

# NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

## OVERVIEW AND ANALYSIS OF 2019 USF DATA SUBMISSION

### I. BACKGROUND

Section 54.1307 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, 2018 supplied to NECA by rural rate of return exchange carriers (RLECs) on or before July 31, 2019 as specified in section 54.1305 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 54.1305 of the Commission's rules used in the cost per loop and expense adjustment calculations. The RLECs 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 2020 are consistent with the expense adjustment formulas proposed in NECA's 2020 Modification of Average Schedule Universal Service Formulas.<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 54 of the Commission's rules, is to collect the required data and develop an average cost per loop for each RLEC 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, correction of errors and omissions, etc. The expense adjustment projections do not reflect USAC administered adjustments including application of the monthly per-line limit on HCLS and CAF-BLS payments, or application of the overall high cost budget control mechanism.

<sup>3</sup> Commission rules require RLECs that elected to receive A-CAM, A-CAM II, or Alaska Plan support to submit USF data even though they are no longer eligible to receive HCL support. Data was not submitted by study areas that were price cap or affiliated with price cap carriers as of December 2018. These study areas are not required to submit this data under § 54.1301 effective January 1, 2012. Data was not submitted by study areas that elected incentive regulation for BDS. These study areas were granted forbearance from this requirement.

<sup>4</sup> NECA 2020 Modification of the Average Schedule Universal Service High Cost Loop Support Formula, WC  
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The 2019 USF Data Submission includes the following information:<sup>5</sup>

- 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 and Operating Expenses
- Appendix C: Comparison of legacy ROR study area types during 2019 and 2020
- Appendix D: Legacy ROR study area loops, loop cost and projected 2020 expense adjustments by state
- Appendix E: Legacy ROR study area loops, loop cost and projected 2020 expense adjustments by study area code
- Appendix F: Listing of legacy ROR carriers with acquired exchanges recognized during 2020
- Appendix G: Comparison of legacy ROR support projections calculated with and without the annual cap
- Appendix H: Five-year trend of study area loops, loop cost and expense adjustment amounts for legacy ROR and model support carriers.<sup>6</sup>

## II. RESULTS OF 2019 USF SUBMISSION

### A. Indexed Cap Calculation

Pursuant to the Commission's rules, an indexed fund cap is calculated for the legacy ROR carriers.<sup>7</sup> Under the indexed cap mechanism, current year support for the legacy ROR carriers is

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Docket No. 05-337 (filed Aug. 28, 2019).

<sup>5</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. Data files provided with this filing contain line item detail for each RLEC study area for each of the last five years.

<sup>6</sup> The projected study area expense adjustment amounts included in Appendices D, E, G, and H are calculated pursuant to section 54.1310(b)(1) of the Commission's rules whereby initially a frozen NACPL of \$647.87 is used in the formula contained in Appendix B. The results are summed and compared to the overall funding limit of \$401.1 million described on page 4 of the Overview and a pro rata adjustment factor is applied to all recipients' support amounts to satisfy the overall High Cost Loop Support funding cap. Data is displayed separately for carriers who elected A-CAM, A-CAM II, or Alaska Plan support (model support companies). Data for Fremont Telcom Co. is displayed with the USAC assigned study area code of 473333.

<sup>7</sup> Legacy ROR carriers refers to those rate of return carriers who did not elect A-CAM, A-CAM II, or Alaska Plan support. The indexed fund cap is calculated using data for legacy ROR carriers as per paragraph 154 of the *Rate of Return Reform Order*. See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087 (2016) (*Rate of Return Reform Order*). Commission rules require carriers that elected to receive A-CAM, A-CAM II, or Alaska Plan support to submit USF data even though they are no longer eligible to receive HCL support. Data for these model support carriers is not used in the indexed cap calculation.

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based on the prior year's high cost loop support grown by the Rural Growth Factor (RGF).<sup>8</sup> The RGF is calculated as the sum of the annual change in the total number of legacy ROR carrier working loops and the percentage change in the Gross Domestic Product-Chained Price Index (GDP-CPI).<sup>9</sup> For 2020, the RGF is -4.0391%, which represents a decrease in loops of -6.4391% and a percentage change in GDP-CPI of 2.4%. NECA has calculated the indexed cap for legacy ROR carriers to be \$401.1 million for 2020, which is a decrease from the 2019 legacy ROR fund cap of \$418 million. Attachment 1 displays the details of this calculation.

B. Corporate Operations Expense Limitation

Section 54.1308 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>10</sup> For calendar year 2020, the applicable GDP-CPI increase is 2.4%. Corporate operations expense limitations developed in accordance with the prescribed formulas have been increased by this amount over the calendar year 2019 levels to establish the maximum allowable assignment for calendar year 2020.<sup>11</sup> The algorithm used to implement the corporate operations expense limitation is displayed in Appendix B.

C. Operating Expense Limitation

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<sup>8</sup> 47 C.F.R. § 54.1303.

<sup>9</sup> U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product: Second Quarter 2019 (Second Estimate), *News Release*, rel. August 29, 2019, at Table 5.

<sup>10</sup> The Commission's rules limit corporate operations expense assigned to the loop cost calculation to the lesser of the actual corporate operations expense per loop per month or a monthly per-loop amount computed in accordance with section 54.1308(a)(4)(iii).

<sup>11</sup> The GDP-CPI factor used in the corporate operations expense limitation schedule for calendar year 2020 is 1.145197. This factor captures the composite growth over an eight-year time span consistent with section 54.1308(a)(4)(ii)(D).

The *Rate of Return Reform Order* instituted a cap on operating expenses allowed for inclusion in calculation of the study area loop costs underlying the 2020 HCLS expense adjustment projections. Census data and the formula described in section 54.303(a)(1) were used to calculate study area specific limits on allowable operating expenses. If eligible operating expenses, as identified in section 54.303(a)(2), exceed the limit, operating expenses are limited. For 2020 expense adjustment projections, the full impact of the limitation is applied to the sum of algorithm lines 13, 14, 15, 16, 19, 21 and 22. The resultant amount is then added to the amounts contained in algorithm lines 20, 23 and 24 to produce the unseparated revenue requirement. This amount is then divided by total loops to produce the study area loop cost adjusted for the Operating Expense limitation.<sup>12</sup>

The Commission has also imposed limited conditions on transactions between parties receiving different types of support. Limits on the operating expenses of these companies are applied in a manner similar to that described above.<sup>13</sup>

#### D. National Average Cost Per Loop Calculation

A fixed NACPL of \$240.00 is used to calculate expense adjustment levels for legacy ROR carriers subject to the availability of funds under the indexed capping mechanism discussed previously. Total legacy ROR carrier 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, legacy ROR carrier expense adjustment calculations for 2020

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<sup>12</sup> Impacts on study area loop costs of the Operating Expense Limitation on cost company study areas can be found in the file USF2019LVROR19.xlsx, accompanying this filing, by comparing the amount contained in Column DQ (Study area loop cost OpEx Limited) to the amount in Column L (Study Area Loop Cost). Operating Expense Limitation for Average Schedule Companies is included in formulas filed August 28, 2019.

<sup>13</sup> In the *Hargray* order the Commission began limiting the operating expenses of companies involved in mixed support transactions, in which a transfer of control resulted in a company owning study areas that are eligible for legacy high cost support and that receive a type of fixed model support. For study areas whose eligible operating expenses exceed the limit, the impact of the limitation is applied to the sum of algorithm lines 13, 14, 15, 16, 19, 21, and 22.

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would total \$1,054.5 million, which exceeds the indexed cap of \$401.1 million. Therefore, legacy ROR carrier expense adjustment payments are limited as a result of the indexed cap.<sup>14</sup>

The capped NACPL calculated from calendar year 2018 data reported by the legacy ROR carriers is \$808.81, which is \$24.61 more than the capped NACPL of \$784.20 calculated from the current view of 2017 data used for 2019 support payments.<sup>15</sup> The capped NACPL exceeds the frozen NACPL<sup>16</sup> of \$647.87. Therefore, the frozen NACPL will be used to calculate the annual expense adjustment amounts.

Legacy ROR carrier expense adjustments for 2020 calculated using the frozen NACPL are \$536,581,650 which exceeds the indexed cap of \$400,525,118 (excluding acquired exchange support). A pro rata adjustment factor of .746438 will need to be applied to the expense adjustment amounts to ensure that the total fund size remains beneath the indexed cap.<sup>17</sup>

#### E. Acquired Exchanges

Section 54.305 of the Commission's rules governs the high cost loop support for situations where an RLEC purchases an exchange from another carrier.<sup>18</sup> If an RLEC incorporates acquired exchanges into an existing study area it excludes the costs and loops associated with the acquired

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<sup>14</sup> Actual 2020 expense adjustment amounts paid to individual study areas may change subject to optional quarterly updates permitted by the Commission's rules as well as correction of errors and omissions in the data should they occur. In addition, actual expense adjustment amounts paid to an individual study area may also be reduced as a result of USAC administered adjustments including application of the Commission's monthly per-line limit on high cost support, and the overall high cost support budget control mechanism.

<sup>15</sup> If the limitations on Corporate Operations Expense and Operating Expenses had not been instituted and the NACPL had not been frozen, the NACPL for 2019 for RLECs would have been \$836.20, an increase of \$33.21 over the \$802.99 calculated from the current view of 2017 data used for 2019 support payments.

<sup>16</sup> See 47 C.F.R. § 54.1309(d). The NACPL was frozen effective July 2015. The frozen NACPL was calculated using data which reflects the March 2015 update filing.

<sup>17</sup> See 47 C.F.R. § 54.1310(b)(1). The pro rata adjustment factor will be recalculated periodically to reflect the impact of voluntary quarterly adjustments and errors and omissions.

<sup>18</sup> See 47 C.F.R. § 54.305. Specifically, the rules state the acquiring carrier receives support for the acquired exchange at the lesser of the same per-loop support as calculated at the time of the transfer and support as calculated using the actual costs of the acquired exchange.

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exchanges from the costs and loops associated with the pre-acquisition study area. Acquiring RLECs must separately provide the information listed in section 54.1305 of the Commission's rules for acquired and existing exchanges as if these two categories of exchanges constitute separate study areas.<sup>19</sup> Appendix F provides information on study areas that have acquired exchanges.

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<sup>19</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.

### III. KEY STATISTICS FOR 2019 AND 2020 USF DATA

The following table displays the percentage changes between data underlying the 2019 and 2020 high cost loop expense adjustments for legacy ROR carriers. These data include the impact of the limitation on Corporate Operations Expenses and the limitation on Operating Expenses, as well as the indexed cap on Expense Adjustment growth for the Fund. The 2020 data includes an authorized rate of return of 10.125% (a blend of 10.25% for the January through June 2020 period and 10.00% for the July through December 2020 period).<sup>20</sup>

#### Legacy Rate of Return Carrier Statistics

Category	Filed For 2019	Latest View of 2019	Filed For 2020	% Change (LV 2019 vs. Filed 2020)
Unseparated Revenue Requirement	\$1,923.4 M	\$1,925.3 M	\$1,863.7 M	-3.20%
USF Loops	1.660 M	1.660 M	1.554 M	-6.39%
Cost per Loop <sup>21</sup>	\$1,158.52	\$1,159.93	\$1,199.23	3.39%
Capped NACPL	\$775.82	\$784.20	\$808.81	3.14%
Frozen NACPL	\$647.87	\$647.87	\$647.87	0.00%
Pro Rata Adjustment Factor	.781929	.771492	.746438	-3.25%

<sup>20</sup> Further information about the implementation of the Operating Expense limitation and the reduction in the authorized rate of return can be found in Appendix B.

<sup>21</sup> Cost per loop is based on actual unseparated revenue requirement, except where limited by the Corporate Operations Expense limitation and the Operating Expense limitation, divided by total loops.

**NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.  
UNIVERSAL SERVICE FUND  
ATTACHMENT 1 - RURAL LEGACY ROR HIGH COST LOOP FUND  
2020 CAP DEVELOPMENT**

	<u>Source</u>	<u>Data</u>
1 RURAL LEGACY ROR LOOPS AS OF 12/2017	2018 Submission	1,660,234 **
2 RURAL LEGACY ROR ACQUIRED EXCHANGE LOOPS	2018 Submission	15,939 ***
3 RURAL LEGACY ROR ADJUSTED 12/2017 LOOPS	Ln 1 - Ln 2	1,644,295
4 RURAL LEGACY ROR LOOPS AS OF 12/2018	Appendix D	1,554,044
5 RURAL LEGACY ROR ACQUIRED EXCHANGE LOOPS	Appendix D	15,626
6 RURAL LEGACY ROR ADJUSTED 12/2018 LOOPS	Ln 4 - Ln 5	1,538,418
7 CHANGE IN RURAL LEGACY ROR ILEC LOOPS	(Ln 6 - Ln 3) / Ln 3	-6.4391%
8 CHANGE IN GDP-CPI 2018	BEA Table 5 *	2.4000%
9 RURAL GROWTH FACTOR	Ln 7 + Ln 8	-4.0391%
10 MAXIMUM 2019 RURAL LEGACY ROR FUND SIZE	2018 Submission	\$417,970,888 ****
11 MAXIMUM 2020 RURAL LEGACY ROR FUND SIZE	Ln 10 x (1 + Ln 9)	\$401,088,626
12 LEGACY ROR 2020 ACQUIRED EXCHANGE SUPPORT	from USAC	\$563,508
13 MAXIMUM 2020 LEGACY ROR EXPENSE ADJUSTMENTS (EXCL. ACQUIRED EXCHANGE SUPPORT)	Ln 11 - Ln 12	\$400,525,118

\* U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product: Second Quarter 2019 (Second Estimate), *News Release*, rel. August 29, 2019, at Table 5.

\*\* Adjusted to remove loops for study areas that elected to receive A-CAM II support

	As Of 12/2017
ROR Loops	2,252,756
A-CAM II Loops	592,522
Net Legacy ROR Loops	1,660,234

\*\*\* Adjusted to remove loops for acquired exchanges that elected to receive A-CAM II support

	As Of 12/2017
ROR Acquired Exchange Loops	42,284
A-CAM II Acquired Exchange Loops	26,345
Net Legacy ROR Acquired Exchange Loops	15,939

\*\*\*\* Adjusted to remove amounts for study areas that elected to receive A-CAM II support

	As Of 12/2017
2019 Rural ROR Fund Size	573,345,153
A-CAM II Expense Adjustments	155,374,265
Net Legacy ROR Fund Size	417,970,888