

NEVADA BELL TELEPHONE COMPANY (NBTC)
DESCRIPTION AND JUSTIFICATION
TRANSMITTAL NO. 26
December 17, 2002

1. INTRODUCTION

Nevada Bell Telephone Company (NBTC) proposes to revise its Universal Service Fund (USF) recovery charge billed to residential and business customers to reflect its new contribution obligation, which is based on interstate end user revenues used by the Universal Service Administration Company (USAC) to calculate NBTC's 1st quarter 2003 USF assessment with this filing. The current contribution factor remains unchanged as discussed in the Commission's December 9, 2002, Public Notice (CC-Docket No. 02-3387). This filing is being made in compliance with Parts 61.38 and 69.158 of the Commission's rules.

2. USF

Calculation of the Federal Universal Service Fund Flat Rate End User Charge

For end users other than special access customers, NBTC recovers USF contributions through a flat rate end user charge calculated using the methodology detailed below and shown on ***Exhibit 1***. NBTC's methodology for its contribution calculation and flat rate recovery charge includes the following:

- (A) Consistent with the FCC's USF Report and Order¹ released February 26, 2002, the contribution calculation removes "circularity" associated with interstate end user USF revenue billed during the quarter used as the contribution base.
- (B) NBTC's methodology also includes an adjustment for uncollectible amounts based on residential and business customer net bad debt experienced for the first ten months of 2002. The uncollectible ratio is calculated by dividing net bad debt for residential and business customers by the total revenue for these customers during the same period. These amounts exclude wholesale activity. The USF contribution obligation is based on billed interstate end user revenues, which are not adjusted to recognize that a portion of the assessed amount will not be collected through USF recovery charges as a result of bad debt. This is consistent with the methodology utilized to calculate access service prices, which includes recovery for net bad debt. This adjustment ensures that NBTC will fully collect all revenue associated with the USF recovery charges included on customer bills and collect revenues more consistent with its required USF assessment.

¹ Federal-State Joint Board on Universal Service, 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, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans With Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, Report and Order, released February 26, 2002.

- (C) NBTC's methodology utilizes forecasted lines for January through March 2003 to determine the flat rate USF recovery charge assessed on residential and business switched end users. The forecast was developed based on the change in access lines experienced for the first nine months of the year, which reflects access line loss due to competition. We believe these forecasts are conservative and necessary to avoid under recovery of the USF funding obligation caused by access line loss. NBTC will account for significant differences between the forecast and actual access lines in service in future quarters.

Following is NBTC's methodology to calculate its USF contribution obligation and related flat rated recovery charge:

Step 1 – Obtain the USF Contribution base, which includes all interstate and international revenue, reported on the Form 499-Q for the obligation period. For this filing the 499-Q revenue base used to determine SBC's liability is July - September 2002. (*see Line 1 of Exhibit 1*)

Step 2 - Subtract the prior quarter's USF collection calculated by multiplying interstate end user revenues reported for January - March 2002 on the 499-Q form by the 3rd quarter contribution factor of .072805 as demonstrated on *Workpaper 1* (*see Line 2 of Exhibit 1*.)

Step 3 - Subtract special access end user revenues from the result of Step 2. (*see Lines 4 & 5 of Exhibit 1*)

Step 4 - Multiply the result from Step 3 by the contribution factor released by the Commission to obtain SBC's quarterly USF liability amount based on the most recent factor. (*see Line 7 of Exhibit 1*)

Step 5 – Include an adjustment for uncollectible amounts calculated as [1+(the most recent uncollectible rate for residential and business customers)]. This amount is then multiplied by the

result from Step 4 to obtain the total recovery amounts as identified on *Lines 8 & 9 of Exhibit 1*.

Step 6 – Divide the recovery amount by forecasted Presubscribed Interexchange Carrier Charge (PICC) lines (minus resold and lifeline counts) for January - March of 2003. (*see Line 16 of Exhibit 1*)

Calculation of the Special Access Federal Universe Fund Surcharge

NBTC's special access end user USF obligation is recovered through a percentage-based USF recovery charge applied to end user billed special access charges. This percentage-based USF recovery charge is set equal to the Commission's contribution factor released via Public Notice. NBTC did not include adjustments for uncollectible revenue or forecasted demand changes for Special Access end-users. These adjustments were not made to first quarter calculations for end user special access because NBTC anticipates that growth in the special access demand base will generate appropriate recovery levels.