

OVERVIEW AND ANALYSIS OF 1996 USF SUBMISSION

I. BACKGROUND

Section 36.613 of the Commission's rules, 47 C.F.R. § 36.613, requires the National Exchange Carrier Association, Inc. (NECA) to file specific Universal Service Fund (USF) cost and expense adjustment information annually with the Commission on September 1.¹ This information is compiled from data supplied to NECA by exchange carriers (ECs) as specified in section 36.611 of the Commission's rules.²

The instant 1996 USF data submission is based upon EC data calculated as of December 31, 1995. These data are displayed on both a nationwide basis and by study area. This filing contains the unseparated loop cost and annual high cost expense adjustment for the study period, as well as both dollar amounts and percent change in unseparated loop costs for the previous four years.³

¹ The Commission on May 27, 1994, granted NECA's request for continuation of its submission date waiver. See National Exchange Carrier Association, Inc., Memorandum Opinion and Order, 9 FCC Rcd 2531 (1994). ECs as a result of this waiver of section 36.611(a) of the Commission's rules, 47 C.F.R. § 36.611 (a), are required to submit data to NECA on July 31, and NECA, as a result of the waiver of section 36.613(a), is required to file USF data with the Commission by October 1.

² 47 C.F.R. § 36.611. As with prior USF data submissions, data from all ECs are included with this filing.

³ Individual EC data items for 5 years (current submission and latest view of four prior years) are provided on data diskettes, as well as, the paper copy included here. Expense adjustment amounts displayed for 1994 and 1995, based on 1992 and 1993 cost data respectively, are based on payments determined by the "interim" cap methodology instituted by the Commission in its December 23, 1993 Order. (See Amendment of Part 36 of the Commission's Rules And Establishment of a Joint Board, Report and Order, 9 FCC Rcd 303 (1993); see also 47 C.F.R. § 36.601(c) and § 36.622 (a) and (c)).

II. DATA COLLECTION PROCESS

For the past several years, NECA has utilized a mechanized data collection process that allows ECs or their authorized consultants to enter and review data for consistency. This system uses an extensive set of edit and range controls to check data for reasonableness by automatically comparing new data to prior year data. Each system user is alerted to significant variances through automated reporting that identifies unusual data and requires explanations, which NECA reviews for compliance purposes. Where necessary, additional supporting material is obtained.

ECs submitted data to NECA on July 31, 1996. The ECs included with their data submission signed letters of certification attesting to the accuracy of their data.⁴ NECA reviewed these data for accuracy and conformance with Commission rules. As part of its data integrity review process, NECA reconciles USF data to financial records underlying exchange carrier cost studies. Prior to the submission of the instant data, NECA has performed reconciliation of Tier 1 data to audited company financials. When errors are detected, corrections are made to USF data and expense adjustments are then recomputed.

NECA requires ECs to provide explanations or corroborating information to substantiate questionable data and/or significant increases/decreases from the prior year amounts. NECA staff reviewed EC responses for reasonableness and, where necessary, contacted ECs to correct discrepancies.

⁴ The Commission in a recent order amended section 69.601 of the Commission's rules, 47 C.F.R. § 69.601, to require that all data submissions made to NECA must be accompanied by a certification statement signed by the officer or employee responsible for overall preparation of the data submission. See 47 C.F.R. § 69.601 (c) and Safeguards to Improve the Administration of the Interstate Access Tariff and Revenue Distribution Processes, CC Docket No. 93-6, RM 7736, and Consideration of NECA's Incentive Compensation Plan, AAD 95-34, Report and Order and Order to Show Cause, 10 FCC Rcd 6243, 6264 (1995). NECA has required certification for all USF data reported since 1990.

III. RESULTS OF 1996 USF SUBMISSION

NECA calculated the unseparated cost per loop pursuant to sections 36.621 and 36.622 of the Commission's rules.⁵ The results of these calculations is an increase of \$0.08 or 0.03 percent from the current view of the previous year's national average cost per loop.⁶ The National Average Cost per Loop based on year-end 1995 data is \$248.43.

The USF unseparated revenue requirement for all companies increased by 3.98 percent. Between year-end 1994 and year-end 1995, the number of USF loops increased by 3.94 percent. Because loops grew at a slightly slower rate than the unseparated revenue requirement, a marginally higher average cost per loop results. Growth in investment resulting from new and upgraded plant associated with new and existing customers is, in a large part, offset by reductions in expenses resulting from force reductions. 1993 and 1994 corporate operations expenses (Account 6720) reflected amounts associated with FASB112. Over the two-year period between the end of 1992 and the end of 1994, the unseparated costs reported to that account increased by approximately \$1.4 billion. The increase in Account 6720 for 1995 was approximately \$73.0 million (0.66 percent), which was more than offset by a reduction of \$666 million (-9.1 percent) in the Benefits related portion of all expenses.

Under the interim rules governing USF expense adjustment payments, growth in the fund is limited to the percent growth in USF loops.⁷ NECA is required to compute expense adjustment

⁵ 47 C.F.R. §§ 36.621 and 36.622.

⁶ NECA maintains an on-going program of reviewing USF data submitted by ECs. When data errors or omissions are detected, corrections are made. The "current view" of the prior year's data submission reflects the data filed in last year's annual USF submission updated for these corrections. For year end 1994 data, these corrections resulted in an increase in the uncapped national average cost per loop of \$0.06 or 0.02 percent (\$248.29 to \$248.35). The five-year trend data included in this filing are based on current view data.

⁷ 47 C.F.R. § 36.601 (c).

levels based on the rules in place prior to the “interim” cap, then compare the results to the available funds developed under the cap methodology. Expense adjustment amounts are the lesser of the actual payment or the capped amount for the applicable period. NECA estimates that the cap will be \$786.1 million for 1997 payments.⁸ The individual study area expense adjustment calculations for 1997 total \$776.6 million based on year-end 1995 data, hence payments reflect actual expense adjustment levels and are not currently affected by the cap. Actual 1997 expense adjustment amounts paid to individual study areas may change subject to individual company capping of expense adjustment levels resulting from Commission orders⁹, optional quarterly updates permitted by the Commission’s rules¹⁰ and to correct errors and omissions in the data should they occur.

⁸ USF payment amounts for calendar years 1996 and 1997 were developed in accordance with Part 36 of the Commission’s rules. As shown *infra*, the interim cap has no impact on 1997 payment levels since the 1997 USF cap limit exceeds proposed EC expense adjustments.

NECA previously determined the cap limit of the Universal Service Fund for calendar year 1996 to be \$777.6 million. See National Exchange Carrier Association, Inc. Universal Service Fund and Lifeline Assistance Access Tariff Revisions, Transmittal No. 710, May 17, 1996. Since the total Universal Service Fund for 1996 (\$756.3 million based on its current projection) is less than the cap limit, no changes were made to the fund size for 1996.

NECA next determined the size of the Universal Service Fund for calendar year 1997. The growth of 3.94 percent in USF loops from calendar years 1994 and 1995 was calculated by comparing the August 1996 view of USF loops as of December 31, 1994 (153.7 million) to USF loops as of December 31, 1995 (159.7 million). Applying this growth factor to the total 1996 USF payment amount results in a maximum total USF size of \$786.1 million for 1997 (Total USF payments in 1996 grown by USF loop growth). Since the total Universal Service Fund for 1997 calculated prior to the cap (\$776.6 million) is less than the cap limit, no changes were made to the fund size for 1997.

⁹ The Commission approved several study area waiver requests resulting from 1994 and 1995 merger and acquisition activity between exchange carriers. Generally, the requests were granted, subject in some cases to limitations on the level of USF resulting from the property transaction. Included at the end of this section is a report of those transactions that occurred in 1994 and 1995, on which 1997 payment limitations were placed.

¹⁰ See 47 C.F.R. §§ 36.612 and 36.622.

The following table displays the percentage changes between 1994 and 1995 data for key statistics impacting the Universal Service Fund:

<u>Category</u>	<u>1994</u>	<u>1995</u>	<u>% Change</u>
Unseparated Revenue Requirement	\$38,160.4M	\$39,677.4M	3.98%
USF Loops	153.7M	159.7M	3.94%
Cost per Loop ¹¹	\$248.35	\$248.43	0.03%
Expense Adjustment < 200 K Lines	\$601.3M	\$675.7M	12.37%
Expense Adjustment ¹² > 200 K Lines	\$136.0M	\$100.9M	-25.83%
Expense Adjustment - Total	\$737.3M	\$776.6M	5.32%

¹¹ Cost per loop based on actual unseparated revenue requirement divided by total loops.

¹² Two study areas (SAC 421922 and 442154) reported year-end 1995 USF loop counts in excess of the 200,000 line threshold. 1994 year-end USF loop counts for both companies were less than 200,000. Data for both companies appear in the over-200k category for both years.

The following table displays companies subject to specific limitations on USF payments as a result of study area waiver orders:¹³ NECA will limit 1997 payments to the authorized level for any study area with reported costs resulting in an expense adjustment that exceeds the maximum increase allowed.

SAC	SA Name	MO&O Released	Maximum USF Increase
462209	Wiggins Tel. Assoc.	8/10/93	\$10,000
553304	Humboldt Tel	9/14/94	\$381,768
351337	Winnebago Coop. Tel. Assoc.	12/1/94	\$1,000
432018	Pioneer Tel. Coop.	12/1/94	\$1,197,540
613023	United Utilities	12/1/94	\$81,042
542308	Citizens Utilities- CA	12/6/94	\$839,796
462185	Eagle Tel	1/5/95	\$18,100,000
452176	Valley Tel Coop	2/21/95	\$0
452226	Midvale Tel Exchange	2/21/95	\$0

¹³ See U S WEST Communications, Inc. and Wiggins Telephone Association, Memorandum Opinion and Order, 8 FCC Rcd 6229, 6230 (1993); Nevada Bell and Oregon-Idaho Utilities, Inc., Memorandum Opinion and Order, 9 FCC Rcd 5236, 5238 (1994); GTE Midwest Incorporated and Winnebago Cooperative Telephone Association, Memorandum Opinion and Order, 9 FCC Rcd 7789, 7791 (1994); GTE Southwest Incorporated and Pioneer Telephone Cooperative, Inc., Memorandum Opinion and Order, 9 FCC Rcd 7785, 7787 (1994); United Utilities, Inc., Memorandum Opinion and Order, 9 FCC Rcd 7793, 7794 (1994); Citizens Utilities Company, GTE Northwest Incorporated and GTE California Incorporated, Memorandum Opinion and Order, 10 FCC Rcd 47, 49 (1994); U S WEST Communications, Inc., and Eagle Telecommunications, Inc., Memorandum Opinion and Order, 10 FCC Rcd 1771, 1775 (1995); U S WEST Communications, Inc., Copper Valley Telephone, Inc., Midvale Telephone Exchange and Table Top Telephone Company, Memorandum Opinion and Order, 10 FCC Rcd 3373, 3376 (1995); GTE Southwest Incorporated and Cap Rock Telephone Company, Inc., Memorandum Opinion and Order, 10 FCC Rcd 7602, 7604 (1995); GTE Southwest Incorporated, Five Area Telephone Cooperative, Inc. and West Plains Telecommunications, L.L.C., Memorandum Opinion and Order, 10 FCC Rcd 13246, 13249 (1995); GTE Southwest Incorporated, Brazos Telecommunications, Inc. and Brazos Telephone Cooperative, Inc., Memorandum Opinion and Order, 11 FCC Rcd 5536, 5541 (1995); GTE Southwest Incorporated and Santa Rosa Telephone Cooperative, Inc., Memorandum Opinion and Order, 11 FCC Rcd 3245, 3249 (1995); U S WEST Communications, Inc., Pacific Telecom, Inc. and Telephone Utilities of Eastern Oregon, Inc., Memorandum Opinion and Order, 10 FCC Rcd 9996, 9998 (1995); U S WEST Communications, Inc., Pacific Telecom, Inc. and Telephone Utilities of Washington, Inc., Memorandum Opinion and Order, 10 FCC Rcd 10570, 10572 (1995); and Alaska Telephone Company, Memorandum Opinion and Order, 10 FCC Rcd 13728 (1995).

SAC	SA Name	MO&O Released	Maximum USF Increase
453334	Table Top Tel	2/21/95	\$219,292
442046	Cap Rock Tel Coop	7/10/95	\$364,881
442071	Five Area Tel Coop	6/30/95	\$1,102,682
442041	Brazos Tel Coop	8/8/95	\$0
442141	Santa Rosa Tel Coop	8/7/95	\$0
532361	Tel Util of Eastern Oregon	8/11/95	\$11,518,848
522408	Tel Util of WA	8/11/95	\$14,547,292
613017	Alaska Tel	10/19/95	\$18,756