NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

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

TRANSMITTAL NO. 1519
JUNE 16, 2017

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, Federal Universal Service Charges, and Consumer Broadband-only Loop rates.

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.

Volume 2

DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENTS

Section 1

INTRODUCTION

This Volume describes methods and procedures used to develop calendar year 2016 Past Year Cost of Service Study (PYCOS) and 2017/2018 test period prospective revenue requirements. NECA requested cost information from all cost companies participating in NECA's pools. Data submitted by NECA pool participants ranged from access element detail to pool level detail. LECs participating in NECA's common line (CL) and traffic sensitive (TS) pools range in size from 19 to approximately 51,766 access lines, with the median line size being approximately 678 access lines.

For the purpose of collecting PYCOS and test period cost data, LECs were classified into two distinct groups. These groups are described in Section 2. Section 3 of this Volume provides a description of the methods used to collect and process data, summarizes the results and discusses the development of the forecasted revenue requirement for the test period.

In addition to LEC revenue requirements, the forecast also includes allocated NECA administrative expenses. This forecasted revenue requirement provides the starting point for the rate development processes described in Volumes 4 and 5 of this filing. NECA continues to use statistical techniques to assist in forecasting special access revenue requirements.

Provisions of the *USF/ICC Transformation Order*[1] require switched access revenue

[1] *See USF/ICC Transformation Order* ¶¶ 39, 851, 899. *See also* 47 C.F.R. §51.917.

requirements to be frozen at base period levels, defined as amounts underlying the 2011 tariff filing[2], and then reduced by 5 percent annually starting July 1, 2012. These provisions eliminate the need for NECA to develop a test period forecast of switched access revenue requirements. Section 3 discusses these techniques in further detail.

[2] *See 2011 Annual Access Tariff Filing.*

Volume 2

DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENT

Section 2

COMPANY CLASSIFICATIONS & DATA GUIDELINES

A. OVERVIEW

This section describes the processes NECA used to collect and prepare data for use in developing PYCOS and test period revenue requirements. Also included in this section is a description of the level of detail collected from companies and assumptions used in revenue requirement development. Exhibit 1, Workpaper 1 displays forecasted test period revenue requirements by access element. CL and TS special access revenue requirements for both PYCOS and test period reflect the transfer of broadband-only loop costs from special access to the CBOL element in common line and are calculated using a 10.75 percent RoR.

B. DESCRIPTION OF COMPANIES

Cost companies participating in at least one of NECA's CL or TS pools operate in a total of 658 study areas geographically dispersed throughout the country and comprise approximately 81.1 percent of NECA's CL test period revenue requirement, 83.0 percent of TS switched test period revenue requirement, 88.3 percent of TS special access test period revenue requirement, and 86.3 percent of the total TS test period revenue requirement. Details of the development of revenue requirements, and derivation of test period switched access revenue requirement based on the *USF/ICC Transformation Order*, are provided in Section 2 C and Section 3 below.

Average Schedule companies participating in NECA's pools operate in a total of 284 study areas. Average schedule companies do not prepare cost studies but settle on the basis of nationwide access settlement formulas updated annually by NECA. These formulas are the basis for the revenue requirement developed for average schedule companies in this filing. Details of the formulas used to develop revenue requirement for average schedule companies are included in Section 3 A.4 of this Volume. Average schedule study areas account for approximately 11.6 percent of the CL test period revenue requirement, 17.0 percent of TS switched access test period revenue requirement, 11.7 percent of TS special access test period revenue requirement and 13.7 percent of the total TS test period revenue requirement. The remaining 7.3 percent of the CL pool revenue requirement is attributable to universal service contribution expenses.

Exhibit 2 in Volume 1 shows the allocation of revenue requirements among the pools by settlement type.

C. DATA GUIDELINES

In addition to complying with the Commission's Part 32, 36, 54, 64, 65 and 69 rules, certain guidelines were established with regard to the provision of cost data. PYCOS and test period forecasts were developed in accordance with Commission directives including:

- The test period is July 1, 2017 through June 30, 2018.
- The PYCOS period is January 1, 2016 through December 31, 2016.
- The impacts of the *USF RoR Reform Order* are reflected in the development of revenue requirements as follows:
  - The authorized rate of return is 10.75 percent.
  - Corporate operations expense limitation is applied for all three years.
  - Capital investment allowance limitations are applied in 2017 and 2018.
  - Operating expense limitations are applied at 50 percent in 2017 and 100 percent

in 2018.

- Uncapped consumer broadband-only loop costs are reassigned from the special access category to the CBOL category in CL using the estimation method set forth in sections 69.311 and 69.416 of the Commission's rules, with the exception of companies using the waiver released by the FCC on March 20, 2017.[3] The impacts of the *2017 Modification of Average Schedules* are reflected in the development of revenue requirements.

- Separations factors and category relationships, if applicable, are frozen based on amounts from calendar year 2000 data.[4]

- Impacts of the *MAG Order*[5] on revenue requirements are in accordance with the *USF/ICC Transformation Order*[6] and are reflected as follows:
  - Shift of line port costs from TS to CL: Shifts are based on 2011/2012 base period amounts and reflect the *USF/ICC Transformation Order* provision limiting corporate operations expenses on CL revenue requirements;[7]
  - Reallocation of Transport Interconnection Charge (TIC) costs to all other access elements:
    - allocations are based on 2011/2012 base period amounts;
    - shifts to CL reflect the corporate operations limitation;[8]
    - shifts to Switched Access (SW) elements reflect the annual 5 percent reduction of SW costs starting July 1, 2012, as required by the *USF/ICC Transformation Order*;
  - Reallocation of a portion of General Support Facilities (GSF) costs to the billing and collection category for those companies using general purpose computers to provide billing and collection services to IXCs through unregulated affiliates.

- COE Category 3 investment was allocated using the factor as calculated in Section 36.125(f) and Section 36.125(j) of the Commission's rules, and frozen at the base period amounts. Resulting revenue requirements reflect the required 5 percent reduction per year.

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[3] *See March 20, 2017 Waiver Order.*

4 See 47 C.F.R. § 36.3.

[5] *See MAG Order*.

[6] *See 2013 Rule Clarification Order* ¶¶ 26-28.

[7] *See USF/ICC Transformation Order* ¶¶ 227-233.

[8] *See id.*

- The calculation of the rate base, including cash working capital and Allowance for Funds Used During Construction (AFUDC), is in accordance with Part 65 of the Commission's rules.[9]

- Switched access revenue requirement reflects provisions of the *USF/ICC Transformation Order*.[10] PYCOS SW revenue requirement is based on base period SW revenue requirement, which is frozen at 2011/2012 levels, decreased by 5 percent per year. Test period switched revenue requirement is based on base period amounts reduced by 5 percent per year, less 2011/2012 NECA administrative expenses; it incorporates adjustments required as a result of the *2012 Second Further Modification of Average Schedules*[11] as well as the *USF/ICC Transformation Order*, and includes the addition of 2017/2018 NECA administration expenses allocated to the TS switched element. The development of NECA administrative expenses is detailed in Section 3 A.5 of this section.

- NECA expenses are treated in accordance with Part 69 of the Commission's rules and reflect the addition of ARC revenues and CAF ICC support to total interstate SW revenues.[12]

- 800 Database query costs are reflected as expenses for Part 32 accounting purposes and exclude the cost recovery of Local Number Portability queries.

- The allocation of Other Billing and Collecting (OB&C) expenses to the CL element associated with end user subscriber line billing is limited to 5 percent.

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[9] No study areas have changed their cash working capital methodology to a lead-lag methodology. One study area has changed its cash working capital methodology to a standard allowance methodology: Matanuska Tel. Association.

[10] *USF/ICC Transformation Order* ¶¶ 39, 851, 899. *See also* 47 C.F.R. § 51.917.

[11] *See 2012 Second Further Modification of Average Schedules*.

[12] *See* NECA Petition for Clarification, WC Docket No. 10-90, *et al.* (filed Feb. 24, 2012).

Volume 2

DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENT

Section 3

REVENUE REQUIREMENT DEVELOPMENT

NECA's PYCOS and test period cost company revenue requirements are based on a combination of historical pool cost study trends, monthly settlement data, and 2016, 2017 and 2018 company-specific forecast data provided by the companies for CL and special access.[13] These baseline forecasts reflect 2017/2018 pool participation. NECA estimated test period average schedule company CL and special access settlements using the schedules filed in the *2017 Modification of Average Schedules*.

Revenue requirement projections reflect the shift of costs as specified in the *MAG Order* and provisions of the *USF/ICC Transformation Order* and *RoR USF Reform Order* as described in Section 2 C. In addition, NECA continues to reflect the impact of the *Separations Freeze Order* in the development of projected revenue requirements.[14] Allocation factors and category relationships, where applicable, in effect as of calendar year 2000, were frozen and used in the

[13] This filing reflects the effects of the 2016 Sandwich Isles Orders. Disallowed costs for the 2017/2018 test period account for approximately 1.5% of total pool special access revenue requirement. *See* AT&T Application for Review; and Sandwich Isles Communications, Inc. Petition for Declaratory Ruling, WC Docket No. 09-133, Memorandum Opinion and Order, 31 FCC Rcd. 12977 (2016). *See also* Sandwich Isles Communications, Inc., WC Docket No. 10-90, Order, 31 FCC Rcd. 12999 (2016).

[14] *See notes 27 and 28, Volume 1*.

test period revenue requirement development.[15]

Section A describes the data collection effort and methodology used to develop PYCOS and test period revenue requirements for cost and average schedule companies. Exhibit 1, Workpaper 1 provides a summary of prospective revenue requirement data by access element including the allocation of NECA expenses. Exhibit 2, pages 3 and 4, displays prospective cost data.

Section B describes the impacts of universal service support programs on revenue requirement development and the methodology used to develop the PYCOS and test period universal service support program amounts.

[15] There is no impact on LSS of crossing an access line threshold since LSS is eliminated effective July 1, 2012 for rate-of-return companies and frozen for price cap affiliates. Similarly there is no impact on SW costs resulting from the addition of a new category of investment (see 47 C.F.R. § § 36.3 (a) and (b)), due to the *USF/ICC Transformation Order* provision to freeze SW revenue requirement**.** *USF/ICC Transformation Order* ¶¶ 39, 851, 899. *See also* 47 C.F.R. §51.917.

A. POOL EXCHANGE CARRIER REVENUE REQUIREMENT AND ACCESS ELEMENT COST ALLOCATION

This section describes the methods used to develop PYCOS and projected test period revenue requirements. This section also discusses the processes used to disaggregate forecasted investment and expenses to Part 69 access elements.

1. Data Submitted by Cost Companies

Budget and forecast data were requested from cost company study areas. Forecast data includes investment, expenses, reserves, taxes and the basic separations components needed to develop revenue requirements by access element. The data form used to collect cost data from the companies is included as Exhibit 3.

NECA worked with each company to develop allocator-based revenue requirements by Part 69 element. To support this effort, NECA collected detailed information necessary to process NECA's Part 36/69 allocation program, or collected Part 69 access element detail as processed through the companies' own Part 36 and Part 69 programs.[16] These data were then aggregated to the NECA pool level. Since cost separations studies for calendar year 2016 are not yet available from these companies[17], the PYCOS data represent NECA's estimate of the 2016 results for the 2017/2018 pool membership. Test period revenue requirement forecasts for cost companies are based on historical pool cost study trends, monthly settlements data, and company-specific 2017 and 2018 forecast data at the Part 69 level of detail described above.

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[16] In all cases, NECA staff compared forecast data with historical cost study data. NECA staff reviews each LEC's cost study for compliance with Commission rules.

[17] *See* Volume 1, Section 4.

Study area test period revenue requirement forecasts were adjusted to incorporate changes to reflect the rules implemented by the *MAG Order* and incorporate provisions of the *USF/ICC Transformation Order* and *RoR USF Reform Order* as detailed in Section 2 and Section 3. First, for those companies using general purpose computers to provide billing and collection services to IXCs through unregulated affiliates, a portion of GSF costs associated with general purpose computers was allocated to billing and collection.[18] General purpose computers were allocated based on a modified version of the "Big Three" expense factor in Part 69.[19] Remaining GSF costs were allocated using the existing GSF allocation methodology. The change in the general purpose computer allocation resulted in a revenue requirement shift to billing and collection of approximately $0.5M. Exhibit 1, Workpaper 2 displays the impact of the allocation for general purpose computers.

Second, rate-of-return companies were required in the *MAG Order* to shift the non-TS line port costs from local switching to the CL category. Companies were previously given the option of performing a detailed cost study to determine the portion of non-TS line port costs, or to use a default of thirty percent of their local switching costs in lieu of performing detailed cost studies.[20] As a result of the *USF/ICC Transformation Order*, line port shifts to CL for the prospective test period are based on 2011/2012 base period costs, adjusted to reflect the

[18] *See MAG Order* ¶115. *See also* 47 C.F.R. § 69.307.

[19] *See* 47 C.F.R. § 69.307(e).

[20] For prior test periods, a line port shift factor of 30 percent was used for all companies except for those companies that indicated that they had line port costs different from the 30 percent default. *See* National Exchange Carrier Association, Inc., Annual 2007 Access Tariff Filing, Transmittal No. 1172 (filed Jun. 15, 2007), at Volume 2, for a listing of these companies.

limitation on corporate operations expenses on CL revenue requirement.[21] Exhibit 1, Workpaper 3, page 1 displays the reallocation of line port costs.

Third, NECA reallocated study area test period TIC amounts to other access categories based on 2011/2012 base period amounts with specific modifications described below. Amounts shifting within switched access elements reflect the required additional 5 percent decrease for test period 2017/2018. In determining the projected revenue requirements used in the TIC reallocation, the following adjustments were made: (1) local switching revenue requirement includes amounts previously recovered through LSS; (2) local switching revenue requirement used for the calculation of line port and TIC shifts from the local switching category to the CL category reflect the impact of the corporate operations limitation on CL revenue requirement;[22] (3) CL revenue requirement includes Connect America Fund Broadband Loop Support (CAF BLS); and (4) universal service contribution amounts are excluded. Exhibit 1, Workpaper 3, page 2 displays the reallocation of TIC revenue requirements to CL and special access elements.

Fourth, NECA reassigned consumer broadband-only loop costs from the special access category to the CBOL category in CL using the estimation method set forth in sections 69.311 and 69.416 of the Commission's rules, with the exception of companies using the waiver released by the FCC on March 20, 2017. For purposes of deriving the amount of CBOL costs to be moved from TS to CL, CL investment and expenses 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

[21] *See USF/ICC Transformation Order* ¶¶ 227-233.

[22] *Id.*

to derive the average CL investment and expenses per line. The average CL amount per line was multiplied by the number of projected consumer broadband-only loops to determine the consumer broadband-only loop investment and expenses to be moved from the special access category. CBOL costs totaling $59.7M were removed from TS for the rate-of-return companies with broadband-only demand that currently participate in NECA's DSL tariff. CBOL costs assigned to the new CBOL category for the 162 CL cost pool members that have opted to have NECA tariff their CBOL rate equal $112.7M.

This combined information was used to process NECA's Part 36 and Part 69 forecast model to determine pool and access element revenue requirement for the three-year period 2016, 2017 and 2018 using a RoR of 10.75 percent. All forecast data were then aggregated to the total pool level, with 2017 and 2018 data averaged to develop the company supplied CL and special access test period forecasted revenue requirement. For special access, this data, shown on Exhibit 5, was then compared to the revenue requirement developed through the trend model described below.

2. <u>Projected Revenue Requirement Forecast</u>

NECA continues to use independent projection techniques to evaluate the reasonability of forecast data submitted by companies and to determine whether adjustments to the company-supplied special access projections should be applied. NECA analyzed trends of recent historical revenue requirement data for special access only, since study area switched access revenue requirements are developed based on the *USF/ICC Transformation Order*.[23]

[23] *USF/ICC Transformation Order* ¶¶ 39, 851, 899. *See also* 47 C.F.R. § 51.917.

Specifically, NECA applied weighted moving average trends to special access costs in order to assess the slowdown in special access revenue requirement growth. In its trend analyses, NECA used a consistent set of cost company historical data from 2013 through 2015 for those companies participating in the NECA TS pool for the 2017/2018 test period. Using these historical data points captured a nearly flat growth of special access revenue requirements. Historical cost study revenue requirement data, with the effects of the *MAG Order* as detailed earlier in this Volume and recalculated at a RoR of 10.75 percent, were used in the trend models to project revenue requirements for calendar years 2016, 2017, and 2018. An average of 2017 and 2018 data was used to develop a test period projection.

After extensive review of the company supplied data, historical pool cost study trends, monthly settlements data, and the results of the weighted moving average trend models, NECA made adjustments to the company-supplied projections, as described below.

Historically, company supplied special access revenue requirements have been significantly under-forecasted, and adjustments to special access revenue requirements have been made by NECA in prior annual filings to be consistent with demand growth patterns and average yearly growth rates. Based on the data in Exhibit 5, the average annual growth rate from 2013 to 2015 for the consistent sample companies is approximately 0.5 percent. This is compared with -1.2 percent average growth from 2016 through 2018 reflected in the company-supplied forecasts. The trend projection shown in Exhibit 5 produces results exceeding the company-supplied amounts (0.5 percent vs. -0.8 percent for the average annual growth rate from 2015 through 2018). Trend results produce a 0.5 percent test period over PYCOS growth rate. After reviewing these results, NECA determined the trend analyses did not reflect the projected negative trend in special access growth, driven by the completion of initial DSL deployment for many companies, replacement of expensive T1s with cheaper Ethernet, increasingly depreciated equipment, and an uncertain regulatory environment. In order to balance the results of historical trend analyses with recognition of recent decreases in special access costs, NECA adjusted the test period trend results from $419.3M to $411.1M, a reduction of $8.2M, resulting in a test period over PYCOS growth rate of -0.9 percent.

Exhibit 4 summarizes special access revenue requirements and growth rates underlying this filing. Data underlying the development of the special access trend results are shown on Exhibit 5.

3. Historical Data Analysis

A key validation method to assess the accuracy of the aggregate cost company revenue requirement projections is evaluating the final CL and special access test period revenue requirement growth against the historical four-year average growth rate for the years 2012 through 2015. In order to ensure a consistent comparison, the historical and test period data were adjusted for study areas converting from average schedule to cost-based settlements by removing those companies from the data series.

For the cost companies in NECA's CL pool, the historical four-year annualized and test period CL revenue requirement growth rates prior to cost conversion adjustments are 3.3 percent and -0.8 percent, respectively, after removing the effects of CBOL reassignment. After data adjustments to normalize for conversions from average schedule to cost-based settlements, the historical four-year cost company annualized growth rate is 2.3 percent and the test period growth is -0.9 percent.

For the cost companies in NECA's TS pool, the unadjusted four-year historical cost company special access growth rate is 1.7 percent and the test period annualized growth rate is -0.9 percent. After adjustments for conversions, test period growth for TS special access for cost companies is -1.0 percent, which is slightly below the adjusted historical average of 0.9 percent.

The results of these trend analyses, adjusted for conversions and CBOL, reflect declining historical growth rates for CL (excluding CBOL) and special access revenue requirement, and projected negative growth through the PYCOS and test period years for CL (excluding CBOL) and special access. Details of this analysis are summarized in Exhibit 6. Column E contains year over year growth rates adjusted for cost conversions.

4. Average Schedule Companies

Average schedule companies' settlement amounts were developed by settlement category and assigned to Part 69 elements. PYCOS revenue requirements were produced using historical 2016 monthly settlements based on average schedule formulas in effect on July 1, 2016 and recalculated using a RoR of 10.75 percent.[24] Test period average schedule settlement projections were produced based on the formulas filed in the *2017 Modification of Average Schedules* and the projected level of demand quantities for the test period calculated at a 10.75 percent RoR. The test period projections include the impacts of the *MAG Order*, the corporate operations, operating expense and capital investment allowance limitations on CL revenue requirements. This tariff filing reflects changes to projected TS switched average schedule revenue requirement to conform with the requirements of the Commission's *USF/ICC Transformation Order*.[25] According to the Order, NECA developed average schedule companies' switched access revenue

[24] Settlements for each month were adjusted to reflect expected remaining changes resulting from true-ups of pooling data developed using historical trends of pool true-up impacts.

[25] *USF/ICC Transformation Order* ¶¶39, 851, 899. *See also* 47 C.F.R. § 51.917.

requirement, recovered through the Central Office, Line Haul Distance Sensitive, Line Haul Non-Distance Sensitive, Intertoll Dial Switching, Signaling System 7, and Equal Access formulas, using 2011/2012 tariff filing frozen switched TS baseline revenue requirements, adjusted by CABS[26] cost and reduced by 5 percent per year beginning July 1, 2012.

Exhibit 7 displays an attribution analysis to reconcile the test period average schedule forecast with the *2017 Modification of Average Schedules*. The *2017 Modification of Average Schedules* displays CL and TS settlement levels, calculated using the September 2016 view of July 2016 demand data. These CL and special access values are displayed in Column (A) of Exhibit 7. In contrast, the 2017/2018 test period settlements use projected data. These values are shown in Column (L) of Exhibit 7. The reconciliation steps are shown in Column (B) through Column (K).

5. <u>NECA Expense Recovery</u>

This filing reflects the Commission's rules governing NECA expense recovery.[27] These rules require Category I expenses associated with the preparation, defense, and modification of NECA tariffs, the administration of pooled receipts and distributions of exchange carrier revenues resulting from NECA tariffs, and NECA's participation in Commission proceedings involving Subpart G of Part 69 of the Commission's rules, be divided among three components in proportion to the revenues associated with each component. The three components are:

(1) Category I.A, expenses apportioned by the Universal Service Fund and Lifeline Assistance revenues.

(2) Category I.B, expenses apportioned by the sum of NECA CL Pool and ICLS/CAF BLS revenues.

[26] *2012 Second Further Modification of Average Schedules.*

[27] *See* 47 C.F.R. § 69.603.

(3) Category I.C, expenses apportioned by NECA TS Pool revenues, including ARC revenues and CAF ICC support.

Exhibit 8 displays NECA administrative expenses divided among the three components. In this filing, NECA allocated Category I.B expenses to each individual study area based on the proportion of the study area's CL interstate revenue, defined as CL revenue requirement including CBOL, to the total pool CL revenue requirement including CBOL. NECA allocated Category I.C (*i.e.*, TS) administrative expenses between switched access and special access rate elements based on the relative interstate revenues. Switched access revenues are defined as the sum of projected interstate billed switched access revenue, Access Recovery Charge (ARC) revenue, and Connect America Fund Intercarrier Compensation (CAF ICC) support,[28] and special access revenue is defined as interstate special access revenue requirement. NECA expenses allocated to each element are allocated to individual study areas using the same method as CL described above.

B. <u>IMPACTS OF UNIVERSAL SERVICE SUPPORT PROGRAMS ON REVENUE REQUIREMENTS</u>

1. <u>Connect America Fund Broadband Loop Support (CAF BLS)</u>

In the *MAG Order*, the Commission created ICLS as an explicit universal service support mechanism. ICLS was calculated on a study area basis by subtracting the sum of the study area's projected end user revenue, special access surcharge revenue and line port charge revenue

[28] *See* NECA Petition for Clarification, WC Docket No. 10-90, *et al.* (filed Feb. 24, 2012) (*2012 NECA Clarification Order).*

from its projected CL revenue requirement. Calculations reflected the impact of the corporate operations expense limitation on CL revenue requirement.[29] In the *RoR USF Reform Order*, the Commission has defined CAF BLS Voice support to recover the same amounts previously recovered by ICLS. Test period CAF BLS Voice for companies in NECA's CL pool is projected to be $691.3M. In the *RoR USF Reform Order*, the Commission also expanded the CAF BLS mechanism to recover CBOL costs (CAF BLS broadband-only). CAF BLS broadband-only support for the 223 NECA CL tariff participants that have opted to have NECA tariff their CBOL totals $76.9M for test period 2017/2018.

2. <u>Local Switching Support (LSS)</u>

The *USF/ICC Transformation Order* indicates LSS is no longer a stand-alone support mechanism as of July 1, 2012.[30] However, there are a number of RoR study areas in the NECA pool affiliated with a price cap company receiving frozen support or CAF Phase II amounts from USAC each month. The portion of this support attributable to LSS for these study areas has been reduced by 5 percent annually beginning with the 2012/2013 test period[31] and totals $3.3M and is deducted from projected eligible recovery prior to setting ARC. The removal of this amount from Eligible Recovery calculations is under review.[32]

3. <u>CAF ICC Support</u>

In the *USF/ICC Transformation Order*, the Commission established CAF ICC support to

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[29] *See USF/ICC Transformation Order* ¶¶ 227-233.

[30] *Id* ¶ 257.

[31] *See* NECA Transmittal No. 1500, Tariff F.C.C. No. 5, at 1 (filed Nov. 16, 2016).

[32] *FairPoint Dec 10, 2015 Petition.*

partially offset Eligible Recovery resulting from prescribed capping of interstate switched access rates and the reduction in intrastate terminating switched access rates. CAF ICC support is calculated on a study area basis by subtracting the study area's ARC revenue from its Eligible Recovery which, for test period 2017/2018, is defined as the difference between its base year revenue requirement reduced by 5 percent annually as prescribed in the *USF/ICC Transformation Order* and its switched access charge revenue calculated based on the *USF/ICC Transformation Order*. The effects of the 2015/2016 true-up of revenues and exogenous costs as prescribed by Section 51.917(d) (1) (iii) of the Commission's rules[33] is also reflected as an adjustment to 2017/2018 Eligible Recovery.

Estimated Test period CAF ICC support for companies in NECA's TS pool is projected to be $282.5M, which reflects the impact of the test period 2015/2016 true-up and the ARC revenue imputation on broadband-only loops required by the *RoR USF Reform Order*.

4. Universal Service Contributions

NECA's member companies' Universal Service Contribution amount was calculated using a single contribution factor based on interstate and international end user telecommunications revenues or interstate retail revenue (IRR).[34] The projected Universal Service Contribution amount for NECA's CL pool members is derived from data included in the FCC Public Notice and test period demand projections supplied to NECA by pool members. NECA CL pool companies report subscriber line charge rates and subscriber line counts. NECA followed these steps to develop its test period Universal Service Contribution projection:

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[33] *See* 47 C.F.R. § 51.917(d)(1)(iii).

[34] *See* 47 C.F.R. § 54.709 (a) (1).

- For companies incurring Universal Service Contribution expense,[35] quarterly IRR for the test period was calculated as the sum of Subscriber Line Charge revenue (excluding life line revenues), ARC revenue, ISDN port revenue, DS1 line port revenue, Special Access Surcharge revenue and Special Access retail revenue.

- Universal Service Contribution amounts were calculated for the test period by summing the IRR for each quarter of the test period[36] and multiplying the resulting sum by the Universal Service Contribution factor.[37]

Based on the above methodology, NECA projects the test period Universal Service Contribution amount for NECA's CL Pool members listed in Section 17.7 (A) of NECA F.C.C Tariff No. 5 to be $80.1M.

Exhibit 9 displays the projected test period Universal Service Contribution levels on all end user retail revenues.

[35] Section 17.7 of NECA F.C.C. Tariff No. 5 lists NECA pool participants that contribute to Federal Universal Service Fund.

[36] The quarterly Universal Service Contribution calculation used projected interstate retail revenues. The contribution base is the sum of the four quarters IRR beginning in 3Q2017.

[37] *Proposed Third Quarter 2017 Universal Service Contribution Factor*, Public Notice, CC Docket No. 96-45, DA 17-580 (rel. Jun. 13, 2017).