

## DESCRIPTION AND JUSTIFICATION

### 1.0 INTRODUCTION

The Verizon Telephone Companies<sup>1</sup> hereby submit tariff pages and supporting data for proposed changes to the Federal Universal Service Fund (“FUSF”) rates associated with the 4th quarter 2018 FUSF obligation in Verizon Tariffs FCC No. 1 and FCC No. 11 for Verizon-East, Tariffs FCC No. 14 and FCC No. 16 for Verizon-West, and Tariff FCC No. 20 for advanced services. These tariff changes are being filed on 17 days’ notice for effect on October 1, 2018. This filing includes necessary supporting material and is in compliance with, including but not necessarily limited to: the Commissions rules, the CALLS Order released in 2000,<sup>2</sup> the Contribution Order released in 2002,<sup>3</sup> the Waiver Order released in 2003 as modified by the Payphone Modification Order released in 2008,<sup>4</sup> and the USF-ICC Transformation Order released in 2011.<sup>5</sup>

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<sup>1</sup> The Verizon Telephone Companies include (a) Verizon Delaware LLC, Verizon Maryland LLC, Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon Pennsylvania LLC, Verizon Virginia LLC, Verizon Washington, D.C. Inc.; and (b), Verizon North LLC Verizon and South Inc. The companies in (a) will be referred to as Verizon-East. The companies in (b) will be referred to as Verizon West.

<sup>2</sup> *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, Order, 15 FCC Rcd 12962 (2000) (“CALLS Order”).

<sup>3</sup> *Federal-State Joint Board on Universal Service*, Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952 (2002) (“Contribution Order”).

<sup>4</sup> *Federal- State Joint Board on Universal Service*, Order and Second Order on Reconsideration, Order and Second Order on Reconsideration, 18 FCC Rcd 4818 (2003) (“Waiver Order”), as modified by *Federal- State Joint Board on Universal Service*, Order on Reconsideration, 23 FCC Rcd 2567 (2008) (“Payphone Modification Order”).

<sup>5</sup> *Connect America Fund, et al.*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (“USF-ICC Transformation Order”).

## **Federal Universal Service Fund End User Charge Development**

### **1.1 CALCULATION OF FUSF END USER CHARGE**

Pursuant to the CALLS Order,<sup>6</sup> amounts assessed for various universal service support mechanisms are recovered directly from end users. Starting with the third quarter of 2000, the Common Line amount of the FUSF obligation is recovered through a per-line charge assessed to end user customers to whom End User Common Line (“EUCL”) and other interstate charges apply. The contribution and carrier recovery was further explained in the Commission’s Contribution Order and subsequent Waiver Order, as modified by the Payphone Modification Order.

Per the Contribution Order, and beginning with the second quarter 2003, with the limited exceptions granted in the Waiver Order, as modified by the Payphone Modification Order, telecommunications carriers are limited to recovering their FUSF contribution using monthly end user rates that are equal to the total monthly interstate revenues for a customer times the relevant contribution factor. The Waiver Order, as modified by the Payphone Modification Order, preserves the carrier’s option to assess the universal service end user charge on Centrex customers on a per-line basis using the “equivalency” relationships established for the multi-line business Primary Interexchange Carrier Charge (“PICC”) for Centrex lines as identified in Section 69.158 of the Commission rules. The Commission also allows carriers to average among certain multi-line business customers the net reductions in charges attributed to the use of the PICC equivalency structure. The Commission further adopted the USF-ICC Transformation Order in 2011, which established a “transitional recovery mechanism to facilitate incumbent LECs’ gradual transition away from ICC revenues.”<sup>7</sup>

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<sup>6</sup> CALLS Order, ¶ 221.

<sup>7</sup> USF-ICC Transformation Order, ¶ 847

As part of the transition, the Commission “permit[s] incumbent telephone companies to charge a limited monthly Access Recovery Charge (ARC) on wireline telephone service,” with certain restrictions. The ARC was put in place on July 3, 2012 and constitutes a monthly interstate end user rate. The interstate Special Access and interstate Incidental Revenue FUSF obligation amount is recovered through an FUSF percentage surcharge using the FCC-prescribed rate applied to interstate end user revenues.

### **1.11 End User FUSF Charges**

Verizon’s preliminary obligation to the FUSF for the fourth quarter of 2018<sup>8</sup> is based on the FCC’s contribution rate rounded to the nearest tenth of a percent times Verizon’s projected interstate end user revenues for the fourth quarter of 2018 (October through December<sup>9</sup>). Verizon’s recovery of this obligation is derived through end user FUSF per-line rates for Switched Access services. These rates are determined in a three-step process.

First, interstate monthly charges that apply to each end user line for EUCLs, line ports and ARCs are determined for all residential and business lines for each tariff entity. These rates are specified in the appropriate interstate access tariff. The line port charge applies only to digital lines in excess of basic service. Once the tariff rates are identified and summarized for each type of end user service (*e.g.*, single line residential or business, non-primary residence), the next step of the process begins.

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<sup>8</sup> FCC Public Notice, Proposed Fourth Quarter 2018 Universal Service Contribution Factor, CC Docket No. 96-45 (rel. September 12, 2018) (“FCC Public Notice”).

<sup>9</sup> Waiver Order, ¶¶ 22-23.

Second, the sum of these interstate per-line charges that apply each month for each type of service is multiplied by the FCC's fourth quarter prescribed contribution rate to determine the FUSF per-line charge. Interstate rates for each type of service require a corresponding and separate per-line FUSF rate in accordance with the Contribution Order. For example, a separate FUSF rate is required for primary residential (excluding Lifeline) customers, non-primary residential, and various types of multi-line business services.

Third, the product of these individual per-line rates billed on a current basis would recover Verizon's FUSF obligation for the same period. However, the Waiver Order, as modified by the Payphone Modification Order, allows Verizon to bill FUSF charges using the PICC equivalency structure for Centrex customers in accordance with existing FCC rules. The net contribution recovery shortfall caused by billing the PICC structure for Centrex customers is then calculated. The net contribution recovery shortfall is divided by the total contribution requirement to determine a rate adjustment factor ("RAF"). Then, this uniform RAF is applied across all non-payphone<sup>10</sup> multi-line rates to develop FUSF rates that recover Verizon's quarterly obligation.

The rate calculations for Verizon-East companies and Verizon-West companies are calculated using the same methodology for each tariff entity. The states of Massachusetts and Rhode Island have one common access tariff described as New England. All other states have unique tariffs as shown by WP USF-1.

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<sup>10</sup> Payphone Modification Order, ¶ 8.

For both Verizon-East and Verizon-West the proposed changes to the FUSF rate for residential, non-primary residential, single line business and multi-line business-payphone can be attributed to the proposed changes to the EUCL rates (where applicable). Also, for both Verizon-East and Verizon-West, the proposed changes to the multi-line rates can be attributed to the proposed changes to the EUCL rates (where applicable), the addition of the ARC rates (where applicable), and the updated multi-line counts associated with the multi-line equivalency calculation.

### **STEP 1 – CALCULATE BASE USF LINE RATE**

For each type of end user customer (*e.g.*, single line residence and business, non-primary residence, and multi-line business), the 4th quarter 2018 FUSF contribution factor from the FCC Public Notice is multiplied by the sum of the end-user tariff charges applicable each month for the subscriber line, ARC, and the line port (if appropriate) for each tariff entity to calculate the full-rate FUSF per-line charge. This methodology results in actual per-line FUSF charges for primary residential and single line business, non-primary residential, and multi-line business-payphone; whereas, the resulting multi-line rates become the baseline for multi-line averaging as permitted in the Waiver Order, as modified by the Payphone Modification Order. The calculated full-rate (before the Waiver Order) FUSF charge for each service type and study area is found in WP USF-2.

**STEP 2 – CALCULATE FUSF PER-LINE RATES FOR CENTREX EQUIVALENCY**

The baseline multi-line FUSF calculated rates from WP USF-2 are carried forward to WP USF-3 so they will align by tariff entity and type of applicable EUCL and ARC. As stated above, the exact state specific FUSF rate applies without modification to all primary residential and single-line business, non-primary residential, and multi-line business-payphone customers. The rate calculation for multi-line business customers begins with a full-rate revenue calculation, which is the product of the billing lines for each type of EUCL and ARC times the calculated base FUSF rate. Based on the Waiver Order and pursuant to Section 69.158 of the Commission's rules, the FUSF charge for Centrex is calculated using the equivalency relationship established for the multi-line business PICC. The detailed multi-line calculations and resulting FUSF rates for each element and tariff entity are found in WP USF-3 and WP USF-3a.

The full-rate Centrex amounts are converted to the PICC structure in column (d) of WP USF-3. This is calculated by dividing the FUSF rate by 9 for Centrex systems with 9 lines or greater, dividing the FUSF rate by 8 for Centrex systems with 8, etc. The monthly contribution recovery shortfall caused by using PICC rates for Centrex is then calculated in column (e) of WP USF-3. An adjusted revenue base is then determined for all multi-line EUCLs and ARCs by multiplying the units times the PICC rate and adding the other unadjusted multi-line amounts to the total. A RAF is then determined by dividing the Centrex shortfall by the adjusted revenue base (*i.e.*, the difference between the full-rate revenues and those adjusted for the Centrex recovery shortfall). This RAF is then applied to all non-payphone multi-line rates including Centrex, which produces a new per-line FUSF rate that accounts for the Centrex recovery shortfall.

The product of the new adjusted FUSF rates times the billing lines produces the same recovery revenue as the full-rate revenue (before the Centrex PICC structure). Both Verizon-East and Verizon-West reflect the appropriate calculations for each tariff entity as shown on WP USF-3. An additional calculation is required for PBX Trunks with Port Charges for Verizon-East since these trunks cannot be uniquely identified. As a result, the baseline multi-line FUSF charge for only this product as calculated on WP USF-2 is carried forward to WP USF-3a. The baseline rate for PBX Trunks with Port Charges for each Verizon-East state is then multiplied by the appropriate RAF factor to determine the appropriate rate element.

### **1.1.2 FUSF CHARGES APPLIED ON A PERCENTAGE BASIS**

The Special Access FUSF rate is the same as the percentage factor provided in the FCC Public Notice rounded to the nearest tenth of a percent. The FCC's published factor is applied to each dollar of interstate Special Access end-user revenue in Verizon's billing systems.

Also, the FUSF end user charge applied to incidental types of service is assessed on the same percentage basis as prescribed by the FCC Public Notice. Incidental service consists of non-recurring charges for the Presubscribed Interexchange Carrier ("PIC") and the recurring PICC assessed to end users. The FUSF charge will also apply to interexchange carriers that pay the PIC change charge on behalf of the end user customer.

The FUSF charge on interstate incidental services will also apply to Lifeline customers.

## **1.2 WORKPAPERS**

### **1.2.1 Introduction**

Verizon has provided the necessary detail to support the calculations of the FUSF per-line charge.

Following is the index of such Workpapers.

### **1.2.2 INDEX TO WORKPAPERS**

#### **Verizon-East/West**

<b>Workpaper USF-1</b>	Summary of 4th Quarter 2018 FUSF per-line Charges
<b>Workpaper USF-2</b>	Calculation of Maximum Switched USF per-line before Waiver Order
<b>Workpaper USF-3</b>	Multi-line Ratemaking for FUSF per-line using Centrex Equivalency
<b>Workpaper USF-3A</b>	FUSF Calculation for PBX Trunks with Port Charges (East only)
<b>Workpaper USF-4</b>	Interstate Special Access End User FUSF Charge