

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

OVERVIEW AND ANALYSIS OF 2011 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 Administrator¹ on October 1st each year.² The information in this filing is compiled from data as of December 31, 2010 supplied to NECA by incumbent local exchange carriers (ILECs) on or before July 31, 2011 as specified in section 36.611 of the Commission's rules.³ 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 2012 are consistent with the expense adjustment formulas proposed in NECA's 2012 Modification of Average Schedule Universal Service Formulas (filed August 30, 2011).

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

² 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.

³ Data was not submitted by AT&T and Verizon, 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), and See Petition of Verizon For Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's Recordkeeping and Reporting Requirements, et al., *Memorandum Opinion & Order and Notice of Proposed Rulemaking*, 23 FCC Rcd 13647, ¶¶ 26-27, n.82. .

The 2011 USF Data Submission includes the following information:⁴

- 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 2011 and 2012
- Appendix D: Rural and non-rural study area loops, loop cost and projected 2012 expense adjustments by state
- Appendix E: Rural and non-rural study area loops, loop cost and projected 2012 expense adjustments by study area code
- Appendix F: Listing of rural incumbent carriers with acquired exchanges recognized during 2012
- 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.

II. RESULTS OF 2011 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 31st filing.⁵ For 2012, the indexed cap is \$39.6 million, a change of -11.0% from last year. It should be noted that

⁴ 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 five years.

⁵ 47 C.F.R. § 36.602. As a result of AT&T and Verizon having received forbearance from submitting data, NECA has calculated the percentage change in the indexed cap for 2012 excluding data for the AT&T and Verizon study areas.

non-rural ILECs do not receive high cost loop support, and these funds are not redistributed to other carriers.⁶

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).⁷ 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).⁸ For 2012, the RGF is -5.2698%, which represents a decrease in loops of -6.4253% and a percentage change in GDP-CPI of 1.1555%. NECA has calculated the indexed cap for rural ILECs to be \$858.2 million for 2012, which is a decrease from the 2011 rural fund cap of \$905.9 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.⁹ For calendar year 2012, the applicable GDP-CPI increase is 1.1555%. Corporate operations expense limitations developed in accordance with the prescribed formulas have been increased by this amount over the

⁶ *Id.*

⁷ 47 C.F.R. § 36.604.

⁸ U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product: Second Quarter 2011 (Preliminary), *News Release*, rel. August 26, 2011, at Table 6.

⁹ 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 Section 36.621(a)(4)(ii).

calendar year 2011 levels to establish the maximum allowable assignment for calendar year 2012.¹⁰

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 2012 for rural ILECs would have been \$526.88, an increase of \$36.68 over the \$490.20 calculated from the current view of 2009 data used for 2011 support payments.

C. National Average Cost Per Loop Calculation

A fixed NACPL of \$240.00 is used to calculate expense adjustment levels for rural ILECs subject to the availability of funds under the indexed capping mechanism discussed previously. 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 2012 would total \$2,500 million, which exceeds the indexed cap for rural ILECs of \$858.2 million.¹¹ As a result, rural ILEC expense adjustment payments are limited as a result of the indexed cap.¹²

The capped NACPL calculated from calendar year 2010 data reported by rural carriers is \$505.97, which is \$34.07 more than the capped NACPL of \$471.90 calculated from the current view of 2009 data used for 2011 support payments. The capped NACPL for non-rural carriers is \$436.51.

¹⁰ The GDP-CPI factor used in the corporate operations expense limitation schedule for calendar year 2012 is 1.259325. This factor captures the composite growth over a eleven-year time span.

¹¹ The actual NACPL calculated based on the 2010 data submitted to NECA is \$473.10. Using this figure rather than the \$240 frozen NACPL would result in a rural ILEC expense adjustment calculation for 2012 of \$972.6 million.

¹² Actual 2012 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.

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 another carrier.¹³ 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.¹⁴ 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.¹⁵ 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 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.

¹³ See 47 C.F.R. § 54.305. Specifically, the rules state 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.

¹⁴ 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.

¹⁵ 47 C.F.R. § 36.605.

III. KEY STATISTICS FOR 2011 AND 2012 USF DATA

The following table displays the percentage changes between data underlying the 2011 and 2012 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 combined rural and non-rural carriers ¹⁶ and for rural carriers are displayed in separate tables.

Combined Rural and Non-Rural Carrier ¹⁶ Statistics

Category	Filed For 2011	Latest View of 2011	Filed For 2012	% Change (LV 2011 vs. Filed 2012)
Unseparated Revenue Requirement	\$25,904.7 M	\$25,913.0 M	\$14,616.6 M	-43.59%
USF Loops	61.2 M	61.2 M	30.9 M	-49.51%
Cost per Loop ¹⁷	\$423.15	\$423.30	\$473.10	11.76%

Rural Carrier Statistics

Category	Filed For 2011	Latest View of 2011	Filed For 2012	% Change (LV 2011 vs. Filed 2012)
Unseparated Revenue Requirement	\$7,952.7 M	\$7,961.0 M	\$7,884.4 M	-0.96%
USF Loops	15.1 M	15.1 M	14.0 M	-7.28%
Cost per Loop ¹⁷	\$505.37	\$505.95	\$538.32	6.40%
Capped NACPL	\$458.36	\$471.90	\$505.97	7.22%

¹⁶ Does not include data for AT&T and Verizon study areas.

¹⁷ 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
2012 CAP DEVELOPMENT**

	<u>Source</u>	<u>Data</u>
1 RURAL LOOPS AS OF 12/2009	2010 Submission	15,621,823 **
2 ACQUIRED EXCHANGE LOOPS	2010 Submission	647,871
3 ADJUSTED 12/2009 RURAL LOOPS	Ln 1 - Ln 2	14,973,952
4 RURAL LOOPS AS OF 12/2010	Appendix D	14,646,474
5 ACQUIRED EXCHANGE LOOPS	Appendix D	634,644
6 ADJUSTED 12/2010 LOOPS	Ln 4 - Ln 5	14,011,830
7 CHANGE IN RURAL ILEC LOOPS	(Ln 6 - Ln 3) / Ln 3	-6.4253%
8 GDP-CPI 2009	BEA, Table 6 *	109.732
9 GDP-CPI 2010	BEA, Table 6 *	111.000
10 CHANGE IN GDP-CPI 2010	(Ln 9 - Ln 8) / Ln 8	1.1555%
11 RURAL GROWTH FACTOR	Ln 7 + Ln 10	-5.2698%
12 MAXIMUM 2011 RURAL FUND SIZE	2010 Submission	\$905,932,008
13 MAXIMUM 2012 RURAL FUND SIZE	Ln 12 x (1 + Ln 11)	\$858,191,203
14 ACQUIRED EXCHANGE SUPPORT (2012)	from USAC	\$8,898,564
15 MAXIMUM 2012 EXPENSE ADJUSTMENTS (EXCL. ACQUIRED EXCHANGE SUPPORT)	Ln 13 - Ln 14	\$849,292,639

* U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product: Second Quarter 2010 (Preliminary), *News Release*, rel. August 26, 2011, at Table 6.

** Rural Loops as of 12/2009 were revised to exclude data for Verizon study areas (114,425 USF Loops). The Commission granted Verizon forbearance from the requirement to report data and Verizon chose not to report data for the 2011 annual data collection.