	A
100015	Community Service Telephone Company	ME	A
341009	C-R Telephone Company	IL	C
341004	El Paso Telephone Company	IL	C
522412	Ellensburg Telephone Company	WA	C
421472	FairPoint Communications Missouri, Inc.	MO	C
300618	Germantown Independent Tel. Co.	OH	C
210291	GTC, Inc.	FL	C
210329	GTC, Inc.	FL	C
210339	GTC, Inc.	FL	C
170185	Marianna - Scenery Hill Tel. Co.	PA	C
341065	Odin Telephone Exchange, Inc.	IL	C
300649	Orwell Telephone Company	OH	C
190244	Peoples Mutual Telephone Company, Inc.	VA	C
461835	Sunflower Telephone Company, Inc.	CO	C
150084	Taconic Telephone Corp.	NY	C
522453	YCOM Networks, Inc.	WA	C

DECEMBER 19, 2016 NECA ACCESS CHARGE TARIFF FILING
 DERIVATION OF SPECIAL ACCESS DSL DATA-ONLY PROPOSED RATE CHANGE
 SECOND HALF OF TEST PERIOD: JANUARY 3, 2017- JUNE 30, 2017

EXHIBIT 2

LINE	DESCRIPTION	DSL Tariff Participants with No Second Mile Transport	DSL Tariff Participants with Second Mile Transport	Total
1	DSL Data-Only Revenue at Current 2016 Rates and Bands (6 months)	\$5,900,748	\$6,484,987	\$12,385,736
2	DSL Data-Only Revenue Requirement based on the <i>2016 Annual Filing</i> (6 months)	\$5,846,024	\$6,539,712	\$12,385,736
3	DSL Data-Only Revenue Requirement Related to Loops (6 months)	\$5,846,024	\$6,201,863	\$12,047,887
4	Revised DSL Data-Only Revenue Requirement (6 months) (LINE 2 - LINE 3)	\$0	\$337,849	\$337,849
5	% Special Access Rate Change for DSL Data-Only (LINE 4/ LINE 1 -1)	-100.00%	-94.79%	-97.27%
6	Proposed Billed DSL Data-Only Revenue (6 months) (LINE 1 * (1 + LINE 5))	\$0	\$337,849	\$337,849

DECEMBER 19, 2016 NECA ACCESS CHARGE TARIFF FILING
SPECIAL ACCESS DSL DATA-ONLY RATE BANDING
SECOND HALF OF TEST PERIOD: JANUARY 3, 2017- JUNE 30, 2017
DEVELOPMENT OF PROPOSED ACCESS RATE BANDING
TRAFFIC SENSITIVE POOL DSL TARIFF MEMBERS

EXHIBIT 3

LINE NO	RATE BAND 1	PROPOSED BAND RATE DISCOUNT/ PREMIUM FACTOR	PROJECTED DSL DATA-ONLY REVENUE 2
		(A)	(B)
1	1	-100.00%	\$0
2	2	-84.06%	\$0
3	3	-82.79%	\$0
4	4	-81.41%	\$0
5	5	-79.92%	\$0
6	6	-78.32%	\$0
7	7	-76.58%	\$0
8	8	-74.71%	\$0
9	9	-72.69%	\$0
10	10	-70.50%	\$0
11	11	-68.14%	\$236
12	12	-65.59%	\$0
13	13	-62.84%	\$0
14	14	-59.87%	\$0
15	15	-56.66%	\$70,431
16	16	-53.19%	\$0
17	17	-49.45%	\$4,553
18	18	-45.40%	\$24,256
19	19	-41.03%	\$761
20	20	-36.32%	\$15,684
21	21	-31.22%	\$408
22	22	-25.72%	\$32,325
23	23	-19.78%	\$27,106
24	24	-13.36%	\$6,369
25	25	-6.43%	\$4,916

LINE NO	RATE BAND 1	PROPOSED BAND RATE DISCOUNT/ PREMIUM FACTOR	PROJECTED DSL DATA-ONLY REVENUE 2
		(A)	(B)
26	26	1.06%	\$36,888
27	27	9.14%	\$1,224
28	28	17.88%	\$4,832
29	29	27.31%	\$325
30	30	37.49%	\$13,330
31	31	48.49%	\$2,627
32	32	60.37%	\$159
33	33	73.20%	\$2,749
34	34	87.05%	\$1,288
35	35	102.02%	\$0
36	36	118.18%	\$0
37	37	135.63%	\$283
38	38	154.48%	\$0
39	39	174.84%	\$0
40	40	196.83%	\$3,876
41	41	220.58%	\$0
42	42	246.22%	\$0
43	43	273.92%	\$0
44	44	303.83%	\$0
45	45	336.14%	\$0
46	46	371.03%	\$0
47	47	408.71%	\$83,222
48	48	449.41%	\$0
49	49	493.36%	\$0
50	50	540.83%	\$0
	Total		\$337,849

NOTE:

1. Band 1 has a rate of \$0. Based on network configurations in NECA's Tariff 4, NECA identified 368 study areas out of 585 DSL tariff participants with no Second Mile Transport and reassigned those study areas to Band 1.

2. Estimated projections for DSL Data-Only revenues and non-recurring charges (NRC) associated with DSL Data-Only service for the second half of the test period: January 3, 2017- June 30, 2017. DSL Data-Only revenue includes all DSL Data-Only related recurring and non-recurring charge revenues: Asymmetric DSL (ADSL) or Symmetric DSL (SDSL) lines and/or installation charges; DSL Network Reconfiguration; Multi Media Virtual Circuit Channel (MM-VCC) for ADSL, ATM and ETS; Low Bit Rate Virtual Circuit Channel (LBR-VCC) for ETS; Access Order Charge including DSL service; DSL waived installation/early termination fees.

Revenue reflects the tariff rate change after applying existing discounts and premiums.

DECEMBER 19, 2016 NECA ACCESS CHARGE FILING
SUMMARY OF CAF ICC SUPPORT REDUCED BY IMPUTED ARC REVENUES FOR BROADBAND-ONLY LINES

LINE	DESCRIPTION	SOURCE	AMOUNT (000)
Test Period 2016/2017 Filing (Post True-Up) View			
1	CAF ICC Support (Post True-Up) View	2016 Annual Filing and amendment ¹	\$322,088
2	Total ARC Revenue ²	2016 Annual Filing and amendment ¹	\$69,205
3	Total Access Lines ²	2016 Annual Filing and amendment ¹	2,577
4	Average ARC per Line per Month	LN 2/LN 3/12	\$2.24
5	Broadband-only Lines	Form 508 ³	134
6	Imputed ARC Revenue	LN 4 * LN 5 * 6 ⁴	\$1,747
7	Revised CAF ICC Support	LN1 - LN6	\$320,341

¹ The forecasted CAF ICC support, ARC revenue and access lines are from the 2016-2017 Annual Filing filed on 6/16/2016 WC Docket No.16-1489, and the amendment filed on 11/16/2016.

² Total ARC revenue and lines include revenue from residential excluding Lifelines, SLB and MLB lines.

³ CAF BLS data NECA filed with USAC on 10/03/2016 and subsequent certified updates in NECA CAF BLS Data Collection. Broadband-only lines exclude FairPoint companies.

⁴ The imputed ARC revenue is generated by multiplying the weighted average ARC by the projected Broadband-only lines for the first 6 months of 2017. The ARC revenue imputation does not apply to FairPoint companies (FCC Order released in WC Docket No. 10-90, WC Docket No. 14-58 and CC Docket No. 01-92 on December 14, 2016 DA 16-1384).