NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

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

TRANSMITTAL NO. 1030
JUNE 16, 2004

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 and Federal Universal Service Charges.

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.

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL UNIVERSAL SERVICE CHARGES

TABLE OF CONTENTS

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL UNIVERSAL SERVICE CHARGES

Section 1

INTRODUCTION

This Volume describes the rate development process for common line (CL) access rate elements as well as the Federal Universal Service Charges (FUSC).[1] CL rate elements recover non-traffic sensitive (NTS) plant costs assigned to base factor portion (BFP). Federal Universal Service Charges recover universal service contributions.[2]

The CL access element revenue requirements are recovered through four revenue sources: subscriber line charges (SLCs), ISDN port charges, special access surcharges, and Interstate Common Line Support (ICLS).[3] SLC charges are billed to local exchange carrier (LEC) subscribers as are special access surcharges (SAS) and ISDN port charges. NECA pool members receive ICLS from the federal universal service programs described in Volume 2. FUSC is a percentage applied to interstate retail services, which includes all common line end user revenue and special access retail revenue.

---

[1] *See* 47 C.F.R. § 69.158.

[2] *See* Federal-State Joint Board on Universal Service, Report and Order, 12 FCC Rcd 8776 (1997) (Universal Service Order) at ¶ 830.

[3] 47 C.F.R. § 54.901.

The development of SLCs and ISDN line port charge for NECA CL tariff participants is addressed in Section 2. Section 3 describes the development of FUSC surcharges.

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL UNIVERSAL SERVICE CHARGES

Section 2

SUBSCRIBER LINE CHARGES and ISDN PORT CHARGES

A. OVERVIEW

This section discusses the development of SLCs for companies participating in NECA's end user tariff as well as the development of ISDN port charges. In addition, it explains the development of projected end user revenues for the NECA CL pool in total.

B. CALCULATION OF SUBSCRIBER LINE CHARGES AND END USER SLC REVENUE

1. Calculation of Subscriber Line Charges

SLCs recover a portion of total interstate NTS subscriber loop costs through fixed 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 LEC's 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 that 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) $5.00 beginning January 1, 2002, $6.00 beginning July 1, 2002, and $6.50 beginning July 1, 2003.[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] One single-line SLC applies for Basic Rate Interface (BRI) integrated services digital network (ISDN) service and no more than five multi-line SLCs apply for Primary Rate Interface (PRI) ISDN service.[6]

To determine the applicable SLCs for LECs participating in NECA's end user tariff, NECA divided one-twelfth of each study area's projected end user common line annual revenue requirement less its ISDN port and SAS revenues plus projected uncollectibles, which equals the 2003 uncollectible percentage applied to common line revenue requirement minus ISDN port and SAS revenue, by its projected average number of local exchange service subscriber lines for test period July 1, 2004 through June 30, 2005. Based on the computed monthly cost per line (CPL), each study area was assigned to one of fifteen target rate bands.

Monthly rate levels for each target rate band were calculated based on the average cost for study areas falling within each target rate band group. The multi-line business rates per month were set at either

---

[4] 47 C.F.R. § 69.104(n)(1).

[5] 47 C.F.R. § 69.104(o).

average cost per line of the group or $9.20, whichever was less. Rates for residence and single-line business lines per month were set at either average cost per line of the group or $6.50 whichever was less. The calculation of the banded rates is displayed in Exhibit 1. Study area rate band assignments are listed in NECA Tariff F.C.C. No. 5.

2. <u>End User SLC Revenues and Special Access Surcharge Revenues</u>

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 line 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 participants.

(5) Net SLC revenue was calculated as end user SLC revenues less projected uncollectibles.

Projected test period SLC revenue for the end user tariff participants is $862.3 million. For companies participating in NECA's CL tariff but filing their own end user tariffs, their projected test period SLC revenue is $143.3 million. The projected SLC uncollectible is $4.7 million. Thus the projected net SLC revenue is $1,000.9 million. The Special Access Surcharge (SAS) revenues are projected to be $1.4

---

[6] 47 C.F.R. § 69.104(p).

million. Finally, the total projected SLC and SAS net revenue is $1,002.3 million. Details are shown in Exhibit 2.

C. ISDN LINE PORT CHARGES AND REVENUE

1. Background

The *MAG Order* permits rate of return carriers to recover through separate end user charges the costs of ISDN line ports that exceed the costs of a line port used for basic analog service.[7] In support of its December 17, 2001 Filing,[8] NECA requested data from members of its Rate Development Task Force (RDTF)[9] to support the development of the rates for these new rate elements. The ISDN Line Port Data Request appears in Appendix A of NECA's December 17, 2001 Filing. In discussions with the RDTF in March 2004, it was determined that the end user port charges cost study did not require updating for the 2004-2005 test period.

[7] *See* Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, CC Docket No. 98-77, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, CC Docket No. 98-166, *Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166*, 16 FCC Rcd 19613 (2001) (*MAG Order*) at ¶96.

[8] National Exchange Carrier Association, Inc., Access Tariff Revisions, Transmittal No. 919, filed December 17, 2001.

[9] *See* Volume 5, Section 1, page 1, for a description of NECA's Rate Development Task Force. *See also* Exhibit 1 of the same volume for a list of Task Force participants.

2. <u>Cost Support</u>

RDTF members supplied underlying cost information relating to common equipment, software, and per line costs for both BRI-ISDN and PRI-ISDN. In addition, RDTF members supplied the same type of underlying cost information for basic local exchange service.

3. <u>Rate Development</u>

As displayed in Exhibit 3, rates for ISDN line ports were set equal to the average cost for ISDN line ports supplied by the RDTF. The resulting revenue of $2.4 million is displayed in Exhibit 4.

Finally, details of proposed common line revenues collected from SLC, ISDN port, SAS and ICLS are displayed in Exhibit 5.

Volume 4

DEVELOPMENT OF COMMON LINE RATES AND FEDERAL UNIVERSAL SERVICE CHARGES

Section 3

FEDERAL UNIVERSAL SERVICE CHARGE DEVELOPMENT

A. OVERVIEW

This section discusses the development of Federal Universal Service charges (FUSC) for NECA CL participants that are listed in Section 17.7 (A) of NECA Tariff F.C.C. No. 5.

B. DEVELOPMENT OF FEDERAL UNIVERSAL SERVICE CHARGES

The $ 100.9 million (see Volume 2, Exhibit 8) Universal Service obligation is recovered through a surcharge on interstate end user common line access retail revenues and interstate end user special access retail revenues. 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.

The end user common line and special access retail revenue FUSC surcharge is set at 8.9 percent, which is equal to the third quarter 2004 Universal Service Contribution Factor.[10] This factor is applied to end user common line and special access retail revenues for all companies listed in Section 17.7 (A) of

[10] Proposed Third Quarter 2004 Universal Service Contribution Factor, CC Docket No. 96-45, *Public Notice*, DA 04-1613, released June 7, 2004.

NECA Tariff F.C.C. No. 5, except for those companies that opted for MLB EUCL FUSC optional rate banding, listed in Section 17.7 (B) of NECA Tariff F.C.C. No. 5. These companies apply the MLB EUCL FUSC banded rates discussed below to their multi-line business customers.

NECA introduced MLB EUCL FUSC optional rate banding in May 2003.[11] 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.[12]

Each company opting for MLB EUCL FUSC rate banding was placed in a rate band designed to recover contribution costs of that band using the following methodology:

- The rate banding process begins with a preliminary range of rate bands and associated rates.
- A company's projected multi-line business revenue is multiplied by the contribution factor set by the Commission. This is the MLB Federal Universal Service Charge Revenue Requirement.

[11] National Exchange Carrier Association, Inc., Access Tariff Revisions, Transmittal No. 985, filed May 16, 2003.

[12] 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) (*USF Report and Order*); *Order and Second Order on Reconsideration*, 18 FCC Rcd 4818 at ¶3 (2003) (*Order)***.**

- Forecasted business Centrex lines are separated from other multi-line business lines.

- Companies with similar business Centrex shares of total multi-line business lines are placed in the same band.[13]

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

Contribution Factor / (1 – 8 / 9 * band business Centrex revenue share).

With the 1/9th treatment of Centrex business access lines, the banded MLB FUSC surcharge yields the same FUSC revenue as the contribution requirement of the band. Exhibit 6 shows the optional MLB FUSC surcharges by band and their projected FUSC revenue from multi-line business services. Exhibit 7 shows the total test period FUSC revenue projections of $ 100.9 millions.

[13] Entities were assigned to bands based on their proportion of business Centrex lines to total multi-lines. Where business Centrex represents between 0% and 5% of total business multi-lines, the entities are assigned to Band 1. Entities with between 5% and 10% Centrex lines are assigned to Band 2. For each higher band, the minimum and maximum percent of Centrex lines is increased by 5%.