

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

ACCESS TARIFF REVISIONS TARIFF F.C.C. NO. 5  
TRANSMITTAL NO. 1563

Description and Justification

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## I. INTRODUCTION AND SUMMARY

On March 30, 2016, the Federal Communications Commission (FCC) released its Universal Service Fund Rate of Return Reform Order<sup>1</sup>. NECA's filing on December 19, 2016<sup>2</sup> reassigned costs from the special access category to the new Consumer Broadband-Only Loop (CBOL) category in common line and introduced regulations and rates for company-specific CBOL charges. NECA's 2018 Annual Filing<sup>3</sup> modified company-specific CBOL charges and underlying data, and became effective as scheduled. NECA also filed further modifications to CBOL charges for certain carriers in mid-monthly filings each month since the annual filing.

This filing is an update to the *November 16 Filing*<sup>4</sup>. It adds eleven study areas to the CBOL tariff; modifies the tariffed CBOL rate for twenty study areas making voluntary rate increases and for three study areas making voluntary rate decreases; reduces the residential ARC for two study areas; and updates the ETS and special access rate band for one study area. This filing is scheduled to be effective on January 1, 2019. Updated cost and corresponding updated revenue requirement shifts from special access to the CBOL category result in a *de minimis* net effect to remaining Common Line and Special Access rates,

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<sup>1</sup> See Connect America Fund; ETC Annual Reports and Certifications; Developing a Unified Intercarrier 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*).

<sup>2</sup> National Exchange Carrier Association, Inc., Tariff F.C.C. No. 5, Transmittal No. 1503 (filed Dec. 19, 2016) (*December 19 Filing*).

<sup>3</sup> National Exchange Carrier Association, Inc., Tariff F.C.C. No. 5, Transmittal No. 1549 (filed Jun. 18, 2018) (*2018 Annual Filing*).

<sup>4</sup> National Exchange Carrier Association, Inc., Tariff F.C.C. No. 5, Transmittal No. 1560 (filed Nov. 16, 2018) (*November 16 Filing*).

which continue to target the authorized 10.50 percent rate of return as documented in NECA's 2018 Annual Filing.

Coincident with this filing, NECA is amending its 2018 Annual Filing to include updated CAF BLS Tariff Review Plan (TRP) and updated CAF ICC TRP. The CAF BLS TRP has been modified to include any revised CBOL demand and associated cost shifts described below. While data underlying the CAF ICC TRP has not been modified, a footnote listing those study areas which have requested NECA to tariff lower Access Recovery Charge (ARC) rates than those calculated by NECA has been modified to include the companies described below in Section III B.

## II. REVENUE REQUIREMENT CHANGES

For those companies participating in NECA's Common Line (CL) pool with updated CBOL demand in this filing, the cost of consumer broadband-only loops was transferred from TS special access to the CBOL element in common line consistent with Part 36 and Part 69 cost allocation rules as directed in the *February 16, 2018 Order*<sup>5</sup>.

Net CBOL costs of \$1.0M were removed from the Traffic Sensitive pool for five rate-of-return cost study areas with broadband-only demand that currently participate in NECA's DSL tariff. The projected amount of CBOL costs removed from the TS special access category for the July 3, 2018 – June 30, 2019 test period totals \$105.7M for the cost study areas in NECA's DSL tariff.

A net CBOL revenue requirement of \$3.3M was added to the CBOL category in CL for sixteen study areas with CBOL demand changes since the 2018 Annual Filing. The 2018-2019 test period CBOL

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<sup>5</sup> See *February 16, 2018 Order* ¶ 9. See also 47 C.F.R. § 69.311 and 69.416.

revenue requirement now totals \$260.6M for the 329 NECA CL cost and average schedule pool participants that have opted to have NECA tariff their CBOL rates effective with this filing.

### III. TARIFF RATE CHANGES

#### A. CHANGES TO CBOL TARIFF

NECA calculated new CBOL charges for eleven study areas receiving legacy support in accordance with section 69.132 of the Commission's rules using certified broadband-only data. All eleven study areas chose to tariff a CBOL charge lower than the calculated maximum CBOL charge. The calculated maximum CBOL charges were recalculated for five study areas with revised CBOL demand. Three of these study areas chose to tariff a CBOL charge higher than the rate currently in effect. Two study areas chose to tariff a CBOL charge lower than the rate currently in effect. Twenty study areas receiving legacy support requested a voluntary rate increase to a rate between their currently tariffed rate and their calculated maximum CBOL rate. Two study areas receiving legacy support requested a voluntary rate decrease to a rate lower than the rate currently in effect. One study area receiving model based support requested to decrease its CBOL rate, resulting in a total of thirty-nine study areas with new or modified CBOL rates in this filing.

In conjunction with prior filings, 265 study areas have elected to have NECA tariff a CBOL charge lower than the maximum calculated CBOL charge. The tariffed monthly CBOL charges for these study areas range from \$0.00 to \$87.00. Study areas may be required, however, to impute revenues at the calculated maximum CBOL charge for the purposes of reporting CAF BLS data to USAC and for pool settlement distribution and support true-up calculations. The imputed projected CBOL revenues for July 3,

2018 through June 30, 2019 for 329 study areas participating in NECA's CL pool now amount to \$156.2M.

The 2018/2019 test period CAF BLS Broadband-only support for 329 common line pool study areas that have currently opted to have NECA tariff their CBOL is projected to be \$158.2M prior to implementation of the \$250/line/month cap and effects of the Budget Control Mechanism (BCM).

Concurrent with this filing, NECA is filing a modification to the *2018 Annual Filing* which includes a revised CAF BLS TRP data file. Required carrier certifications of CAF BLS data are contained in Exhibit 4.

B. ARC RATE CHANGE

This filing includes voluntary residential Access Recovery Charge reductions for two study areas. Their respective fully calculated ARC rates will continue to be used for purposes of imputing ARC revenues for use in CAF ICC Support calculations for this test period.

C. RATE BAND REASSIGNMENT

Finally, this filing includes an ETS and special access rate band reassignment for one study area to reflect significant corrections of data reported in NECA settlements used to assign rate bands.

#### IV. FEDERAL UNIVERSAL SERVICE CHARGE UPDATES

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 first quarter 2019 Universal Service Contribution Factor as described in the FCC's December 12, 2018 Public Notice.

##### A. 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 revenue<sup>6</sup> to comply with the Commission's *Second Order on Reconsideration*<sup>7</sup> which prohibits a carrier from 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)

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<sup>6</sup> National Exchange Carrier Association, Inc., Access Service Tariff F.C.C. No. 5, Transmittal No. 978, filed March 17, 2003.

<sup>7</sup> 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*).

to recover remaining contribution costs associated with Centrex customers from multi-line business customers.<sup>8</sup>

On May 31, 2003 NECA introduced MLB EUCL FUSC optional rate banding.<sup>9</sup> 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 five<sup>10</sup> in response to the partial waiver of section 69.104(q) of the Commission's rules.<sup>11</sup> 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.

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<sup>8</sup> *Id.* at ¶3.

<sup>9</sup> National Exchange Carrier Association, Inc., Access Service Tariff F.C.C. No. 5, Transmittal No. 985, filed May 16, 2003.

<sup>10</sup> National Exchange Carrier Association, Inc., Transmittal No. 1035, filed August 10, 2004.

<sup>11</sup> *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).

On February 14, 2008, the FCC released an Order<sup>12</sup> 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.

In March 2017, NECA restructured the optional MLB EUCL FUSC rate banding process because the number of study areas participating in the optional MLB EUCL FUSC rate banding significantly decreased as a result of pool companies adopting optional model-based or Alaska Plan support funding.<sup>13</sup> Currently 20 study areas utilize MLB EUCL FUSC rate banding. Each company opting for MLB EUCL FUSC rate banding was placed in a rate band designed to recover its individual contribution costs.

On June 8, 2018, the FCC released an Order<sup>14</sup> granting temporary forbearance from applying USF reporting and contribution requirements on rural LEC-provided broadband Internet access transmission services offered on a common carrier basis. As a result, effective July 3, 2018, all NECA CL tariff participants listed in Section 17.7(A) of Tariff No. 5 are taking advantage of the forbearance relief and no longer report end user revenues to USAC on broadband Internet access transmission services or assess the FUSC surcharge factor on broadband Internet access transmission charges.

On December 12, 2018, the FCC announced the first quarter 2019 Universal Service Contribution Factor of 20.0%. NECA proposes to update its FUSC surcharges to reflect this updated factor.

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<sup>12</sup> See Order on Reconsideration, CC Docket No.96-45 (FCC 08-51).

<sup>13</sup> See National Exchange Carrier Association, Inc., Tariff F.C.C. No. 5, Transmittal No. 1510, filed March 17, 2017.

<sup>14</sup> *Petition of NTCA—The Rural Broadband Association and the United States Telecom Association for Forbearance Pursuant to 47 U.S.C. § 160(c) from Application of Contribution Obligations on Broadband Internet Access Transmission Services*, WC Docket No. 17-206, Order, FCC 18-75 (rel. June 8, 2018) (*2018 USF Forbearance Order*).

B. 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

Current Surcharge	Proposed Surcharge	Percent Change
20.1%	20.0%	-0.5%

TABLE 2: Optional MLB EUCL FUSC Band Surcharges

BAND	Current Surcharge	Proposed Surcharge
1	20.2%	20.1%
2	20.3%	20.2%
3	20.5%	20.4%
4	20.7%	20.6%
5	21.1%	21.0%
6	21.2%	21.1%
7	22.0%	21.9%
8	22.5%	22.3%
9	22.8%	22.7%
10	23.0%	22.8%
11	23.0%	22.9%
12	23.0%	22.9%
13	24.2%	24.1%
14	25.0%	24.9%
15	27.3%	27.1%
16	27.8%	27.7%
17	30.4%	30.2%
18	34.9%	34.7%
19	46.6%	46.4%
20	54.8%	54.6%

C. 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 first quarter 2019 as well as the 2018-2019 test period. The adjusted test period USSM contribution of \$42.0 M reflects an increase of \$3.4 M from the filed amount of \$38.5 M in the *2018 Annual Filing*.

Exhibit 2 displays the development of the first quarter 2019 optional MLB EUCL FUSC band rates and the projection of optional MLB EUCL FUSC band revenue for the first quarter through the second quarter 2019. Based on the test period Business Centrex and MLB band revenues in Vol. 4 Exhibit 6 of the *2018 Annual Filing*, the revised MLB EUCL FUSC band rates reflect the changes from the fourth quarter 2018 contribution factor of 20.1% to the first quarter 2019 contribution factor of 20.0%. The exhibit shows the projected MLB EUCL FUSC band revenue of \$0.5 M on Line 21.

Exhibit 3 displays the development of the projected FUSC non-banded revenue of \$20.9M on Line 5, the projected FUSC banded revenue of \$0.5 M on Line 6, and the projected total FUSC revenue of \$21.4 M on Line 7 for the first quarter through the second quarter 2019.

Finally, Exhibit 4 displays the development of adjusted 2018 – 2019 test period FUSC revenue of \$42.0 M on Line 3. The adjusted test period FUSC revenue equals the adjusted test period 2018 - 2019 USSM contribution amount of Exhibit 1 Column C Line 5. Therefore, the proposed FUSC charges conform to the FCC rules.

D. CONCLUSION

The proposed FUSC surcharges comply with the Commission's rules and should be allowed to become effective on January 1, 2019.

DECEMBER 17, 2018 NECA ACCESS CHARGE FILING  
TEST PERIOD: JULY 3, 2018 - JUNE 30, 2019  
UNIVERSAL SERVICE SUPPORT MECHANISM (USSM) CONTRIBUTION  
QUARTERLY INTERSTATE RETAIL REVENUE OF USSM CONTRIBUTORS  
(\$ MILLION)

EXHIBIT 1

<u>LINE NO</u>	<u>DATE</u>	<u>PROJECTED INTERSTATE RETAIL REVENUE (IRR) <sup>1</sup></u> (A)	<u>SOURCE / SUMMARY</u>	<u>CONTRIBUTION FACTOR <sup>2</sup></u> (B)	<u>USSM<sup>3</sup></u> (C = A * B)
1	3Q 2018	\$54.6	2018 ANNUAL FILING V2 EX 8 LINE 1	17.9%	\$9.8
2	4Q 2018	\$54.0	2018 ANNUAL FILING V2 EX 8 LINE 2	20.1%	\$10.9
3	1Q 2019	\$53.5	2018 ANNUAL FILING V2 EX 8 LINE 3	20.0%	\$10.7
4	2Q 2019	\$53.2	2018 ANNUAL FILING V2 EX 8 LINE 4	20.0%	\$10.6
5	ADJUSTED TP 1819	\$215.2	LINE 1 + LINE 2 + LINE 3 + LINE 4		\$42.0
6	FILED TP 1819	\$215.2	2018 ANNUAL FILING V2 EX 8 LINE 7	17.9%	\$38.5

NOTE

- 1 Includes EU Retail Revenues, ARC Retail Revenues and Special Access Retail Revenues. Per the *2018 USF Forbearance Order*, broadband Internet access transmission service revenues were excluded.
- 2 Proposed Third Quarter 2018 Universal Service Contribution Factor, FCC Public Notice DA 18-613, released June 13, 2018; Proposed Fourth Quarter 2018 Universal Service Contribution Factor, FCC Public Notice DA 18-944, released September 12, 2018; Proposed First Quarter 2019 Universal Service Contribution Factor, FCC Public Notice DA 18-1249, released December 12, 2018.
- 3 Calculations are done with more digits than displayed.

DECEMBER 17, 2018 NECA ACCESS CHARGE FILING  
DEVELOPMENT OF 1Q 2019 OPTIONAL MULTI-LINE FUSC SURCHARGE AND  
1Q 2019 THROUGH 2Q 2019 OPTIONAL MULTI-LINE FUSC REVENUE

EXHIBIT 2

LINE NO	FUSC BAND	BUSINESS CENTREX %	TEST PERIOD MULTI-LINE REVENUE <sup>1</sup>	TEST PERIOD BUSINESS CENTREX REVENUE <sup>2</sup>	1Q 2019 MLB EUCL FUSC SURCHARGE <sup>3</sup>	PROJECTED 1Q 2019 - 2Q 2019 MLB FUSC REVENUE
			( A )	( B )	( C )	( D ) = (( A - B )+ B / 9) * C *2/4
1	1	0.3%	\$39,192	\$110	20.1%	\$3,929
2	2	1.0%	\$915,878	\$8,722	20.2%	\$91,589
3	3	2.0%	\$27,931	\$552	20.4%	\$2,793
4	4	3.4%	\$0	\$0	20.6%	\$0
5	5	5.2%	\$102,782	\$5,299	21.0%	\$10,278
6	6	5.7%	\$1,419,302	\$80,923	21.1%	\$141,932
7	7	9.7%	\$0	\$0	21.9%	\$0
8	8	11.8%	\$135,792	\$16,008	22.3%	\$13,579
9	9	13.4%	\$0	\$0	22.7%	\$0
10	10	14.0%	\$0	\$0	22.8%	\$0
11	11	14.2%	\$329,213	\$46,699	22.9%	\$32,925
12	12	14.3%	\$992,275	\$141,312	22.9%	\$99,266
13	13	19.0%	\$68,558	\$13,027	24.1%	\$6,858
14	14	22.2%	\$0	\$0	24.9%	\$0
15	15	29.5%	\$0	\$0	27.1%	\$0
16	16	31.3%	\$19,762	\$6,182	27.7%	\$1,976
17	17	38.1%	\$37,094	\$14,131	30.2%	\$3,709
18	18	47.6%	\$0	\$0	34.7%	\$0
19	19	64.0%	\$535,219	\$342,461	46.4%	\$53,522
20	20	71.3%	\$0	\$0	54.6%	\$0
21	TOTAL		\$4,622,998	\$675,426		\$462,356

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 2018 Annual Filing V4 EX 6 COL A.

2. 2018 Annual Filing V4 EX 6 COL B

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

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

Bands with no MLB revenue projected are occupied by model supported study areas.

DECEMBER 17, 2018 NECA ACCESS CHARGE FILING  
 DEVELOPMENT OF 1Q 2019 THROUGH 2Q 2019 FEDERAL UNIVERSAL SERVICE CHARGE REVENUE  
 (\$ MILLION)

EXHIBIT 3

LINE NO.	ITEM	SOURCE	AMOUNT <sup>1</sup>
1	PROJECTED INTERSTATE RETAIL REVENUE	Sum of EX1 Col A Line 3 to Line 4	\$106.6
2	PROJECTED BANDED MLB REVENUE	EX 2 COL A LINE 21 / 1,000,000 * 2/4	\$2.3
3	PROJECTED INTERSTATE RETAIL REVENUE EXCLUDING BANDED MLB REVENUE	LINE 1 - LINE 2	\$104.3
4	FUSC SURCHARGE	EX 1 COL B LINE 3	20.0%
5	PROJECTED FUSC SURCHARGE FROM NON-BANDED REVENUE	LINE 3 * LINE 4	\$20.9
6	PROJECTED FUSC SURCHARGE FROM BANDED MLB REVENUE	EX 2 COL D LINE 21 / 1,000,000	\$0.5
7	PROJECTED 1Q 2019 THROUGH 2Q 2019 FUSC REVENUE	LINE 5 + LINE 6	\$21.4

NOTE

1 Calculations are done with more digits than displayed.

DECEMBER 17, 2018 NECA ACCESS CHARGE FILING

TEST PERIOD: JULY 3, 2018 - JUNE 30, 2019

DEVELOPMENT OF ADJUSTED TEST PERIOD FEDERAL UNIVERSAL SERVICE CHARGE REVENUE  
 ( \$ MILLION)

EXHIBIT 4

<u>LINE NO.</u>	<u>ITEM</u>	<u>SOURCE</u>	<u>AMOUNT</u> <sup>1</sup>
1	3Q 2018 THROUGH 4Q 2018 FUSC REVENUE	EX 1 COL C LINE 1 + LINE 2	\$20.6
2	PROJECTED 1Q 2019 THROUGH 2Q 2019 FUSC REVENUE	EX 3 LINE 7	\$21.4
3	ADJUSTED TEST PERIOD FUSC REVENUE	LINE 1 + LINE 2	\$42.0
4	FILED TEST PERIOD FUSC REVENUE	2018 ANNUAL FILING V4 EX 7 LINE 9	\$38.5

NOTE

1 Calculations are done with more digits than displayed.