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CORRECTED VERSION

COMMON CARRIER BUREAU RELEASES PRELIMINARY RESULTS USING PROPOSED INPUT VALUES IN THE FORWARD-LOOKING COST MODEL FOR UNIVERSAL SERVICE

CC Docket Nos. 96-45, 97-160

Released: June 16, 1999

In the *Platform Order* released on October 28, 1998, the Commission adopted a forward-looking cost model platform to be used in estimating the forward-looking cost of providing the services that will be supported by the new federal universal service high-cost support mechanism for non-rural carriers.[1] In the *Inputs Further Notice*, released on May 28, 1999, the Commission moved toward completing its work on the cost model by proposing input values for use in the model.[2] On June 2, 1999, the Common Carrier Bureau (Bureau) posted the model with the proposed input values on the Commission's Web site (http://www.fcc.gov/ccb/apd/hcpm). In this Public Notice, the Bureau announces that it is releasing on the Commission's Web site (http://www.fcc.gov/ccb/universal_service) preliminary results of model runs using the input values proposed in the *Inputs Further Notice*, with certain minor exceptions, as explained below. By publicly releasing model results, we seek to facilitate the ability of interested parties to review and comment on the proposed input values and assist the Commission in the selection of final input values. In addition, we encourage interested parties to use these updated model results in formulating their comments in response to the Further Notice of Proposed Rulemaking in the Commission's *High Cost Methodology Order & Notice*, released on May 28, 1999.[3]

The results we are releasing consist of the following files: (1) a zipped file containing Excel spreadsheets for each non-rural study area showing the results of the model run in the wire center mode; (2) a similar zipped file showing the results of the model run in the density

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[1] *Federal-State Joint Board on Universal Service*, Fifth Report and Order, CC Docket Nos. 96-45, 97-160, 13 FCC Rcd 21323 (1998) (*Platform Order*).

[2] *Federal-State Joint Board on Universal Service*, Further Notice of Proposed Rulemaking, CC Docket Nos. 96-45, 97-160, FCC 99-120 (rel. May 28, 1999) (*Inputs Further Notice*).

[3] *Federal-State Joint Board on Universal Service, Access Charge Reform*, Seventh Report and Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45; Fourth Report and Order in CC Docket No. 96-262; and Further Notice of Proposed Rulemaking, CC Docket Nos. 96-45, 96-262, FCC 99-119 (rel. May 28, 1999) (*High Cost Methodology Order & Notice*).

zone mode; (3) a zipped file containing work files of intermediate outputs of the model; (4) an Excel file with spreadsheets for calculating the nationwide average monthly cost per line and estimating support amounts, based on the average cost in each study area; and (5) a similar Excel file based on the average cost in each wire center.[4] The four zipped files contain detailed information regarding the investments, unit costs, expense calculations, and derivation of capital costs, as calculated by the model. The two Excel files that calculate the nationwide average monthly cost per line can be used to estimate federal support amounts based upon certain assumptions made by the user.

As noted in the *High Cost Methodology Order & Notice*, the model is used to estimate the forward-looking cost of providing the supported services, but the model does not itself determine federal support levels.[5] The Commission adopted a two-step process for determining federal high-cost support levels for non-rural carriers in that Order and sought further comment on specific details of that methodology. In the first step, the forward-looking costs incurred by a non-rural carrier to provide the supported services are calculated using the model. These costs then are compared to a national cost benchmark to determine the areas that have costs in excess of the benchmark.[6] In the second step, the state's ability to support its high cost areas is estimated by multiplying a fixed dollar amount by the number of lines served by non-rural carriers in the state. The Commission sought comment on the set dollar amount that should be used to define a state's responsibility.[7] In addition, the Commission sought comment on whether the federal support mechanism should calculate support levels by comparing the forward-looking costs of providing supported services to the benchmark at either (1) the wire center level; (2) the unbundled network element (UNE) cost zone level; or (3) the study area level.[8] Support amounts will differ, depending upon the area over which costs are averaged.

As noted, we are releasing two Excel files that can be used to estimate federal support amounts: one based on the average cost in each wire center; and one based on the average cost in each study area.[9] Each file is comprised of several spreadsheets, including: a Cost

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[4] Because of differences in the method of rounding numbers between the wire center mode and the density mode, the per line values differ somewhat between the two spreadsheets. The HAI model proponents have indicated that they will fix this discrepancy so that the cost results will be the same whether the model is run in the wire center mode or the density zone mode. Note, however, that support amounts will differ depending upon whether costs are averaged over the wire center or over the study area, as noted below.

[5] *High Cost Methodology Order & Notice* at para. 21.

[6] *See id.* at paras. 61-62, 96-100.

[7] *See id.* at paras. 63-66, 110-12.

[8] *See id.* at para. 102.

[9] The support_density.xls file should be used to calculate support averaged over the study area. The support_wirecenter.xls file should be used to calculate support over the wire center. The user also can modify the support_wirecenter.xls file to calculate support over UNE cost zones, by grouping the wire centers in a particular state into cost zones.

Benchmark spreadsheet; a Per Line spreadsheet; a State spreadsheet; and a Study Area spreadsheet. A user can estimate federal support amounts by first going to the Cost Benchmark spreadsheet in either of the nationwide average cost files and setting the level of the national cost benchmark. The Joint Board recommended a range between 115 and 150 percent of the national weighted average cost per line, and the Commission sought comment on the specific national benchmark it should adopt and on whether the benchmark should fall within the Joint Board's range.[10] The user also must determine what percentage of the cost above the national benchmark should be recovered through the federal mechanism. The Commission noted that the current high cost mechanism for large carriers provides increasing amounts of support based on the amount by which a carrier's loop costs exceed the national average.[11] The spreadsheet also permits the user to vary the cost benchmark and the percentage of federal support in up to four separate bands.[12] After setting the national cost benchmark and the percentage of federal support, the user has estimates of the forward-looking support levels for each study area based on these assumptions, but without taking into account the state's responsibility.

To generate estimates that reflect a state's ability to support its high cost areas, the user then must go to the Per Line spreadsheet and enters a fixed dollar amount to subtract the state's responsibility for support under the proposed federal mechanism. The user then has estimates of the net forward-looking support levels for each state, but without taking into account the hold-harmless provisions. To estimate the effect of the hold-harmless provision on support levels, the user then must go to the State spreadsheet, which compares the net forward-looking support by state with current support by state.

In the *High Cost Methodology Order*, the Commission sought comment on whether the hold-harmless provision should be implemented on a state-by-state or a carrier-by-carrier basis.[13] For states with only one non-rural study area, there would be no difference in support amounts between these two approaches. For a few states, however, the method by which the hold-harmless provision is implemented could change the support levels. The State spreadsheet can be used to estimate support levels by using both hold-harmless methods. If the hold-harmless provision is implemented on a state-by-state basis, support also may need to

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[10] *See id.* at para. 97.

[11] *See id.* at para. 98. The current federal support mechanism provides 10 percent support (in addition to the 25 percent allocation of all loops to the interstate jurisdiction) for large incumbent LECs with more than 200,000 working loops for book loop costs above 115 percent of the national average, and provides gradually more support for the portion of these carriers' book loop costs exceeding 160 percent of the national average. Specifically, if the carriers' loop costs are greater than 160 of the national average, but not greater than 200 percent, an additional 30 percent of the costs are supported; if loop costs are greater than 200 percent, but not greater than 250 percent, an additional 60 percent of the costs are supported; and if loop costs are greater than 250 percent, an additional 75 percent of the costs are supported. *See* 47 C.F.R. § 36.631(d).

[12] *See supra* note 11.

[13] *See id.* at para. 117.

be allocated among carriers.[14] The Study Area spreadsheet can be used to allocate support among carriers in states with more than one non-rural carrier.

As noted above, the results we are releasing with this Notice are based on model runs using the input values proposed in the *Inputs Further Notice*, with certain minor exceptions. First, we note that the results reflect model runs with the optimization in distribution plant disabled. In the *Inputs Further Notice*, the Commission tentatively concluded that the synthesis model should be run with the optimization turned on when the model is used to calculate the forward-looking cost of providing the services supported by the model. Notwithstanding this tentative conclusion, we released and posted input values with the optimization in distribution plant disabled, as a convenience to interested parties, because this minimizes the model run time. As noted in the *Inputs Further Notice*, after we have completed an analysis of comparison runs, we intend to make available a spreadsheet showing the estimated percentage change, for each non-rural study area and wire center, between running the model with the distribution optimization disabled and running the model with the distribution optimization enabled.[15]

In addition, as noted in the *Inputs Further Notice,* the PNR road surrogate customer location data set currently does not contain data for Iowa, Virginia, Puerto Rico, and Alaska, and omits 84 (out of a total of more than 12,000) non-rural wire centers in various other states.[16] To estimate the forward looking costs of providing the supported services in Iowa and Virginia, we ran the model using another PNR customer location data set, containing geocode data and using a surrogating method that places non-geocoded locations along the perimeter of the Census Block. Although forward-looking cost estimates are not provided for Puerto Rico and Alaska, they are included in the nationwide support tables, to the extent that Puerto Rico and Alaska would continue to receive support amounts they currently receive because of the hold-harmless provision adopted by the Commission.

For further information, please contact: Katie King, Accounting Policy Division, Common Carrier Bureau, (202) 418-7400.

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[14] That is, if the total hold-harmless amount provided in a particular state is insufficient to fully hold each carrier harmless, support must be allocated in some way. *See id.* at para. 120.

[15] *See Inputs Further Notice* at para. 58, Appendix A, Interface Options table.

[16] *See id.* at para. 31.