

# **Capital Investment Allowance**

## **Frequently Asked Questions**

### **CIA Elimination**

The December 2018 USF Reform Order (FCC 18-176) eliminated the Capital Investment Allowance. Footnote 256 states, “To eliminate the capital investment allowance, we remove paragraphs (b) through (m) of section 54.303. The effective date of this Report and Order will likely fall early in 2019. We note that the capital investment allowance will not apply to any relevant filings made in 2019, and therefore, it will not apply to any costs incurred in 2018.” See FAQ 39 and 40 for details related to the phasing out of the Capital Investment Allowance.

### **Who must Submit CIA Data**

#### **Q1) Are A-CAM and Alaska Plan companies required to submit CIA data?**

Response – Incumbent local exchange carriers settling on a cost basis that are not price cap or affiliated with a price cap carrier must submit the USF Data Collection form, USF Certification form and the Capital Investment Allowance worksheet found on NECA’s website. FCC staff have clarified that A-CAM and Alaska Plan companies must provide this data.

### **Locations**

#### **Q2) On December 8, 2016, the FCC released a Public Notice (DA 16-1363) providing guidance regarding broadband location reporting obligations. Are locations passed for use in the construction limit counted in the same way?**

Response – The December 8<sup>th</sup> Public Notice (PN) is the FCC’s guidance on reporting locations relating to broadband deployment obligations and does not specifically mention locations related to section 54.303(f) for CIA. The PN requires reporting of only broadband locations meeting service standards in eligible census blocks. The guidance also excludes the reporting of certain locations including anchor institutions and certain business types. FCC staff have clarified that companies are not required to follow the PN guidance on locations for CIA purposes as some of the guidance does not apply to determining locations related to a specific project’s actual loop investment per location that is allowable for the purpose of obtaining CAF-BLS and HCLS. Companies will need to document locations used for CIA purposes and be prepared to defend them in an audit if necessary (see question 3).

**Q3) What qualifies as locations passed or served per project?**

Response - Locations related to section 54.303(f) are not defined in the rules. If the facility from a project serves or could provide service to a location within 10 business days it may be counted as a location passed. As an example, in a fiber project the carrier may not initially install the drop to the location but if they could do so in 10 days it would be considered a location served. Also, if the facility on a route is upgraded and currently serves a location it can be counted. Locations are determined at the time the project is completed and capitalized.

**Q4) For projects involving smaller dollar amounts, is it reasonable to combine into one project and then apply all of the company locations instead of trying to identify which specific locations were upgraded?**

Response - Companies should use reasonable effort to identify the actual locations served by a project. It will be up to the company to defend their location counts per project in an audit if necessary.

**Q5) If the carrier does not have a build out requirement because they are offering 10/1 speeds to over 93% of their locations, does this change how locations are counted?**

Response – No, build out requirements and 10/1 availability do not impact which locations to count for CIA purposes. Section 54.303(b) allows a carrier to seek an upward adjustment to their AALPI if their loop plant investment exceeds the AALPI due to deployment obligations but it continues to be subject to the per location construction limit.

**Projects**

**Q6) How is project defined?**

Response – A project is not defined in section 54.303(b). Companies should treat projects in a consistent manner based on documented engineering and/or business practices.

**Q7) For projects involving smaller dollar amounts, is it reasonable to combine these projects into one general description (such as “2017 upgrades”)?**

Response - Companies should treat projects in a consistent manner based on documented engineering and/or business practices.

**Q8) Are companies required to allocate indirect account additions to loop projects?**

Response – Company engineering and/or business practices determine the treatment of projects. For example, a company may add a building, vehicles and computers in the same year. The company may treat this example as 3 separate projects, 1 combined project or in some other manner depending upon their documented practices (including as part of a local loop project). To the extent that an indirect loop investment account is included in a project of its own, it should not be included in any other loop projects.

## **Setting Limits**

**Q9) What is the process if a material correction is required to the CIA limit due to cost study reconciliation and review or USAC audit findings?**

Response – Limits are final when published. Companies must seek a waiver to change published limits.

**Q10) Section 54.303(k) allows a carrier to request the administrator adjust the carrier's AALPI for special circumstances. If a carrier believes they have loop plant investments warranting special treatment, how should the carrier request the adjustment to their AALPI and when can an approved adjustment be reflected in their cost study and HCLS submissions?**

Response – The initial cost study and HCLS submissions should be submitted based on existing published limits and should not reflect special circumstances treatment until after administrator approval. The FCC confirmed requests for special circumstances treatment should be submitted to USAC. Requests should be sent to the following USAC staff:

- [Christina.cunningham@usac.org](mailto:Christina.cunningham@usac.org) (primary)
- [Sharmarke.ahmed@usac.org](mailto:Sharmarke.ahmed@usac.org) (copy requested)
- [Habib.Simab@usac.org](mailto:Habib.Simab@usac.org) (copy requested)

Cost study and HCLS submissions reflecting the special circumstances may be reported after the administrator approves and notifies the company and NECA of an adjusted AALPI reflecting the approval.

**Q11) What are the effective dates for 54.303(b) and 54.303(k)?**

Response Section 54.303(b) became effective on October 24, 2016 upon announcement in the Federal Register of OMB approval. Section 54.303(k), which allows carriers to seek special circumstances treatment for some loop plant additions, was not subject to OMB approval and became effective with publication of the rule in the Federal Register on May 25, 2016.

## **Testing Additions to Published AALPI and Construction Limit**

**Q12) How are retirements treated in the AALPI and Construction Limit tests?**

Response – Retirements are not a reduction to additions tested against the AALPI or Construction Limit.

**Q13) When including COE and C&WF additions in the test, should the total C&WF Category 1, C&WF Category 2 – loop, COE Category 4.13 and COE Category 4.11 loop be included or just the message and total DSL portions of these categories?**

Response – When the limits are set only the message, voice data DSL and data only DSL portions of the categories are used, consequently, the test may be performed at the message and total DSL level for these categories.

**Q14) How are transfers from one asset account to another treated?**

Response – Regarding the AALPI test, additions to accounts such as 1220 and 2003 are tested in the year added to the account. In future years when dollars are transferred out of these accounts to other asset accounts, the transfer should not be treated as an addition for the year transferred. For example, if \$500,000 of C&WF is added to account 2003 in 2017, this is included in the 2017 AALPI test. When the \$500,000 is placed in service in 2018 by transferring \$500,000 from account 2003 to account 2410, account 2410 will include a \$500,000 transfer and account 2003 will reflect a \$500,000 transfer reduction netting to zero. Consequently, the \$500,000 will not be included in the 2018 AALPI test.

Regarding the Construction Limit test, projects are tested only after completed and placed in service, consequently, accounts 1220 and 2003 are never included. For example, if \$500,000 of C&WF is added to account 2003 in 2017, this is not included in the 2017 Construction Limit test. When the \$500,000 is placed in service in 2018 by transferring \$500,000 from account 2003 to account 2410, the \$500,000 addition to account 2410 will be included in the 2018 Construction Limit test.

**Q15) For account 1220 Materials & Supplies (M&S) and account 2003 Total Plant Under Construction (TPUC) are year end balances used in the test calculation?**

Response – Include yearend M&S and TPUC balances in the base year to set future limits. Regarding the AALPI test, only current year additions are used during the test year (see question 14 for more information).

**Q16) If a carrier originally forecasts a construction project per location cost to be less than the construction limit, however, at the time the project is placed in service the actual project cost per location exceeds the construction limit due to unforeseen problems with terrain, material prices or other reasons how does the carrier treat this project?**

Response – The project test is based on actual cost and tested when completed and placed in service. The original forecast has no impact on the test. USF Reform Order (FCC 16-33) footnote 235 reminds carriers it can seek a waiver if it needs to make investments greater than those allowed by the capital budget limitation.

**Q17) For Cash Working Capital (CWC), is the Part 36 total company or the interstate portion used in the test calculation?**

Response – FCC staff have confirmed that CWC is not tested. Because the purpose of the CIA rules in section 54.303(b) is to limit investments, only investment additions for a given year should be tested. CWC is significantly different than loop plant investments. Although rate of return is applied to CWC, CWC is not an investment account where the year-end balance is an accumulation of investments that carries forward from year to year. Instead, CWC is separately calculated each year and there is no relationship between years.

**Q18) How is the loop factor used to determine the loop portion of an indirect loop account for inclusion in the AALPI or Construction Limit test calculation?**

Response – The loop factor is the sum of COE loop and C&WF loop divided by the sum of Total COE and Total C&WF and is based on year end category and account balances for the same year being tested. For example, when testing additions occurring in 2017, yearend 2017 balances are used.

**Q19) How does the loop factor used in a construction limit test reflect past AALPI and/or Construction Limit test failure?**

The loop factor used in the construction limit test will be reduced to reflect any construction limit failures and carry over excess loop expenditure from prior years but does not reflect any limits that may apply for the year being tested.

The loop factor used in the AALPI test will be reduced to reflect any construction limit failures and carry over excess loop expenditure from prior years and also to reflect any Construction Limit test failure for the year being tested.

**Q20) How are construction projects that are not completed by the end of the year evaluated for the Construction Limit test?**

The cost of multi-year projects should be accumulated and the total project cost should be tested in the year the project is completed and placed in service.

**Q21) How are construction projects that are not completed by the end of the year evaluated for the AALPI test?**

Response – It is presumed that projects that are not completed by the end of the year and not placed in service are booked to account 2003. Additions to account 2003 are included in the AALPI test the year they are added to account 2003.

**Q22) Are there any reasons, e.g. service restoration due to storm damage, ring completions, replacement of existing facilities, etc., that would allow the addition to be excluded from the AALPI and Construction Limit test?**

Response – The reason for the addition is not a factor and all loop plant additions are included in the test. A carrier may seek to have their AALPI and Construction Limit adjusted upward based on the special circumstances described in sections 54.303 (b) & (k). Further, a carrier is always free to seek a waiver.

**Q23) If a company receives aid to construction for loop plant buildout, is the amount received netted against the project cost per location for the project?**

Response – Yes. §32.2000(a)(2) states, “The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction.” Consequently, the accounts should be credited before additions are tested.

**Q24) Does the Legacy Path BLS buildout obligation supersede the Construction Limit?**

Response – No, section 54.308(a)(2)(iii)(B) states no rate-of-return carrier shall deploy terrestrial wireline technology to meet deployment obligations exceeding the Construction Limit set forth in section 54.303(f)(1).

## **Treatment of Excess Loop Expenditure and Construction Limit Failures**

**Q25) If a project exceeds the per location construction limit, is the entire project or just the portion exceeding the construction limit excluded for CAF-BLS and HCLS reporting?**

Response – The Commission adopted an Order on Reconsideration (FCC 17-36) excluding only the portion of a project’s expenses that exceed the average per-location threshold.

**Q26) At what level of detail must Excess Loop Expenditures and Construction Limit test failures be tracked?**

Response – Section 54.303(i) requires subsidiary records for each investment account and associated reserve and depreciation expense accounts. Companies may want to also track by vintage to more efficiently associate reserve and depreciation expense with the asset.

**Q27) If a carrier makes Loop Plant Investment below the AALPI and consequently reduces accumulated Excess Loop Plant Investment Carry Forward, is the carrier required to reduce the oldest vintages first?**

Response – Section 54.303 does not address specific methods for including a Carry Forward. Consequently, the company is allowed to make a determination based on its own specific situation.

**Q28) When a company has an Excess Loop Expenditure Carry Forward accumulated from a prior year(s) and also has a new Excess Loop Expenditure in the current year, will the current year allocation of the Excess Loop Expenditure to accounts also impact the allocation of the accumulated carry forward?**

Response- Section 54.303(i) requires a carrier to maintain subsidiary records of accumulated Excess Loop Expenditures by account. Any current Excess Loop Expenditure is allocated or direct assigned separately. These balances will be added to any prior year's recorded balances by account. Therefore, an Excess Loop Expenditure Carry Forward from prior years cannot be reallocated to different accounts in the current period.

Example:	<u>2017 ELE</u>	<u>2017 Balance</u>	<u>2018 ELE</u>	<u>2018 Balance</u>
COE	\$50	\$50	\$20	\$70
CWF	\$100	\$100	\$150	\$250

**Q29) Section 54.303(b) allows the removal of excess loop expenditures based on direct assignment to a category or account or on a pro-rata basis. If direct assignment is utilized can indirect accounts be reduced or must the reductions be directly assigned to direct loop accounts? For example, can some or all of the excess loop expenditure be assigned to account 2003?**

Response – Excess Loop Expenditures can be directly assigned or allocated to any account described in section 54.303(c)(1) including both direct and indirect accounts. The assignment of Excess Loop Expenditure to an account or category cannot exceed the cost of the addition for that account or category in the year it failed the test.

**Q30) If there is an AALPI or Construction limit test failure detected for a period after a “closed financial” year and there is associated reserve or depreciation expense to remove, should these accounts be adjusted through the cost study true-up process?**

Response – Yes

**Q31) A company has a CWF Excess Loop Expenditure of \$4,000,000 and accumulates after several years \$1,000,000 of associated Reserve. In a future year when additions are under the AALPI and the investment can be included for CAF BLS and HCL reporting; what amount would be brought back on the regulated books? Is both the \$4,000,000 investment & the \$1,000,000 reserve reported?**

Response – Both the investment and associated reserve are included (see question 32 for treatment of depreciation expense).

**Q32) If an Excess Loop Expenditure and the associated reserve becomes includable for CAF BLS and HCL reporting, how is the depreciation expense associated with the reserve treated?**

Response – The annual depreciation expense associated with an Excess Loop Expenditure is not includable for CAF BLS or HCL reporting. Depreciation expense is an Income Statement item and cannot be carried forward to a future year and is consequently lost. However, it is expected the associated reserve will increase while not includable in the rate base. (see question 31 for treatment of investment and reserve).

**Q33) How is depreciation expense calculated for telecommunications plant when treated as an Excess Loop Expenditure?**

Response – Section 32.2000 (g)(1)&(2) requires depreciation percentage rates to be computed in conformity with a group plan of accounting for depreciation; separate annual percentage rates for each depreciation category of telecommunications plant; depreciation distributed under the straight-line method during the service life of the property; current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant.

For the years the investment must be excluded from the rate base, the associated depreciation must be calculated and excluded using the appropriate rate for the depreciation category for that investment. The year the investment is allowed back into the rate base, depreciation expense is no longer excluded.

## **USF-HCL**

**Q34) How is the AALPI and Construction Limit applied to USF quarterlies?**

Response – Additions are tested on a calendar basis only. Any dollars removed due to the construction limit or Excess Loop Expenditure are accumulated and tracked in subsidiary records. The same total accumulated dollars are removed from the quarterly account and category balance for each quarterly filing (YY-2, YY-3 & YY-4) until the balance changes due to a new calendar period test.

For example, in 2017 the Account 2230 Category 4.13 unlimited yearend balance is \$1,000,000 and \$100,000 must be treated as excess loop expenditure. \$900,000 (\$1,000,000 - \$100,000) is reportable for the 18-1 USF submission. The March 31, 2018 the Account 2230 Category 4.13 unlimited yearend balance is \$1,050,000. The same \$100,000 must continue to be excluded. \$950,000 (\$1,050,000 - \$100,000) is reportable for the 18-2 USF submission.

## **Forecasting**

**Q35) For forecasting purposes, could it be assumed the company would close the plant at year end and there would not be any associated additional reserve or depreciation expense to remove?**

Response – Since this is a forecast this approach seems reasonable, assuming the results will not cause a significant forecast error.

## **Cost Conversions**

**Q36) How are the AALPI & Construction limit per location set for companies that convert from Average Schedule to Cost after the limits are published for that year?**

Response – NECA will collect the appropriate base year CIA input data for the appropriate conversion year (i.e., cost conversion 2017, base year data 2015). NECA will calculate the AALPI and Construction limits and provide them to USAC.

**Q37) Companies converting to cost in 2017 would use 2015 year end data to set the 2017 limits. If categorized detail for 2015 is not available can the most recent category relationship be used?**

Response – If actual categorization is unavailable, the company should use an estimate or more recent relationship. This should be the same method a company would use to support the HCL submission if a company were to elect to receive HCL recovery based on cost in the conversion year. The categorized CIA inputs will match those reportable for HCL reporting if submitted.

## **Average Schedule**

**Q38) Do CIA limits apply directly to an average schedule company or just indirectly through the formulas? Also, would an average schedule company have a specific construction limit they are accountable to?**

Response – Average schedule companies do not have the detailed categorization information necessary to set limits, consequently, limits are not published for these companies. The average schedule formula development process tests sample company data and failures are applied to the formulas.

## **CIA Elimination**

**Q39) How should disallowed Excess Loop Expenditures related to year end 2017 investments be treated in the 2018 cost study for averaging purposes?**

**Response** - The CIA rules were eliminated for application in the 2018 cost studies and future period calculations. Thus, average investments included in 2018 cost studies should reflect investments that are not affected by the CIA rules. This can be accomplished by using unlimited 2017 investments (e.g., investments not reduced by the excess loop expenditure) when calculating 2018 average amounts.

**Q40) How should High Cost Loop quarterly filings containing 2017 CIA limited data be treated?**

**Response** - In accordance with footnote 256 of the December 2018 USF Reform Order, CIA-related impacts should not apply “to any relevant filings made in 2019.” Data submissions made through December 30, 2018 will continue to follow the methodology described in Q34 of this document. All data submissions beginning in 2019, including the voluntary 18-4 submission due March 30, 2019, will not be impacted by the CIA limitation. All CIA-related impacts should be removed .

**Acquisitions**

**Q41) How is the AALPI allocated to existing and acquired exchanges for study areas with acquisitions?**

Response - See Attachment 1

## CIA Transferred Exchange Data Reporting

When rate of return ILECs acquire exchanges from another entity and include the exchanges in their existing study areas there can be special High Cost Loop Support (HCLS) and Connect America Fund - Broadband Loops Support (CAF-BLS) reporting requirements associated with the transferred exchanges. The reporting requirements may be different for HCLS and CAF BLS.

### HCLS Reporting

When exchanges are acquired from another company, the rate of return ILEC is required to separately report existing exchange and acquired exchange data.<sup>1</sup>

### CAF-BLS Reporting

CAF BLS reporting requirements may be different depending who transfers the exchanges to the rate of return carrier and possibly when the transfer occurs. When exchanges are acquired from another rate of return company, the acquiring rate of return company will include the costs of the acquired exchange in their rate base,<sup>2</sup> consequently the existing and acquired costs are combined when calculating CAF-BLS.<sup>3</sup> Additionally, when exchanges are acquired from Price Cap companies on or before May 24, 2016, the acquiring rate of return company will include the costs of the acquired exchanges in their rate base.<sup>4</sup> The CAF-BLS revenue requirement will be calculated based on the combined study area costs.

When exchanges are acquired from Price Cap companies after May 24, 2016,<sup>5</sup> the acquiring company shall receive the same support as the seller.<sup>6</sup> Additionally, when exchanges are acquired from Alaska Plan companies, the acquiring company shall receive the same support as the seller.<sup>7</sup> When CAF-BLS for

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<sup>1</sup> § 54.305(b)

<sup>2</sup> § 54.902(a)(2) and § 54.902(a)(3)

<sup>3</sup> When a rate of return seller is an A-CAM recipient, the Federal Communications Commission will determine how HCLS and CAF-BLS support will be calculated on a case-by-case basis. Section 54.902(a) addresses transfers from rate of return carriers but does not specifically address transfers from A-CAM recipients. Although A-CAM recipients are rate of return carriers and §54.902(a) would appear to apply, the USF Reform Order (FCC 16-33) at paragraph 21 states, “the election of model-based support places those carriers in a different regulatory paradigm. They no longer will be subject to rate-of-return regulation for common line offerings, and they no longer will participate in the National Exchange Carrier Association’s (NECA’s) common line pool. Effectively, the carriers that choose to take the voluntary path to the model are electing incentive regulation for common line offerings.”

<sup>4</sup> June 2016 Order (DA 16-661) at paragraph 3 states, “For exchanges acquired before the effective date of the revised rule, a rate-of-return carrier will receive, for the acquired exchanges, the amount of CAF BLS otherwise provided by the CAF BLS rules, much as the carrier received ICLS for those exchanges.”

<sup>5</sup> June 2016 Order (DA 16-661) at paragraph 3 states, “This rule applies only to exchanges acquired after the effective date of the revised rule, which was May 24, 2016.”

<sup>6</sup> Section 54.902(b) provides that a rate-of-return carrier that acquires exchanges from a price cap carrier shall receive the same amount of support for the exchanges as the price cap carrier received, and be subject to the same obligations, absent further Commission actions.

<sup>7</sup> The Alaska Plan Order (FCC 16-115) at footnote 23 states, “If a portion or all of an Alaska Plan rate-of-return carrier’s lines are transferred to any other ETC, that acquiring ETC may receive Alaska Plan support for the

acquired exchanges is based on the seller, the existing exchange’s CAF-BLS revenue requirements must be calculated separately requiring the existing and acquired investments and expenses to be separately identified and reported.

**AALPI Limit Application**

AALPI limits are calculated at the study area level. Consequently, the test to compare actual investments to the limit must be performed at the total company level. If there are Loop Plant Investment dollars exceeding the AALPI limit at the total company level they must be excluded from data submitted for purposes of obtaining HCL and CAF-BLS.<sup>8</sup> When a rate of return carrier has acquired exchanges and they are required to report existing and acquired cost separately for CAF-BLS and/or HCL, the study area excess loop expenditure (ELE) must be assigned to both existing and acquired exchanges.

**ELE Allocation Example**

**Data**

Existing Loop Addition		Transferred Loop Addition		Total Loop Investment (TLI)
\$4,000,000	+	\$1,000,000	=	\$5,000,000
80%		20%		100%

Published AALPI = \$4,000,000

**Test**

TLI \$5,000,000 – AALPI \$4,000,000 = ELE \$1,000,000

**ELE Allocation**

Existing	\$1,000,000 * 80% - \$800,000
Acquired	\$1,000,000 * 20% - \$200,000

**Construction Limit Application**

Construction limits are also calculated at the study area level. If there are Loop Plant Investments associated with new construction for a specific project that exceed the limit, the rate of return carrier may not include any loop plant investment associated with the project in the data submitted for purposes of obtaining HCL and CAF-BLS.<sup>9</sup>

When a rate of return carrier has acquired exchanges and they are required to report existing and transferred cost separately for CAF-BLS and/or HCL, the excluded loop plant investment must be

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transferred lines in a proportion determined by the Wireline Competition Bureau during the study area waiver process, as long as the acquiring ETC certifies it will meet the associated obligations agreed to in the approved performance plan.”

<sup>8</sup> § 54.303(b)

<sup>9</sup> § 54.303(f)

assigned to existing and/or acquired exchanges. If a project fails the test and is solely related to either existing or acquired exchanges, the excluded investments may be assigned directly to the appropriate exchanges.<sup>10</sup> However, if a project is associated with both existing and acquired exchanges the excluded costs must be assigned to both existing and acquired exchanges. A methodology similar to ELE allocation example may be used for costs assignable to both.

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<sup>10</sup> For example, if a project is tested and fails and the project is solely associated with acquired exchanges the project costs may be removed from the acquired exchange reporting.