

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

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

TRANSMITTAL NO. 1579
JUNE 17, 2019

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.

TRANSMITTAL NO. 1579

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL UNIVERSAL SERVICE
CHARGES

TABLE OF CONTENTS

Section 1	
INTRODUCTION	1
Section 2	
SUBSCRIBER LINE CHARGES, ISDN AND DS1 LINE PORT CHARGES	
A. OVERVIEW	3
B. CALCULATION OF SUBSCRIBER LINE CHARGES AND REVENUES	3
1. Calculation of Subscriber Line Charges	3
2. End User SLC Revenues and Special Access Surcharge Revenues	6
C. ISDN AND DS1 CHANNEL SERVICE LINE PORT CHARGES AND REVENUE	6
1. Background	6
2. Cost Support.....	7
3. Rate Development.....	7
Section 3	
FEDERAL UNIVERSAL SERVICE CHARGE DEVELOPMENT	9
A. OVERVIEW	9
B. DEVELOPMENT OF FEDERAL UNIVERSAL SERVICE CHARGES	9
Section 4	
DEVELOPMENT OF CONSUMER BROADBAND-ONLY LOOP RATES.....	12
EXHIBITS 1 – 7	

Volume 4

DEVELOPMENT OF COMMON LINE RATES, FEDERAL UNIVERSAL
SERVICE CHARGES AND CONSUMER BROADBAND-ONLY LOOP CHARGES

Section 1

INTRODUCTION

This Volume describes the rate development process for common line (CL) access rate elements, the Federal Universal Service Charge (FUSC), and the Consumer Broadband-only Loop (CBOL) Charge. 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 CBOL Charge recovers broadband-only loop costs once recovered through special access rates.²

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).³ 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 common line end user revenue, Access Recovery Charge (ARC) revenue, and special access retail revenue. Effective July 3, 2018, rural ILECs were eligible to forbear from assessing FUSC on ADSL, SDSL and CBOL revenues. In this

¹ See 47 C.F.R. § 69.131.

² *USF RoR Reform Order* ¶88.

³ 47 C.F.R. § 54.901.

filing, all CL pool members have opted to forbear from assessing FUSC on these services. See *2018 USF Forbearance Order*.

The development of SLCs, ISDN and DS1 line port charges is addressed in Section 2. Section 3 describes the development of the FUSC surcharge. The development of the CBOL rate is described in section 4.

Volume 4

DEVELOPMENT OF COMMON LINE RATES, FEDERAL UNIVERSAL
SERVICE CHARGES AND CONSUMER BROADBAND-ONLY LOOP CHARGES

Section 2

SUBSCRIBER LINE CHARGES, ISDN AND DS1 LINE PORT CHARGES

A. OVERVIEW

This section discusses the development of SLCs for CL pool members participating in NECA's end user tariff, as well as ISDN line port charges and DS1 line port charges for all NECA's CL pool members. The development of CL rates does not apply to companies electing model-based support, Alaska Plan support, or rate of return carriers affiliated with Consolidated Communications, Inc., pursuant to the *2016 USF RoR Reform Order*. In addition, this section 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 LECs 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) \$6.50.⁴

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.⁵

On September 26, 2002, NECA filed a petition for rulemaking requesting the Commission assess the same number of SLCs for DS1 channel services⁶ 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.⁷ 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.⁸

⁴ 47 C.F.R. § 69.104(n)(1).

⁵ 47 C.F.R. § 69.104(o).

⁶ DS1 Channel Service arrangements are also known as Channelized T1 Digital Transport Service or DCS.

⁷ 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).

⁸ 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.⁹ Five multi-line business SLCs apply for each DS1 Channel Service arrangement.¹⁰

To determine the applicable SLCs, 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 2019/2020 test period.¹¹ Based on the computed monthly cost per line (CPL), each study area was assigned to one of fifteen target rate bands. For the 2019/2020 test period the CPL for all study areas exceeds \$9.20, therefore all study areas are assigned to the highest rate band group. Since the CPL for all study areas exceeds the capped rate, all study areas will charge the \$9.20 multi-line business capped rate and the \$6.50 residence and single line business capped rate. 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.

⁹ 47 C.F.R. § 69.104(p).

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

¹¹ Projected uncollectibles are calculated by applying the 2018 uncollectible percentage (*i.e.*, carrier's ratio of historical settlement uncollectible amount to historical SLC revenue) to common line revenue requirement less 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 \$162.6 million. For non-model companies participating in NECA's CL tariff but filing their own end user tariffs, projected test period SLC revenue is \$0.8 million. The projected SLC uncollectible for all non-model CL tariff participants is \$0.1 million. The projected net SLC revenue was calculated as end user SLC revenues less projected uncollectibles. The projected net SLC revenue is \$163.2 million. The Special Access Surcharge (SAS) revenues are projected to be \$0.004 million. The total projected SLC and SAS net revenue is \$163.2 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.¹²

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.¹³

2. Cost Support

In 2006, Rate Development Task Group (RDTG)¹⁴ members supplied underlying cost information related to common equipment, software, and per line costs for both ISDN PRI and DS1 channel service arrangements.¹⁵ 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 \$1.1 million is displayed in Exhibit 4.

Details of projected 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

¹² 47 C.F.R. § 69.130.

¹³ See note 10, *supra*.

¹⁴ The Rate Development Task Group is a group of selected participants (See Volume 5, Exhibit 1, Workpaper 1) in the NECA Traffic Sensitive (TS) 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.

¹⁵ 2006 NECA Ports Investment Cost Study.

companies in NECA's common line pool is projected to be \$654.6 million as shown on Exhibit 5 line 4. The total 2019/2020 test period common line projected revenue of \$818.8 million, reflecting data for non-model companies, is shown on Exhibit 5 line 5.

CBOL revenue for study areas in NECA's common line pool is calculated using the fully calculated CBOL rate multiplied by the number of Consumer Broadband-only loops (see Section 4). The CBOL revenue projection for the test period is \$147.8 million and is shown on Exhibit 5 line 6. CAF BLS Broadband-only support, prior to the application of the budget control mechanism, for companies in NECA's common line pool and CBOL tariff is projected to be \$249.5 million, and is shown on Exhibit 5 line 7a. The total 2019/2020 test period CBOL projected revenue of \$395.0 million is shown on Exhibit 5 line 8.

The total 2019/2020 test period common line projected revenue, including CBOL revenue, of \$1,213.8 billion is shown on Exhibit 5 line 9.

Volume 4

DEVELOPMENT OF COMMON LINE RATES, FEDERAL UNIVERSAL
SERVICE CHARGES AND CONSUMER BROADBAND-ONLY LOOP 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 special access retail revenues.¹⁶ Effective July 3, 2018, rural ILECs were eligible to forbear from assessing FUSC on ADSL, SDSL and CBOL revenues. In this filing, all CL pool members have opted to forbear from assessing FUSC on these services. See *2018 USF Forbearance Order*.

The FUSC surcharge is set at 24.4 percent, which is equal to the third quarter 2019 Universal Service Contribution Factor.¹⁷ 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, except for those companies opting for MLB EUCL FUSC optional rate banding,

¹⁶ See Volume 2, Exhibit 8.

¹⁷ *Proposed Third Quarter 2019 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, DA 19-559 (rel. June 12, 2019).

listed in Section 17.7 (B) of NECA Tariff F.C.C. No. 5.¹⁸ These companies apply the MLB EUCL FUSC banded rates discussed below to their multi-line business EUCL customers. Section 17.7 (C) of NECA Tariff F.C.C. No. 5 lists companies opting not to forbear from charging the FUSC Surcharge Factor on ADSL, SDSL and CBOL charges. At the present time, NECA is not aware of any companies opting not to forbear.

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

Currently 14 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 contribution costs using the following methodology:

- NECA calculated each study area's specific percent surcharge factor based on its

¹⁸ The FUSC surcharge is applied to ARC revenue of NECA Traffic Sensitive Pool members.

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).

business Centrex percentage. NECA collected the number of Centrex, payphone and total lines from model companies that participate in NECA's Common Line tariff in order to calculate each study area's business Centrex percentage.

- Using the 1/9th rule for assessing business Centrex lines, a band's MLB EUCL FUSC contribution factor is derived as:

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

- Each surcharge factor was placed in a separate band. All rate bands contain only one study area.
- The highest proposed band has a surcharge factor of 56.2%.

Exhibit 6 shows the optional MLB EUCL FUSC surcharges by band and the projected FUSC revenue from multi-line business services. Exhibit 7 shows the total test period FUSC revenue projection of \$47.5 million.

Volume 4

DEVELOPMENT OF COMMON LINE RATES, FEDERAL UNIVERSAL
SERVICE CHARGES AND CONSUMER BROADBAND-ONLY LOOP CHARGES

Section 4

DEVELOPMENT OF CONSUMER BROADBAND-ONLY LOOP RATES

NECA calculated a CBOL rate for each study area in accordance with rule 69.132. An illustrative CBOL rate calculation is shown in the table below. CAF BLS Broadband-only support in Line 2 is netted from the projected annual Consumer Broadband-only Loop revenue requirement in Line 1. This amount is divided by the average monthly Broadband-only loops as certified in the Form 508 filing or via a subsequent certified demand update (Line 4), then divided by 12, to yield the CBOL rate per month on Line 5. The calculated CBOL rates range from \$0.96 to \$391.58.

Line	Description	Value
1	CBOL Revenue Requirement July 2019 – June 2020	\$50,000
2	CAF BLS Attributed to Broadband-only	\$5,000
3	Line 1 – Line 2	\$45,000
4	CBOL Loops	75
5	CBOL Rate Per Month July 2019 – June 2020 (Line 3 / Line 4 / 12)	\$50.00

Study areas were given the option to have NECA tariff a CBOL charge lower than the NECA calculated maximum CBOL rate. Three hundred thirty-seven study areas elected to have NECA tariff a CBOL rate lower than the calculated maximum. The fully calculated CBOL rates

NECA
VOLUME 4

are used to derive the projected \$147.8 million CBOL revenues for Common Line pool members electing to have NECA tariff their CBOL rate for the 2019/2020 test period, as shown on Exhibit 5 line 6.