Technical Appendix: High-Cost Support Program

The high-cost support mechanisms enable eligible telecommunications carriers (ETCs) serving areas with very high costs to recover some of these costs from the federal universal service fund, leaving a smaller remainder of the costs to be recovered through end-user rates or state universal service support mechanisms. In this manner, the high-cost support mechanisms are intended to ensure reasonable comparability of local rates and thereby further one of the most important goals of federal and state regulation -- the preservation and advancement of universal telephone service. This section of the report outlines the high-cost support mechanisms and provides data for these mechanisms. Until recently, the high-cost support mechanisms included embedded high-cost loop support (HCLS),[1] safety net additive support (SNAS), safety valve support (SVS), interstate common line support (ICLS)[2] generally for rate-of-return carriers,[3] forward-looking non-rural high-cost model support (HCMS), interstate access support (IAS) for price-cap carriers, and local switching support (LSS) for carriers that serve study areas with 50,000 or fewer access lines.

On October 27, 2011, the Commission adopted the *USF/ICC Transformation Order*, which comprehensively reformed and modernized the universal service and intercarrier compensation systems, creating a new Connect America Fund to ensure that robust voice and broadband services are available to Americans throughout the nation.[4] Among other things, the Commission eliminated certain high-cost support mechanisms, modified others, and established a new framework for distributing high-cost funding in the most efficient and technologically neutral manner possible, through market-based mechanisms such as competitive bidding. Some reforms take effect for support in 2012, while others will be implemented in 2013 or later. In particular, the following mechanisms are being discontinued or phased out beginning in 2012: Competitive ETC (CETC) support based on ILEC support, HCMS, IAS, SNAS, and LSS. In January 2012, two transitional mechanisms were introduced for price cap carriers and their rate-of-return affiliates: frozen high-cost support, which replaced the existing support mechanisms for those carriers, and incremental support, which provides additional support for those carriers. In July 2012, the Connect America Fund intercarrier compensation (CAF-ICC) mechanism was introduced. In addition, the Commission adopted limits on carriers' capital and operating expenses for the purpose of calculating HCLS.

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1 This was formerly referred to as the Universal Service Fund, and still bears that name in the Commission rules. It is now referred to as high-cost loop support to avoid confusion with the new, more comprehensive universal service support mechanisms that the Commission developed to implement the 1996 Act. *See* 47 C.F.R. § 36.601. *See also* 47 C.F.R. Part 54.

2 Effective July 1, 2004, long term support (LTS) was merged into ICLS. Any LTS amounts reported in subsequent years are out-of-year adjustments for prior payments. Such adjustments occurred for ILECs only in 2005, but continued for some CETCs through 2008.

3 A number of mid-sized carriers have elected to convert to price-cap regulation in recent years and receive ICLS that is frozen at a per-line amount. *See, e.g., Windstream Petition for Conversion to Price Cap Regulation and for Limited Waiver Relief*, WC Docket No. 07-171, Order, 23 FCC Rcd 5294 (2008).

4 *See generally Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order and FNPRM*).

ETCs are eligible to receive support from the universal service support mechanisms provided that they provide service using their own facilities, either partially or completely. Thus, pure resellers are not eligible. To be eligible to receive support, a carrier must be designated as an ETC by the state regulatory commission of the state in which it operates, or by the FCC where the state commission lacks jurisdiction.[5] A competitive carrier that is designated as an ETC (a CETC) will receive high-cost support that is determined by the number of lines it serves, the support per line received by the incumbent local exchange carrier (ILEC) against which it is competing, and the degree to which it uses its own facilities to provide its services.[6] On May 1, 2008, the Commission released an order adopting an interim, emergency cap on the amount of high-cost support available to CETCs.[7] Specifically, as of the effective date of the *Interim Cap Order*, total annual CETC support for each state is capped at the level of support that CETCs in that state were eligible to receive during March 2008 on an annualized basis.[8]

Historically, HCLS was provided to all ILECs based on their embedded costs. Such support provides assistance for non-traffic sensitive (NTS) local loop costs – a term that refers to the costs of outside telephone wires, poles, and other facilities that link each telephone customer's premises to the public switched telephone network. NTS costs are allocated between the state and interstate jurisdictions because all local loops can be used for making and receiving both intrastate and interstate telephone calls. Historically, the interstate allocation was made using the Subscriber Plant Factor (SPF).[9] This factor is now 25% for all companies. Today, only rural carriers[10] receive HCLS. Non-rural carriers receive HCMS instead of HCLS.

If an ILEC is deemed a rural carrier, it continues to receive high-cost support based on embedded costs. The expense adjustment allows those study areas[11] with an average unseparated cost per loop that exceeds 115% of the national average to allocate an additional portion of their NTS costs to the interstate jurisdiction and to have those costs recovered by HCLS.[12] HCLS was implemented during a period in

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5 47 U.S.C. § 214(e); *see also* 47 C.F.R. §§ 54.201, 54.202.

6 47 C.F.R. § 54.307.

7 *High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, ALLTEL Communications, Inc., et al. Petitions for Designation as Eligible Telecommunications Carriers, RCC Minnesota, Inc. and RCC Atlantic, Inc. New Hampshire ETC Designation Amendment,* Order, WC 05-337, CC 96-45, 23 FCC Rcd 8834 (2008), *aff'd, Rural Cellular Assn. et al. v FCC*, 588 F.3d 1095 (D.C. Cir. 2009) (*Interim Cap Order*).

8 *Id*. at 8834, para. 1.

9 The SPF was formerly a multiple of the proportion of a study area's traffic that was interstate. It was frozen in 1981 and then transitioned to 25% between 1985 and 1993.

10 *See* 47 C.F.R. § 51.5 for the definition of a rural carrier. Generally, they either have fewer than 100,000 lines or serve predominantly rural areas.

11 A study area is usually an operating company's operations in one state. Holding companies may own multiple operating companies and thus have multiple study areas in a state. Study area boundaries were frozen as of November 15, 1984. Any subsequent change requires a Commission waiver of this freeze.

12 In January 1988, high-cost assistance was retargeted to increase benefits to small and medium sized LECs. The old and new high-cost formulas are compared in Table 3.1 of the *Monitoring Reports* in CC Docket No. 87-339. The last report in that docket was released May 30, 1997.

which the basic interstate allocation of loop costs was shifted from a level based on the historical SPF to the present flat allocation factor of 25%. Both of these changes were phased in between 1985 and 1993, during which time the HCLS was increased by one-eighth of the formula amount each year.

In December 1993, the Commission, at the recommendation of the Joint Board in CC Docket 80-286, imposed a cap on HCLS payments.[13] The cap was indexed to the rate of growth in the national total of working exchange loops. It is implemented by adjusting the national average cost per loop used to calculate each study area's high-cost assistance from the average value to whatever base value is required to achieve the cap. For example, in 2003, the cap was achieved by adjusting the base value 2001 cost per loop from the national average of $240.00 to $267.15. In addition, when exchanges are sold or transferred to another company, the new owner is limited to the same support for those exchanges that they had under the old owner.[14]

Since 1988, HCLS has been distributed using the table below. Beginning January 1, 2000, this algorithm is only applicable to rural companies and to hold-harmless support for non-rural companies.

Embedded High-Cost Loop Fund Formulas

Cost Range as % of National Average	% Expense Adjustment within Range
Study Areas with Over 200,000 Loops	
0% - 115%	0%
115% - 160%	10%
160% - 200%	30%
200% - 250%	60%
250% and above	75%
Study Areas with 200,000 Loops or Fewer	
0% - 115%	0%
115% - 150%	65%
150% and above	75%

13 *Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board*, CC Docket No. 80-286, Report and Order, 9 FCC Rcd 303 (1993).

14 47 C.F.R. § 54.305(b). This applies to sales and transfers initiated after May 7, 1997. In August 2000, the Common Carrier Bureau adopted an order removing similar older caps for individual study areas that were subject to them at that time, effective January 1, 2000. *Petitions for Waiver Concerning the Definition of "Study Area" Contained in Part 36 Appendix-Glossary of the Commission's Rules*, CC Docket No. 96-45, Order, 15 FCC Rcd 23491 (2000).

The Commission modified the high-cost support mechanism to provide additional support to rural carriers on May 23, 2001.[15] Implementation of the modified support mechanism began July 1, 2001 and was extended in 2006 beyond the originally anticipated five year period.[16] The Commission rebased the HCLS fund for rural carriers, revised the corporate operations expense limitation formula,[17] and modified the indexed cap. Accordingly, beginning July 1, 2001, the caps for non-rural hold-harmless and rural HCLS were calculated separately.[18] For rural carriers, the national average annual loop cost is now frozen at $240.00 (the 2001 national average) and the cap is indexed to the rate of growth in working loops of rural carriers plus the rate of inflation as measured by the Gross Domestic Product – Chained Price Index (GDP-CPI).[19] The Commission adjusted the rural HCLS cap by changing the base year for the calculations to 2000 for purposes of recalculating the cap for 2002 and subsequent years.[20]

To encourage new investment in rural infrastructure, safety net additive support was made available for rural carriers whose telephone plant in service per loop increased by over 14% in one year.[21] In such cases, this additional loop support equals the difference between what the rural carrier's HCLS would have been uncapped and what it is capped in the qualifying year, less the difference between the uncapped and capped amounts in the base year. For new sales or transfers of rural exchanges, the acquiring carrier is required to keep separate cost information for the acquired exchanges to determine the eligible support for those exchanges. Safety valve support (SVS) is available for new investments in infrastructure made in the acquired exchanges.[22]

If an ILEC is deemed to be a non-rural carrier, it now receives high-cost support based on forward-looking costs, as estimated by an FCC cost model. The Commission adopted a high-cost model support mechanism for non-rural carriers on October 21, 1999, based on recommendations from the Joint

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15 *See Federal-State Joint Board on Universal Service*, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, 16 FCC Rcd 11244 (2001) *(Rural Task Force Order)*.

16 *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, WC Docket No. 05-337, Order, 21 FCC Rcd 5514 (2006) (extending rules until the Commission adopts new high-cost support rules for rural carriers).

17 Previously, in 1997, the Commission had adopted limitations on the amount of allowed corporate operations expense. The limitations are specified in section 36.621(a)(4) of the Commission's rules. 47 C.F.R. § 36.621(a)(4).

18 47 C.F.R. §§ 36.602 and 36.603. See page 3-6 below for a discussion of hold-harmless. As noted there, non-rural carriers are no longer receiving hold-harmless payments; however the Universal Service Administrative Company still computes them in accordance with the rules.

19 This replaces the indexing of the cap to the rate of growth of the national total of working exchange loops.

20 *See Rural Task Force Order*, at paras. 40-43; *Federal-State Joint Board on Universal Service*, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Order on Reconsideration, 17 FCC Rcd 11472 (2002) (*Rebasing Order*).

21 *See* 47 C.F.R. § 36.605.

22 *See* 47 C.F.R. § 54.305(d)-(f).

Board.[23] This HCMS mechanism is based on the forward-looking costs of providing supported services[24] as determined by the Commission's cost model. [25] For each state, the cost model calculates the wire center forward-looking cost per line incurred by non-rural carriers to provide supported services. The statewide average cost per line is then compared to the national average cost per line to determine eligibility for support. The forward-looking support mechanism provides support to non-rural carriers in those states that have a statewide average forward-looking cost per line greater than the national benchmark, which initially was set at 135 percent of the national average forward-looking cost per line.[26] Beginning in 2004, this benchmark is now two standard deviations above the national average. [27]

After determining the total amount of forward-looking support provided to non-rural carriers in a particular state, the support is then targeted to individual wire centers that have forward-looking costs in excess of the benchmark.[28] Under the targeting approach, the amount of support provided to a non-rural carrier serving a particular wire center depends on the relative costs in that wire center and the number of lines served by the carrier. By comparing the relative costs in various above-benchmark wire centers, the targeting approach enables the Commission to provide greater amounts of support to carriers serving lines in wire centers with costs further above the benchmark. Thus, unlike providing a uniform per line statewide support amount, the targeting approach provides support in an amount commensurate with the cost of service, thereby encouraging carriers to serve high-cost areas.

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23 *See Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Ninth Report and Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20432 (1999) *(High-Cost Methodology Order), rev'd in part and remanded, Qwest Corp. v. FCC*, 258 F.3d 1191 (10th Cir. 2001), *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order, 18 FCC Rcd 22559 (2003) *(Order on Remand)*, *remanded, Qwest Communications Int'l, Inc. v. FCC,* 398 F.3d 1222 (10th Cir. 2005), *High-Cost Universal Service Support*, WC Docket No. 05-337, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Joint Petition of the Wyoming Public Service Commission and the Wyoming Office of Consumer Advocate for Supplemental Federal Universal Service Funds for Customers of Wyoming's Non-Rural Incumbent Local Exchange Carrier*, Order on Remand and Memorandum Opinion and Order, 25 FCC Rcd 4072 (2010) (*2010 Order on Remand*).

24 The services eligible for federal universal service support are listed in section 54.101 of the Commission's rules. 47 C.F.R. § 54.101.*See* 47 C.F.R. § 54.305(d)-(f).

25 The high cost model consists of: (1) a model platform, which contains a series of fixed assumptions about network design and engineering; and (2) input values for the model platform, such as the cost of network components, *e.g.*, cables and switches, as well as various capital cost parameters. *See Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs*, CC Docket Nos. 96-45, 97-160, Fifth Report and Order, 13 FCC Rcd 21323 (1998) (*Platform Order*); *Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs*, CC Docket Nos. 96-45, 97-160, Tenth Report and Order, 14 FCC Rcd 20156 (1999) (*Inputs Order*).

26 The forward-looking support mechanism provides support for all intrastate costs that exceed the benchmark. *High-Cost Methodology Order*, at paras. 53-63.

27 In October 2003, the Commission adopted an order modifying the national benchmark. *Order on Remand*, at paras. 49-69.

28 *High-Cost Methodology Order*, at paras. 68-76.

The Commission also adopted a transitional "hold-harmless" measure to prevent rate shocks and disruptions in state rate designs when the new mechanism took effect.[29] As adopted, no non-rural telephone company would receive less support than it received under the embedded HCLS mechanisms during the transition period. On December 8, 2000, the Commission adopted measures to phase down interim hold-harmless support, through $1.00 reductions in average monthly per-line embedded HCLS, beginning January 1, 2001, and every year thereafter until there was no more interim embedded hold-harmless HCLS.[30] That point was reached in 2004.

LTS was related to interstate non-traffic sensitive costs. LTS provided support to the members of the NECA common line pool, allowing them to charge a below-cost carrier common line (CCL) rate that was uniform for all companies in the pool. Prior to 1989, all ILECs were required to be part of the NECA common line (CL) pool, and CCL rates were uniform nationwide. On April 1, 1989, companies were permitted to withdraw from the NECA CL pool and provide jurisdictionally specific CCL access charges; however, carriers had to remain in the pool to receive LTS.

To reduce disparities in CCL rates among ILECs after companies were permitted to withdraw from the CL pool, LTS was set up. LTS originally consisted of payments to the NECA CL pool from companies that withdrew from the NECA CL pool. Companies remaining in the NECA pool charge CCL rates, pursuant to the NECA tariff, which were formerly equal to the average CCL rate of the price-cap companies. Effective January 1, 1998, the funds for LTS came from the federal universal service support mechanisms, and LTS was portable to CETCs. At the same time, the NECA pool rate no longer was made equal to the average price-cap rate. Rather, the amount of LTS that a NECA pool member was eligible to receive in 1998 was the 1997 level of LTS (the difference between 1997 CCL revenue requirements and the sum of 1997 CCL revenues using the NECA pool rate and 1997 subscriber line charge revenues) multiplied by the rate of growth of the national average NTS cost per loop. The 1999 level of LTS was similarly adjusted from the 1998 level by the national average loop cost growth rate. Beginning January 1, 2000, LTS was adjusted for inflation to reflect the annual percentage change in the GDP-CPI.[31] After the implementation of ICLS (see below), the Commission determined that it was necessary to reduce LTS for some carriers to prevent over earning by those carriers whose ICLS would otherwise have fallen below zero.[32] Effective July 1, 2004, LTS was merged into ICLS.[33]

In response to the 1996 Act, the Commission also removed implicit support from interstate access charges. In November 2001, the Commission created the ICLS mechanism for rate-of-return carriers to

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29 *Id.*, at paras. 77-88.

30 *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Thirteenth Report and Order and Further Notice of Proposed Rulemaking, 15 FCC Rcd 24422 (2000).

31 *See* 47 C.F.R. § 54.303.

32 *See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service*, CC Docket Nos. 00-256, 96-45, Order and Second Order on Reconsideration, 17 FCC Rcd 11593 (2002) (*MAG Reconsideration Order*).

33 *See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service*, CC Docket Nos. 00-256, 96-45, Report and Order and Second Further Notice of Proposed Rulemaking, 19 FCC Rcd 4122 (2004).

convert implicit support in the access rate structure to explicit, portable support.[34] ICLS recovers any shortfall between the allowed common line revenues of rate-of-return carriers and their subscriber line charge revenues and gradually replaces the carrier common line charge. Under the *MAG Order*, the ICLS mechanism was implemented beginning on July 1, 2002.

On May 31, 2000, the Commission established an explicit interstate access support (IAS) mechanism for price-cap carriers, capped annually at $650 million, to replace the implicit support previously collected through interstate access charges.[35] Like ICLS, the purpose of this mechanism is to provide explicit support to ensure reasonably affordable interstate rates. This is in contrast to the Commission's other high-cost support mechanisms, which provide support to enable states to ensure reasonably affordable and comparable intrastate rates. The IAS mechanism provides support to carriers serving lines in areas where they are unable to recover their permitted revenues from the subscriber line charges. Support is targeted to the density zones that have the greatest need for it, and is provided on a portable, per-line basis. It is available on a competitively neutral basis to any ETC serving a supported customer, regardless of the technology used by that carrier.

LSS provides support for traffic sensitive local switching costs. LSS provides support to ILECs with study areas of 50,000 or fewer access lines, to help defray the higher switching costs of small ILECs. The LSS is recovered through the universal service support mechanisms, rather than through higher traffic-sensitive access charges. Until the end of 1997, this support was implicitly included in those access charges, based on dial equipment minute (DEM) weighting.[36] The portion of these costs that were normally allocated to interstate was determined by the ratio of interstate to total dial equipment minutes, known as the DEM factor. However, ILEC study areas with 50,000 access lines or fewer had that portion multiplied by a weighting factor, which was determined by the number of access lines in the study area.[37] The resulting weighted DEM factor (which was not permitted to exceed 0.85) allowed these study areas to recover a greater portion of their local switching costs from interexchange carriers in the form of higher access charges.[38]

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34 *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service*, 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, 16 FCC Rcd 19613 (2001) (*MAG Order*).

35 *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962 (2000) (*CALLS Order*), *rev'd and remanded, Texas Office of Public Utility Counsel v. FCC*, 265 F. 3d 313 (5th Cir. 2001), and *Access Charge Reform*, CC Docket No. 96-262, *Price Cap Performance Review for LECs*, CC Docket No. 94-1, *Low-Volume Long Distance Users*, CC Docket No. 99-249, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order on Remand, 18 FCC Rcd 14976 (2003). *See also High-Cost Universal Service Support, Federal State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, 23 FCC Rcd. 8834 (2008) (capping IAS for ILECs as of 2008).

36 Table 3.7 of the *2003 Universal Service Monitoring Report* provides estimates of DEM weighting impacts from 1993 to 1997.

37 The weighting factors, which became effective in 1993, are shown in Table 3.6 of the December 1998 and June 1999 *Monitoring Reports*.

38 The weighted and unweighted DEM factors were shown in section 8 of this report in 2003 and prior years. The DEM factors were frozen in 2001 for a five year period, which has since been extended. *See Jurisdictional Separations Reform and Referral to the Federal-State Joint Board*, CC Docket No. 80-286,

Since 1998, the LSS factor has been calculated as the difference between the 1996 weighted DEM factor and the 1996 unweighted DEM factor. It is subject to the limit that the sum of the DEM factor and the LSS factor shall not exceed 0.85. Also, if the number of lines has increased or decreased since 1996 across one of the limit values of 10,000 or 20,000 or 50,000 lines, the 1996 weighted DEM factor used for computing the LSS factor is adjusted to reflect the weighting factor appropriate for the new number of lines.[39] The LSS is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its LSS factor. The Commission's rules require that the LSS be trued-up with actual costs no later than 15 months after the end of the calendar year for which historical data are submitted.[40]

All of the universal service support mechanisms are administered by the Universal Service Administrative Company (USAC), an independent subsidiary of NECA. As part of its administration of these support mechanisms, USAC files quarterly reports with the Commission, at least 60 days prior to the start of each quarter. These reports include quarterly projections of the amounts to be paid for each program, along with true-ups for LSS and ICLS (differences between actual payments and projections) for prior periods, administrative expenses and interest income.

Pursuant to Part 36 of the Commission's rules, NECA collects certain cost data from ILECs that settle on a cost basis.[41] Each year NECA collects NTS cost and loop data from the previous year, and files all such data with USAC and the Commission. USAC, as administrator of the high-cost support mechanism, uses that information to distribute high-cost assistance in the following year. Starting with 2008, AT&T has not reported cost data to NECA.[42] Starting with 2010, Verizon has not reported cost data to NECA. Starting in 2012, price cap carriers and their rate of return affiliates are no longer required to file.[43]

Each year NECA submits detailed account data used to calculate the unseparated revenue requirement per loop for each study area that settles on a cost basis, and total attributed revenue requirements for study areas that settle on an average schedule basis. In its filings since 1993, in addition to submitting such information for the latest year, NECA also submitted revised information for the four preceding years. The detailed account data are not reported here, but the most recent revision of the data for each year since

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Report and Order, 16 FCC Rcd 11382 (2001); *Jurisdictional Separations Reform and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Order and Further Notice of Proposed Rulemaking, 21 FCC Rcd 5516 (2006); *Jurisdictional Separations Reform and Referral to the Federal-State Joint Board,* CC Docket No. 80-286, Report and Order, 24 FCC Rcd 6162 (2009). Because the factors are frozen, they are no longer being reported.

39 *See* 47 C.F.R. § 301. As originally adopted, the LSS factor was adjusted only if lines increased. In March 2010, the Commission amended the rule so that the LSS factor also is adjusted if lines decreased. *High-Cost Universal Service Support*, WC Docket No. 05-337, *Jurisdictional Separations*, CC Docket No. 80-286, *Coalition for Equity in Switching Support Petition for Reconsideration*, 25 FCC Rcd 3430 (2010).

40 47 C.F.R. § 54.301(e)(2)(iv).

41 Costs for the remaining ILECs, which settle on an average schedule basis, are attributed by NECA on the basis of those carriers' average number of loops per exchange.

42 *See* NECA, *Universal Service Fund 2009 Submission of 2008 Study Results* (September 30, 2009), at 7 n. 17; NECA, *Universal Service Fund 2010 Submission of 2009 Study Results* (September 30, 2010), at 6 n. 16.

43 *See* 47 C.F.R. § 36.611

1988 is available in electronic form on the Wireline Competition Bureau Statistical Reports website www.fcc.gov/wcb/iatd/stats.html.

On October 27, 2011, the Commission adopted the *USF/ICC Transformation Order*, which comprehensively reformed and modernized the universal service and intercarrier compensation systems into a new Connect America Fund to ensure that robust voice and broadband services are available to Americans throughout the nation.[44] Among other things, the Commission eliminated certain high-cost support mechanisms, modified others, and established a new framework for distributing high-cost funding in the most efficient and technologically neutral manner possible, through market-based mechanisms such as competitive bidding. Some reforms take effect for support in 2012, while others will be implemented in 2013 or later. Accordingly, some data available in 2012 will reflect the effect of reforms, but data reflecting the full effect of the reforms will not be available until later years.

In January 2012, two mechanisms were introduced to transition support for price cap carriers and their rate-of-return affiliates to the Connect America Fund. All support for such carriers under the seven existing high-cost support mechanisms - HCLS, SNAS, SVS, HCMS, LSS, IAS, and ICLS - was frozen and combined into frozen high-cost support. On an interim basis, the Commission began providing frozen high-cost support to such carriers equal to the amount of support each received in 2011 in a given study area. In addition, to spur immediate broadband buildout, the Commission provided incremental support for price cap carriers to extend robust, scalable broadband to hundreds of thousands of unserved Americans.

In July 2012, the Connect America Fund intercarrier compensation (CAF-ICC) mechanism was introduced as a transitional recovery mechanism to mitigate the effect of reduced intercarrier revenues on carriers and facilitate continued investment in broadband infrastructure. Part of this recovery is enabled via a limited monthly Access Recovery Charge (ARC) on wireline telephone service by ILECs. The new CAF-ICC support allows incumbent LECs to recover permitted cost that they can no longer recover due to reduction in per-minute access charges and LSS and are in excess of what they can collect from the ARC.

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44 *See generally Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order and FNPRM*).