

# **NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.**

## **OVERVIEW AND ANALYSIS OF 2009 USF DATA SUBMISSION**

### **I. BACKGROUND**

Section 36.613 of the Commission's rules requires NECA to file Universal Service Fund (USF) cost and expense adjustment information annually with the Commission and the Administrator<sup>1</sup> on October 1<sup>st</sup> each year.<sup>2</sup> The information in this filing is compiled from data as of December 31, 2008 that are supplied to NECA by incumbent local exchange carriers (ILECs) on or before July 31, 2009 as specified in section 36.611 of the Commission's rules.<sup>3</sup> As in prior years, NECA is providing the detailed Part 32 data and loop counts submitted by companies pursuant to section 36.611 of the Commission's rules used in the cost per loop and expense adjustment calculations. The ILECs included with their data submission signed certifications attesting to the accuracy of their data.

This USF Data Submission includes estimated high cost loop expense adjustment amounts for average schedule companies. Support amounts for these companies for calendar year 2010 are consistent with the expense adjustment formulas proposed in NECA's 2010 Modification of Average Schedule Universal Service Formulas (filed August 27, 2009).

The 2009 USF Data Submission includes the following information:<sup>4</sup>

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<sup>1</sup> The Universal Service Administrative Company (USAC) has been designated the administrator of the Federal Universal Service Programs.

<sup>2</sup> NECA's role, as detailed in Part 36 of the Commission's rules, is to collect the required data and develop an average cost per loop for each ILEC study area based on its historical data. The expense adjustment projections contained herein are based on the results of the annual submission data and are subject to change due to voluntary quarterly updates, reporting of errors and omissions, etc.

<sup>3</sup> Data was not submitted by AT&T, which received forbearance from this requirement from the Commission. *See* Petition of AT&T Inc. For Forbearance From Enforcement of Certain of the Commission's Cost Assignment Rules, WC Docket Nos. 07-21, 05-342, *Memorandum Opinion & Order*, 23 FCC Rcd 7302 (2008).

<sup>4</sup> NECA is required to provide the results for the industry as a whole and a reporting of the current and previous four years' results annually to the Commission and USAC. The information provided herein is included in both paper format and on compact disc. In addition, the disc contains line item detail for each ILEC study area for each of the last  
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- Appendix A: Instructions and form used to collect the information for individual study area loop cost calculations
- Appendix B: Formulas and algorithms used to determine the study area and national average loop costs, including the limitations on Corporate Operations expenses
- Appendix C: Comparison of study area types during 2009 and 2010
- Appendix D: Rural and non-rural study area loops, loop cost and projected 2010 expense adjustments by state; separate reports display non-rural data using each cap calculation approach (see description below)
- Appendix E: Rural and non-rural study area loops, loop cost and projected 2010 expense adjustments by study area code; separate reports display non-rural data using each cap calculation approach
- Appendix F: Listing of rural incumbent carriers with acquired exchanges recognized during 2010
- Appendix G: Analysis of Telephone Plant in Service investment per loop for potential Safety Net Additive qualifiers
- Appendix H: Comparison of rural support projections calculated with and without the annual cap
- Appendix I: Five-year trend of study area loops, loop cost and expense adjustment amounts. Non-rural data reflects Approach #1 only.

## II. RESULTS OF 2009 USF SUBMISSION

### A. Indexed Cap Calculation

Pursuant to the Commission's rules, indexed fund caps are calculated separately for rural and non-rural carriers.

#### 1. Non-Rural Carriers

For non-rural ILECs, the annual amount of the total nationwide loop cost expense adjustment is limited to the prior year's non-rural high cost loop support cap multiplied by the percentage change in the total number of working loops during the calendar year preceding the July 31<sup>st</sup> filing.<sup>5</sup> As a result of AT&T having received forbearance from submitting data, for 2010 NECA has calculated the percentage change in the indexed cap using two approaches: (1) including the AT&T

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five years. Non-rural data corresponding to the 2009 data submission were calculated using Approach #1 described *infra*.

<sup>5</sup> 47 C.F.R. § 36.602.

study areas in the preceding year's data, and (2) excluding the AT&T study areas from the preceding year's data. For 2010, using Approach #1 the indexed cap is \$24.1 million, a change of -56.7% from last year. Using Approach #2 the indexed cap is \$49.9 million, a change of -10.3% from last year. It should be noted that non-rural ILECs do not receive high cost loop support, and these funds are not redistributed to other carriers.<sup>6</sup>

## 2. Rural Carriers

Under the rural indexed cap mechanism, current year support for rural ILECs is based on the prior year's rural high cost loop support grown by the Rural Growth Factor (RGF).<sup>7</sup> The RGF is calculated as the sum of the annual change in the total number of rural ILEC working loops and the percentage change in the Gross Domestic Product-Chained Price Index (GDP-CPI).<sup>8</sup> For 2010, the RGF is -4.5483%, which represents a decrease in loops of -6.6759% and a percentage change in GDP-CPI of 2.1276%. NECA estimates the indexed cap for rural ILECs to be \$962.0 million for 2010, which is a decrease from the 2009 rural fund cap of \$1,007.8 million. Attachment 1 displays the details of this calculation.

### B. Corporate Operations Expense Limitation

Section 36.621 of the Commission's rules limits the amount of corporate operations expenses assigned to the loop cost calculation. The corporate operations expense limitation is based on a formula in which the dollar values in the formula are indexed by the GDP-CPI.<sup>9</sup> For calendar year

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<sup>6</sup> *Id.*

<sup>7</sup> 47 C.F.R. § 36.604.

<sup>8</sup> U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product: Second Quarter 2009 (Preliminary), *News Release*, rel. August 27, 2009, at Table 6.

<sup>9</sup> Section 36.621 of the Commission's rules limits corporate operations expenses assigned to the loop cost calculation to the lesser of the actual corporate operations expenses per loop per month or a monthly per-loop amount computed according to the following schedule:

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2010, the applicable GDP-CPI increase is 2.1276%. Corporate operations expense limitations developed in accordance with the prescribed formulas have been increased by this amount over the calendar year 2009 levels to establish the maximum allowable assignment for calendar year 2010.<sup>10</sup> The algorithm used to implement the corporate operations expense limitation is displayed in Appendix B. If the limitation on Corporate Operations Expenses had not been instituted, the NACPL for 2010 for rural ILECs would have been \$424.91, an increase of \$24.34 over the \$400.57 calculated from the current view of 2007 data used for 2009 support payments.

### C. National Average Cost Per Loop Calculation

A fixed NACPL of \$240.00 is used to calculate the expense adjustment levels for rural ILECs subject to the availability of funds under the indexed capping mechanism discussed previously.<sup>11</sup> Total rural ILEC expense adjustment amounts are the lesser of the actual payment calculated at the \$240 frozen NACPL or the capped amount for the applicable period. Based on the \$240 frozen NACPL, rural ILEC expense adjustment calculations for 2010 total \$2,217 million, which exceeds the index cap for rural ILECs of \$962.0 million.<sup>12</sup> As a result, rural ILEC expense adjustment payments are limited as a result of the indexed cap.<sup>13</sup>

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- Study areas with 6,000 or fewer working loops the amount monthly per working loop shall be [ $\$33.30853 - (.00246 \times \text{the number of working loops})$ ]  $\times$  GDP-CPI or  $(\$50,000 \div \text{the number of working loops}) \times \text{GDP-CPI}$ , whichever is greater;
- Study areas with more than 6,000 but fewer than 18,006 working loops, the monthly amount per working loop shall be [ $\$3.83195 + (88,429.20 \div \text{the number of working loops})$ ]  $\times$  GDP-CPI; and
- Study areas with 18,006 or more working loops, the monthly amount per working loop shall be  $\$8.74472 \times \text{GDP-CPI}$ .

<sup>10</sup> The GDP-CPI factor used in the corporate operations expense limitation schedule for calendar year 2010 is 1.233356. This factor captures the composite growth over a nine-year time span.

<sup>11</sup> For purposes of the historical trend report and for use in calculating non-rural carrier “hold harmless” support projections in this data submission, NECA calculated the NACPL pursuant to section 36.622 of the Commission’s rules as it existed prior to July 1, 2001.

<sup>12</sup> The actual NACPL calculated based on the 2008 data submitted to NECA is \$383.38. Using this figure rather than the \$240 frozen NACPL would result in a rural ILEC expense adjustment calculation for 2010 of \$1,112.3 million.

<sup>13</sup> Actual 2010 expense adjustment amounts paid to individual study areas may change subject to optional quarterly updates permitted by the Commission’s rules and to correct errors and omissions in the data should they occur.

The capped NACPL calculated from calendar year 2008 data reported by rural carriers is \$412.54, which is \$23.49 more than the capped NACPL of \$389.05 calculated from the current view of 2007 data used for 2009 support payments. For non-rural carriers, the 2008 NACPL using Approach #1 described previously is \$409.48 and using Approach #2 the corresponding 2008 NACPL is \$379.86.

#### D. Sale of Exchanges

Section 54.305 of the Commission's rules governs the high cost loop support for situations where a rural ILEC purchases an exchange from a non-rural carrier.<sup>14</sup> If a rural ILEC incorporates acquired exchanges into an existing study area it excludes the costs and loops associated with the acquired exchanges from the costs and loops associated with the pre-acquisition study area. Acquiring rural ILECs must separately provide the information listed in section 36.611 of the Commission's rules for acquired and existing exchanges as if these two categories of exchanges constitute separate study areas.<sup>15</sup> Appendix F provides information on study areas that have acquired exchanges.

#### E. Safety Net Additive Support

Section 36.605 of the Commission's rules provides for a Safety Net Additive to provide additional support to those rural carriers that have made significant investment in years in which the fund is capped.<sup>16</sup> The Commission determined that a 14 percent increase in a carrier's Telephone Plant in Service (TPIS) investment on a per-loop basis provides a reasonable method for assessing

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<sup>14</sup> See 47 C.F.R. § 54.305. Specifically, the rules state that the acquiring carrier receives support based on the Commission's new universal service support mechanism for the acquired exchange at the same per-loop support as calculated at the time of the transfer, regardless of the rural carrier's cost characteristics or the support the rural carrier purchasing the exchange may receive for any other exchanges.

<sup>15</sup> The information provided for the acquired exchanges will, upon notice to the Administrator, be used as the index year for determination of potential Safety Valve support for those exchanges. See 47 C.F.R. § 54.305.

<sup>16</sup> 47 C.F.R. § 36.605.

whether the carrier has made significant investment to qualify its study area for safety net additive support. Appendix G contains a display of the rural ILEC cost companies whose annual data submission indicates that the year-over-year growth in TPIS per loop has exceeded the 14 percent threshold.

### III. KEY STATISTICS FOR 2009 AND 2010 USF DATA

The following table displays the percentage changes between data underlying the 2009 and 2010 high cost loop expense adjustments. These data include the impact of both the limitation on Corporate Operations Expenses and the indexed cap on Expense Adjustment growth for the Fund. Data for the total industry and for rural carriers are displayed in separate tables.

#### Total Industry Statistics

Category	Filed For 2009	Latest View of 2009	Filed For 2010 <sup>17</sup>
Unseparated Revenue Requirement	\$45,723.9 M	\$45,716.4 M	\$26,011.7 M
USF Loops	135.8 M	135.8 M	67.8 M
Cost per Loop <sup>18</sup>	\$336.73	\$336.67	\$383.38

#### Rural Carrier Statistics

Category	Filed For 2009	Latest View of 2009	Filed For 2010	% Change (LV 2009 vs. Filed 2010)
Unseparated Revenue Requirement	\$8,149.0 M	\$8,137.0 M	\$8,032.3 M	-1.29%
USF Loops	17.3 M	17.3 M	16.2 M	-6.36%
Cost per Loop <sup>18</sup>	\$452.74	\$451.81	\$476.84	5.54%
Capped NACPL	\$382.97	\$389.05	\$412.54	6.04%

<sup>17</sup> Does not include data for AT&T study areas. For comparison purposes, removing AT&T data from “Latest View of 2009” results in unseparated revenue requirement of \$26,772.9 M, USF loops of 75.0 M and cost per loop of \$357.15.

<sup>18</sup> Cost per loop is based on actual unseparated revenue requirement, except where limited by the Corporate Operations Expense limitation, divided by total loops.

**NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.  
UNIVERSAL SERVICE FUND  
ATTACHMENT 1 - RURAL HIGH COST LOOP FUND  
2010 CAP DEVELOPMENT**

	<u>Source</u>	<u>Data</u>
1 RURAL LOOPS AS OF 12/2007	2008 Submission	18,007,118
2 ACQUIRED EXCHANGE LOOPS	2008 Submission	666,588
3 ADJUSTED 12/2007 RURAL LOOPS	Ln 1 - Ln 2	17,340,530
4 RURAL LOOPS AS OF 12/2008	Appendix D	16,844,757
5 ACQUIRED EXCHANGE LOOPS	Appendix D	661,855
6 ADJUSTED 12/2008 LOOPS	Ln 4 - Ln 5	16,182,902
7 CHANGE IN RURAL ILEC LOOPS	(Ln 6 - Ln 3) / Ln 3	-6.6759%
8 GDP-CPI 2007	BEA, Table 6 *	106.221
9 GDP-CPI 2008	BEA, Table 6 *	108.481
10 CHANGE IN GDP-CPI 2008	(Ln 9 - Ln 8) / Ln 8	2.1276%
11 RURAL GROWTH FACTOR	Ln 7 + Ln 10	-4.5483%
12 MAXIMUM 2009 RURAL FUND SIZE	2008 Submission	\$1,007,797,043
13 MAXIMUM 2010 RURAL FUND SIZE	Ln 12 x (1 + Ln 11)	\$961,959,410
14 ACQUIRED EXCHANGE SUPPORT (2010)	from USAC	\$9,727,200
15 MAXIMUM 2010 EXPENSE ADJUSTMENTS (EXCL. ACQUIRED EXCHANGE SUPPORT)	Ln 13 - Ln 14	\$952,232,210

\* U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product: Second Quarter 2009 (Preliminary), *News Release*, rel. August 27, 2009, at Table 6.