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February 26, 2018

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, N.W.
TW-A325
Washington, D.C. 20554

Re: National Exchange Carrier Association, Inc.
2017 Interim Modification of Average Schedules, WC Docket No. 16-400
2018 Further Modification of Average Schedules, WC Docket No. 17-346

Dear Ms. Dortch:

Attached is NECA's *2017 Interim* and *2018 Further Modification of Average Schedules* of currently-effective and proposed common line and special access settlement formulas. This filing is made in compliance with section 69.606 of the Commission's rules, 47 C.F.R. § 69.606, and contains revisions to formulas required to reflect the effects of the 2017 Tax Cut and Jobs Act (TCJA) on average schedule company revenue requirements.

The 2017 Interim revisions are proposed to become effective for a six-month period beginning on January 1, 2018. The proposed effective date for the 2018 Further Modification is for the period July 1, 2017 through June 30, 2018.

In accordance with the Commission's rules, this *2017 Interim* and *2018 Further Modification of Average Schedules* has been filed electronically together with an appendix in Microsoft - Excel format in the above-referenced dockets. If you have questions regarding the content of these files, please contact Tanja Curovic, Sr. Director, Average Schedules, at 973-884-8483.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard A. Askoff", is written over a light blue horizontal line.

Attachment: 2018 Interim Modification of Average Schedules

Cc: Douglas Slotten, WCB
Pamela Arluk, WCB

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

2017 INTERIM AND 2018 FURTHER MODIFICATION OF AVERAGE SCHEDULE FORMULAS

February 26, 2018

Introduction

In this filing, the National Exchange Carrier Association, Inc. (NECA) proposes modifications to the currently-effective common line and special access average schedule formulas¹ to reflect the effects of the 2017 Tax Cut and Jobs Act (TCJA) on average schedule company revenue requirements.² These modifications are proposed to apply to settlements for the period January 1, 2018 through June 30, 2018.

NECA further proposes additional modifications to the formulas filed on December 21, 2017, to be effective for the period July 1, 2018 through June 30, 2019.³

These additional modifications are necessary because the effects of the new tax law that were not known at the time either set of formulas was developed. The overall effect of the TCJA on current and proposed settlements is a decrease of about 0.5%.

¹ NECA *2017 Modification of Average Schedules*, WC Docket No. 16-400 (filed December 22, 2016) (*December 2016 Filing*); NECA *2017 Further Modification of Average Schedules*, WC Docket No. 16-400 (filed May 3, 2017). *National Exchange Carrier Association, Inc. 2017 Modification of Average Schedules*, WC Docket No. 16-400, Order, 32 FCC Rcd. 4175 (2017)

² *Tax Cuts and Jobs Act*, Pub. L. No. 115-97, 131 Stat. 2054 (2017).

³ NECA *2018 Modification of Average Schedules*, WC Docket No. 17-346, (filed December 21, 2017) (*December 2017 Filing*)

Section 1

The revised formulas were derived by multiplying the original formulas by an adjustment factor corresponding to the impact of the new tax law on the cost companies' revenue requirements by category. For this purpose, NECA used the data of 125 taxable cost study areas from the cost companies sample used in the 2017 average schedule study. NECA recalculated their revenue requirements from 2016 cost studies reflecting the new tax law requirements, shown in Appendix A.

Exhibit A shows the weighted sums of the original and recalculated annual revenue requirements and their ratios. The ratios in Column C represent the average impact of the tax changes on the sample cost companies' revenue requirements and were used to adjust the revenue requirements of the taxable average schedule sample companies.

Exhibit A
Development of Revenue Requirement (RRQ) Adjustment Factors
Based on 2016 Cost Studies of Taxable Sample Cost Companies

	(A)	(B)	(C) = (B)/(A)
Access Category	Original 2016 Weighted RRQ	Tax Adjusted Weighted RRQ	Tax Adjustment RRQ Factor
Common Line	\$314,178,596	\$311,057,764	0.990065
Special Access	\$203,459,594	\$200,937,480	0.987604

Exhibits B and C show the adjustment factors from Column C applied to the data of taxable sample average schedule companies used in the development of the current and proposed average schedule formulas.

Exhibit B

Derivation of Tax Adjustment Factors for Current Average Schedule Formulas

	Common Line	Special Access
A. Original RRQ - Taxable Companies in Sample	\$74,074,031	\$35,523,221
B. Tax Adjustment RRQ Factor	0.990065	0.987604
C. Revised RRQ - Taxable Companies in Sample (Line A * Line B)	\$73,338,093	\$35,082,886
D. Original RRQ - Tax Exempt Companies in Sample	\$49,442,054	\$23,363,150
E. Original RRQ - All Sample ⁴ (Line A + Line D)	\$123,516,085	\$58,886,371
F. Revised RRQ - All Sample (Line C + Line D)	\$122,780,147	\$58,446,036
G. Formula Tax Adjustment Factor (Line F / Line E)	0.994042	0.992522

Exhibit C

Derivation of Tax Adjustment Factor for Proposed Average Schedule Formulas

	Common Line	Special Access
A. Original RRQ - Taxable Companies in Sample	\$76,674,046	\$30,406,384
B. Tax Adjustment RRQ Factor from Exhibit A	0.990065	0.987604
C. Revised RRQ - Taxable Companies in Sample (Line A * Line B)	\$75,912,276	\$30,029,476
D. Original RRQ - Tax Exempt Companies in Sample	\$44,030,862	\$21,500,553
E. Original RRQ - All Sample ⁵ (Line A + Line D)	\$120,704,907	\$51,906,936
F. Revised RRQ - All Sample (Line C + Line D)	\$119,943,138	\$51,530,028
G. Formula Tax Adjustment Factor (Line F / Line E)	0.993689	0.992739

⁴ December 2016 Filing, Exhibit 6.7

⁵ December 2017 Filing, Exhibit 6.4

Recalculated revenue requirements for taxable companies and the unchanged revenue requirements for tax exempt companies were divided by the original totals, by category, to produce the factors used for adjusting the original current and proposed formulas, shown on Line G of each table.

The settlement effects of the proposed revisions are shown in Exhibit D. All the amounts in this exhibit are based on the data shown in Exhibit 7.6 in the December 2017 filing.

The revised formulas are displayed in Section 2 (current formulas for January 2018) and in Section 3 (proposed formulas for July 2018). These two sections replace Section VIII from the December 2016 and from December 2017 filing respectively.

The revised current and proposed formulas comply with section 69.606 of the Commission's rules by providing for settlements that simulate those that would be received by a cost company that is representative of average schedule companies, as impacted by the TCJA. NECA requests the Commission approve the proposed formulas for implementation on July 1, 2018 and the revisions to the current formulas for implementation as of January 1, 2018.

EXHIBIT D

REVISED MONTHLY SETTLEMENTS BASED ON DATA FROM EXHIBIT 7.6, DECEMBER 2017 FILING

	(A)	(B)	(C)	(D)	(E) = (B)/(A) -1	(F) = (D)/(C) -1
	<u>Current Original</u>	<u>Current Revised</u>	<u>Proposed Original</u>	<u>Proposed Revised</u>	Tax impact on current	Tax impact on proposed
A. Common Line Basic with MAG Shifts after Limits	\$8,831,297	\$8,785,640	\$9,675,004	\$9,621,351	-0.52%	-0.55%
B. Consumer Broadband Only Loop	\$1,337,993	\$1,329,987	\$1,564,865	\$1,554,958	-0.60%	-0.63%
C. CL Universal Service Contribution	\$1,068,446	\$1,068,446	\$1,068,446	\$1,068,446	0.00%	0.00%
D. Common Line Total (A + B + C)	\$11,237,736	\$11,184,073	\$12,308,315	\$12,244,755	-0.48%	-0.52%
E. Special Access Non DSL with TIC Shift	\$2,745,896	\$2,726,373	\$2,860,021	\$2,840,226	-0.71%	-0.69%
F. DSL Voice-Data with TIC Shift	\$1,793,442	\$1,780,319	\$1,899,591	\$1,886,086	-0.73%	-0.71%
G. DSL Broadband-Only Second Mile	\$4,337	\$4,337	\$4,306	\$4,306	0.00%	0.00%
H. Special Access DSL with TIC Shift Total (F + G)	\$1,797,779	\$1,784,656	\$1,903,897	\$1,890,392	-0.73%	-0.71%
I. Traffic Sensitive Switched	\$3,843,335	\$3,843,335	\$3,651,168	\$3,651,168	0.00%	0.00%
J. Traffic Sensitive Total (E + H + I)	\$8,387,010	\$8,354,364	\$8,415,086	\$8,381,786	-0.39%	-0.40%
K. Overall Total (D + J)	\$19,624,746	\$19,538,437	\$20,723,402	\$20,626,541	-0.44%	-0.47%

Section 2

2017/2018 Formula Revisions – To be Effective as of January 1, 2018

A. COMMON LINE FORMULAS

COMMON LINE BASIC FORMULA (Revised)

Settlement = Settlement Access Lines \times Common Line Settlement per Access Line

Common Line Settlement per Access Line

If LPE less than 300 then, $\$33.452455 - (\$0.022384 \times \text{LPE})$

If LPE between 300 and 750 then, $\$17.091699 + (\$2,893.686 / \text{LPE})$

If LPE between 750 and 3,000 then, $\$22.867873 - (\$0.002558 \times \text{LPE})$

If LPE 3,000 or more then, $0.8416 \times \{\$17.091699 + (\$2,893.686 / \text{LPE})\}$

$\text{LPE} = (\text{Access Lines} + \text{Broadband-Only Lines}) / \text{Exchange}$

COMMON LINE FORMULA

$0.995999 \times (\text{Common Line Access Line Formula}) + \text{Baseline Line Port Shift} + \text{Baseline CL TIC Shift}$

$0.995999 = \text{Adjustment due to Corporate Operations Expense and Opex limits}$

Baseline Line Port Shift:

Frozen Line Port amount from NECA's June 2011 tariff filing.

Baseline CL TIC Shift:

Frozen CL TIC amount from NECA's June 2011 tariff filing.

CONSUMER BROADBAND-ONLY LOOP (CBOL) FORMULA

CBOL Settlement =

$0.995999 \times (3.4945 \times \text{Common Line Settlement per Access Line}) \times \text{Broadband-Only Lines}$

$0.995999 = \text{Adjustment due to Corporate Operations Expense and Opex limits}$

COMMON LINE RATE OF RETURN FORMULA

Monthly Common Line settlements are adjusted to reflect the Rate of Return (ROR) achieved by the total NECA Common Line pool.

$$0.745607 + (2.366447 \times \text{ROR})$$

UNIVERSAL SERVICE SUPPORT CONTRIBUTION FORMULA

An amount equal to the study area's contribution to the Federal Universal Service program assigned to the interstate common line access category according to Commission rules.

B. TRAFFIC SENSITIVE FORMULAS

SWITCHED ACCESS FORMULA

Settlements = 95% of the prior year amount (equivalent to 73.51% of the Study Area's Baseline Switched Access Revenue Requirement, based on NECA's June 15, 2011 tariff filing)

SPECIAL ACCESS FORMULAS

Special Access Non-DSL Formula (revised):

Settlement = Rate Adjusted Special Access Revenues \times Retention Ratio
+ Baseline Non-DSL TIC Shift

Rate Adjusted Special Access Revenues = Non-DSL Revenues \times Non-DSL TRI

Retention Ratio

If Rate Adjusted Revenues per Exchange less than 550:

$7.017 - 0.006375 \times \text{Rate Adjusted Revenues per Exchange}$

If Rate Adjusted Revenues per Exchange between 550 and 1,000:

$4.834 - 0.002418 \times \text{Rate Adjusted Revenues per Exchange}$

If Rate Adjusted Revenues per Exchange greater than 1,000:

$0.338549 + 2,079.562 / \text{Rate Adjusted Revenues per Exchange}$

Non-DSL TRI = $1 / [(\text{Non-DSL 2017 Uniform Rate relative to December 2016 Uniform Rate}) \times (\text{2017 Band Rate relative to Uniform Rate})]$

Baseline Non-DSL TIC Shift:

The special access Non-DSL portion of the Baseline Special Access TIC shift from NECA's June 2011 tariff filing.

**Special Access DSL Settlements =
DSL Voice Data Settlements paid to VD Lines + Second Mile Settlement paid to Broadband-Only Lines**

Special Access DSL Voice Data (VD) Formula (Revised):

Settlement = VD Lines \times Settlement per VD Line + \$702.646 + Baseline DSL TIC Shift

Lines = Average Base Period 2015/2016 Access Lines + DSL Broadband-Only Lines

Percent VD = (VD Lines / Lines) \times 100

Settlement per VD Line =

If Percent VD less than 50: $\$31.830 - 0.318344 \times \text{Percent VD}$

If Percent VD between 50 and 65: $\$25.865 - 0.198965 \times \text{Percent VD}$

If Percent VD greater than 65: \$12.93276

Baseline DSL TIC Shift:

The special access DSL portion of the Baseline Special Access TIC shift from NECA's June 2011 tariff filing. This settlement is paid only to study areas participating in NECA's DSL Tariff.

Current Special Access DSL Broadband-Only (BO) Second Mile Formula:

This formula is aimed to compensate for second mile costs if a study area is identified to have second mile based on its network configuration in Tariff 4.

For average schedule study areas identified as not having 2nd mile costs:

Monthly BO Second Mile Settlement = 0

For study areas identified as having Second Mile transport costs:

Monthly BO Second Mile Settlement = \$2.78 x Broadband-Only Lines

TRAFFIC SENSITIVE RATE OF RETURN FORMULA

Monthly Traffic Sensitive settlements are adjusted to reflect the Rate of Return (ROR) achieved by the total NECA Traffic Sensitive pool.

$0.813607 + (1.733888 \times \text{ROR})$

Section 3

2018/2019 Proposed Formula Revisions – To be Effective July 1, 2018 – June 30, 2019

A. COMMON LINE FORMULAS

COMMON LINE BASIC FORMULA (Revised)

Settlement = Settlement Access Lines \times Common Line Settlement per Access Line

Common Line Settlement per Access Line

If LPE less than 300 then, $\$37.653109 - (\$0.037944 \times \text{LPE})$

If LPE between 300 and 600 then, $\$19.199634 + (\$2,121.079 / \text{LPE})$

If LPE between 600 and 3,000 then, $\$23.799618 - (\$0.001775 \times \text{LPE})$

If LPE 3,000 or more then, $0.9281 \times \{\$19.199634 + (\$2,121.079 / \text{LPE})\}$

$\text{LPE} = (\text{Access Lines} + \text{Broadband-Only Lines}) / \text{Exchange}$

COMMON LINE FORMULA

$0.990657 \times (\text{Common Line Access Line Formula}) + \text{Baseline Line Port Shift} + \text{Baseline CL TIC Shift}$

$0.990657 = \text{Adjustment due to Corporate Operations Expense and Opex limits}$

Baseline Line Port Shift:

Frozen Line Port amount from NECA's June 2011 tariff filing.

Baseline CL TIC Shift:

Frozen CL TIC amount from NECA's June 2011 tariff filing.

CONSUMER BROADBAND-ONLY LOOP (CBOL) FORMULA

CBOL Settlement =

$0.990657 \times (3.6928 \times \text{Common Line Settlement per Access Line}) \times \text{Broadband-Only Lines}$

$0.990657 = \text{Adjustment due to Corporate Operations Expense and Opex limits}$

COMMON LINE RATE OF RETURN FORMULA

Monthly Common Line settlements are adjusted to reflect the Rate of Return (ROR) achieved by the total NECA Common Line pool.

$$0.776483 + (2.128733 \times \text{ROR})$$

UNIVERSAL SERVICE SUPPORT CONTRIBUTION FORMULA

An amount equal to the study area's contribution to the Federal Universal Service program assigned to the interstate common line access category according to Commission rules.

B. TRAFFIC SENSITIVE FORMULAS

SWITCHED ACCESS FORMULA

Settlements = 95% of the Current Amount (equivalent to 69.83% of the Study Area's Baseline Switched Access Revenue Requirement, based on NECA's June 15, 2011 tariff filing)

SPECIAL ACCESS FORMULAS

Special Access Non-DSL Formula (Revised):

Settlement = Rate Adjusted Special Access Revenues \times Retention Ratio
+ Baseline Non-DSL TIC Shift

Rate Adjusted Special Access Revenues = Non-DSL Revenues \times Non-DSL TRI

Retention Ratio

If Rate Adjusted Revenues per Exchange less than 400:

$8.825 - 0.011030 \times \text{Rate Adjusted Revenues per Exchange}$

If Rate Adjusted Revenues per Exchange between 400 and 800:

$5.887 - 0.003677 \times \text{Rate Adjusted Revenues per Exchange}$

If Rate Adjusted Revenues per Exchange greater than 800:

$0.344381 + 2,077.694 / \text{Rate Adjusted Revenues per Exchange}$

Non-DSL TRI = $1 / [(\text{Non-DSL 2018 Uniform Rate relative to December 2017 Uniform Rate}) \times (\text{2018 Band Rate relative to Uniform Rate})]$

Baseline Non-DSL TIC Shift:

The special access Non-DSL portion of the Baseline Special Access TIC shift from NECA's June 2011 tariff filing.

Special Access DSL Settlements =

DSL Voice Data Settlements paid to VD Lines + Second Mile Settlement paid to Broadband-Only Lines

Special Access DSL Voice Data (VD) Formula (Revised):

Settlement = VD Lines \times Settlement per VD Line + \$917.966 + Baseline DSL TIC Shift

Lines = Average Base Period 2016/2017 Access Lines + DSL Broadband-Only Lines

Percent VD = $(\text{VD Lines} / \text{Lines}) \times 100$

Settlement per VD Line =

If Percent VD less than 45: $\$33.634 - 0.373689 \times \text{Percent VD}$

If Percent VD between 45 and 55: $\$28.462 - 0.258708 \times \text{Percent VD}$

If Percent VD greater than 55: \$14.228928

Baseline DSL TIC Shift:

The special access DSL portion of the Baseline Special Access TIC shift from NECA's June 2011 tariff filing. This settlement is paid only to study areas participating in NECA's DSL Tariff.

Special Access DSL Broadband-Only (BO) Second Mile Formula:

This formula is aimed to compensate for second mile costs if a study area is identified to have second mile based on its network configuration in Tariff 4.

For average schedule study areas identified as not having 2nd mile costs:

$$\text{Monthly BO Second Mile Settlement} = 0$$

For study areas identified as having Second Mile transport costs:

$$\text{Monthly BO Second Mile Settlement} = \$2.76 \times \text{Broadband-Only Lines}$$

TRAFFIC SENSITIVE RATE OF RETURN FORMULA

Monthly Traffic Sensitive settlements are adjusted to reflect the Rate of Return (ROR) achieved by the total NECA Traffic Sensitive pool.

Proposed: $0.849983 + (1.428733 \times \text{ROR})$