North-State Telephone Company

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June 20, 2005

Ms. Marlene Dortch
Office of the Secretary
Federal Communications Commission
445-12th Street, SW
Room TW-A325
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

RE: CC Docket No. 96-45
USAC Letter Dated June 3, 2005

This letter is to appeal USAC's adjustment to North-State Telephone Company's (North-State) 2001 LSS payments and to request a Declaratory Ruling regarding the interpretation of 47 CFR Part 36.125(a)(5).

Background:

- On October 1, 2004 USAC sent a letter to us indicating that North-State's 1996 weighted DEM factor exceeded the 85% cap and that there was an error in the LSS computation. (See Attachment 1)
- On October 5, 2004 North-State faxed an authorization to release data to USAC asking that they immediately send the original and USAC's revised calculation of the 2001 LSS to our consultant GVNW. (See Attachment 2). USAC faxed the input data to GVNW, but it was not legible so GVNW followed up with a call to USAC. USAC sent an e-mail containing the data, but refused to provide the calculations they performed.
- On October 6, 2004 North-State sent a letter to USAC indicating their original letter was confusing and that they were attempting to put Caps in computations that are inconsistent with the FCC's Rules. (See Attachment 3)
- On October 27, 2004 USAC responded with some clarification that it was the sum of the LSS factor and the unweighted DEM factor that was limited to 85% and that if the sum exceeded 85% an adjustment is made to the LSS Factor. USAC also indicated the Company could appeal USAC's adjustment either to USAC or to the FCC. (See Attachment 4)
- On November 8, 2004 we filed an appeal with USAC demonstrating that the sum of the LSS and the 2001 unweighted DEM did not exceed the 85% cap and thus the company's LSS for 2001 should not have been adjusted. (See Attachment 5)
- On February 9, 2005 USAC sent a notification that they had received the appeal and they expected to have a decision within ninety (90) days from the date of the letter. (See attachment 6)
- On June 3, 2005 USAC sent us their determination letter in which they denied the appeal. It was in this letter that we first found the issue causing the dispute. Specifically, USAC uses the 1996 unweighted DEM in performing the limitation

test rather then the current year (in this case the 2001) unweighted DEM. (See Attachment 7).

Discussion

We believe that USAC is in violation of Part 54.301(a)(3) of the Commission's Rules. Specifically, the Part 54.301(a)(3) requires the use of the unweighted DEM as defined in Part 36.125(a)(5). There is no provision in the language of this rule which supports the interpretation that Part 36.125(a)(5) uses 1996 dial equipment minutes.

In USAC's June 3, 2005 letter it is not clear if USAC is actually interpreting the rule incorrectly, or if they are trying to shift the responsibility for not following the rule to the FCC or OMB because the data collection form does not ask for the current year's DEM. In either case, we believe the rules should be administered as written.

If it is USAC's interpretation that the rules require the use of the 1996 weighted DEM in the limitation test, we dispute their interpretation and ask the Commission to issue a declaratory ruling. In the following, we offer support for the position that Part 36.125(a)(5) is not defined as the 1996 unweighted DEM:

- On February 26, 1998 our consultant Kenneth T. Burchett from GVNW had an ex parte meeting with the FCC staff to discuss the specifics as to how the newly adopted LSS rules were to work. A four page model was discussed which clearly lays out the computations. In that presentation the limitation test was illustrated and the DEM was defined as the current year DEM. See pages 1 and 2 of the attachment 1 included with the ex parte filing. (Ex parte Filing, please see attachment 8)
- NECA administers the common line and traffic sensitive pool requiring the use of the current year DEM for developing the local switching factor. They have required this since 1998 as documented in their requirements to all pool participants.
- We are aware of no FCC rule or Order that would change the definition of Part 36.125(a)(5) to be the 1996 DEM.

If USAC is arguing that they don't have the authority to collect the data required to perform the limitation in accordance with the rules, we ask the Commission to take the steps that are necessary to authorize USAC to collect this data.

We believe it was the Commission's intent to link the LSS computation to the Local Switching computation used in the allocation of Central Office Equipment Category 3 Investment. We believe that two administrative bodies (i.e. NECA and USAC) should not be administering the same rule with different interpretations. If it is determined that USAC's procedures are consistent with the rules, we ask that the Commission order NECA to allow any companies that are adversely impacted by NECA's interpretation to correct their data and receive settlements for all periods affected.

Summary

In summary, we ask the Commission for a Declaratory Ruling regarding the interpretation of Part 36.125(a)(5), whether it is interpreted to require 1996 data as administered by USAC, or current year data as administered by NECA.

If the Commission holds that USAC's method is correct, we ask that the Commission allow all companies that were adversely impacted by NECA's requirement to use current year data rather than 1996 data, be allowed to make adjustments beyond the 24 month window on pooling operations, and resubmit their studies for settlements.

If the Commission holds that NECA's method and the method presented in the GVNW ex parte with the Commission are correct, we ask that the Commission take what ever steps are necessary to allow USAC the ability to gather the information required to properly administer the Commission's Rules.

Sincerely,

This letter was filed electronically on 6/20/05. (see copy of confirmation attached). The electronic filing of the attachments was not successful we therefore submit the attachments with this mailing.

Gary Miller

CC: GVNW (Ken Burchett)
NECA (Jeff Dupree)
USAC

Federal Communications Commission

The FCC Acknowledges Receipt of Comments From ...

North State Telephone Company

...and Thank You for Your Comments

Your Confirmation Number is: '2005620002125 '

Date Received:	**Jun 20 2005**
Docket:	**96-45**
Number of Files Transmitted:	**2**

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updated 12/11/03

Attachment 1

Universal Service Administrative Company
High Cost & Low Income Division

Karen M. Majcher
Director, High Cost

October 1, 2004

James Damon
North-State Tel. Co.
One Telephone Drive
P.O. BOX 609
Mt. Vernon, OR 97865-0609

RE: Local Switching Support Calculation Error

Dear James Damon:

During a recent audit of Local Switching Support (LSS), USAC discovered an error in the calculation of the 2001 LSS true-up for some carriers. Those carriers affected are carriers whose uncapped 1996 weighted DEM factor exceeded the eighty-five percent (85%) cap. The error occurred because the LSS factor was not capped at 85% when the uncapped 1996 weighted DEM factor was exceeded. As a result, some carriers were overpaid support.

USAC has corrected the error and recalculated the 2001 LSS true-up for all carriers affected. These recalculations will be reflected in September 2004 payments that are disbursed at the end of October 2004.

Below is a table displaying the original 2001 LSS true-up amount, the corrected 2001 LSS true-up amounts, and the LSS adjustment to be included in your September 2004 payments.

SAC	Name	Original 2001 LSS True Up Amount	Corrected 2001 LSS True Up Amount	LSS Adjustment
532388	North-State Tel. Co.	$113,765	$104,107	-$9,658

We apologize for the inconvenience that this adjustment has caused. If you have any questions, please do not hesitate to call USAC's Customer Service Center at 877-877-4925.

Sincerely,

Karen M. Majcher
Director, High Cost

Post-it® Fax Note 7671	Date	# of pages ▶ 1
To Carsten	From Dee Dee	
Co./Dept.	Co.	
Phone #	Phone #	
Fax #	Fax #	

2000 L Street, N.W., Suite 200, Washington, DC 20036 Voice: 202.776.0200 Fax: 202.776.0080
Visit us online at: http://www.universalservice.org

Attachment 2

NORTH-STATE TELEPHONE CO.

One Telephone Drive
P. O. Box 609
Mt. Vernon, Oregon 97865
(541) 932-4411

USAC – FAX # 202 776 0080

October 5, 2004

Authorization for Release of Data

To: Universal Service Administrative Company

RE: October 1, 2004 Letter – Local Switching Support Calculation Error

In the October 1, 2004 letter to our company, USAC indicated an adjustment was being made to our Local Switching Support. The letter was confusing in that it appears to imply caps on certain components of the LSS computation that are not consistent with the rules.

In order for us to verify these computations, we ask that you immediately send the original and USAC's revised calculations to our Consultant (GVNW) by faxing the information to them at 503 (612) 4401.

Sincerely

North-State Tel. Co.
SAC 532388

Attachment 3

NORTH-STATE TELEPHONE CO.

One Telephone Drive
P. O. Box 609
Mt. Vernon, Oregon 97865
(541) 932-4411

Post-it® Fax Note 7671	Date 10/6/04	# of pages ▶ 2
To Carsten	From Dudley	
Co./Dept.	Co.	
Phone #	Phone #	
Fax #	Fax #	

October 6, 2004

Karen M. Majcher
Universal Service Administrative Company
High Cost & Low Income Division
2000 L Street, N.W.
Suite 200
Washington, DC 20036

Dear Ms. Majcher:

This letter is in response to your October 1, 2004 letter regarding "Local Switching Support Calculation Errors".

The letter is confusing in that it appears USAC is attempting to implement caps on certain computations that are not consistent with the rules. For example, the letter states:

> "Those carriers affected are carriers whose uncapped 1996 weighted DEM factor exceeded the eight-five percent (85%)cap."

This statement seems to imply that there is an 85% cap on the weighted DEM factor. There is no such cap in the FCC rules and regulations. The rules define the weighted DEM as the interstate DEM times a multiple. While there is a cap on the COE Cat 3 allocation factor in the Part 36 rules, and there is a cap on the combined LSS and the unweighted DEM in the Part 54 rules, there is no such limitation on the weighted DEM computation. This was addressed in a request for interpretation from our consultant GVNW on June 16, 1998. (See CC Docket No. 96-45, DA No. 98-1421).

In the last sentence in the first paragraph of the letter you indicate the following:

> "The error occurred because the LSS factor was not capped at 85% when the uncapped 1996 weighted DEM factor was exceeded."

Here again, it appears that USAC is implementing a cap on the 1996 weighted DEM factor. There was no such cap on the weighted DEM in 1996. In that year, if the

Weighted DEM exceeded 85% it was not used, i.e. the rules required the use of either 85% or the Weighted DEM, which ever was less. There was no limitation on the weighted DEM, the limitation was on the COE Category 3 allocation factor.

We also disagree with USAC making adjustments to our payments for September 2004 as the LSS support was initially paid to the NECA pool and any corrections that are appropriate should be made through the NECA settlement process just as the original payments were. We have heard informally that it is USAC's intent to flow these adjustments through NECA for all Traffic Sensitive pooling participants. If this is so, we ask that you provide written clarification that the original letter was incorrect.

We also ask that this letter serve as authorization for you to provide any data regarding our company's calculation to our consultant GVNW Consulting, Inc.

If you have any questions concerning the above, please contact Ken Burchett from GVNW at 503 612-4408.

Sincerely,

Gary Miller
CC: GVNW
NECA

Attachment 4

Universal Service Administrative Company
High Cost & Low Income Division

Karen M. Majcher
Director, High Cost

October 27, 2004

Gary Miller
North-State Telephone Co.
One Telephone Dr.
P.O. Box 609
Mt. Vernon, OR 97865

Dear Gary Miller:

I am writing in response to your letter regarding the 2001 Local Switching Support (LSS) calculation error. I apologize if my original letter was confusing, and I will address each of the points that you raised.

85 percent cap. As you may know, USAC calculates LSS according to the Federal Communications Commission's (FCC's) rules. According to Section 54.301(a)(3) of the FCC's rules, when calculating LSS, the sum of the unweighted interstate DEM factor and the local support factor shall not exceed 85 percent. If the sum of those two factors would exceed 85 percent, the local switching factor shall be reduced to a level that would reduce the sum of the factors to 85 percent.[7] When the original 2001 LSS true-up calculations were performed, if the sum of the unweighted interstate DEM factor and the local support factor exceeded 85 percent, the sum of the two factors was not reduced to 85 percent. This calculation was inconsistent with the FCC's rules and was an error. During an audit of the 2001 LSS true-up, this error in the LSS calculation was found. USAC, therefore, has recalculated the 2001 LSS true-up for all carriers.

Recovery of funds. For the affected carriers, USAC will be recovering the funds in the September 2004 high cost payments that will be disbursed at the end of October 2004. These funds will be netted against all high cost payments that your company receives. Because USAC calculates and disburses high cost support, we must adjust carriers' support accordingly when an error is found. In the past, USAC disbursed all high cost support payments to NECA on behalf of its member companies. NECA used this information in its settlement process; however, USAC never disbursed high cost support directly to the NECA pool.

This historical practice of sending NECA all high cost disbursement information has recently changed with the implementation of USAC's new FCC Form 498. Now, carriers may elect where their high cost support is to be disbursed – directly to themselves or to

[7] *See* 47 C.F.R. § 54.301(a)(3)

an agent acting on their behalf. I would encourage you to carefully consider your company's options.

Remedies. As is the case with any administrative decision made by USAC, you have the right to appeal this decision. You may appeal to USAC or the FCC, and the appeal must be filed within 60 days of the netting of your high cost support. That netting occurred on October 27th, so the 60-day window within which you may file an appeal began on that day.

As you requested, we will send your 2001 LSS true-up data to GVNW Consulting, Inc. Again, we apologize for the inconvenience that this adjustment has caused. If you have any questions, please do not hesitate to call USAC's Customer Service Center at 877-877-4925.

Sincerely,

Karen M. Majcher
Director, High Cost

cc: Ken Burchett, GVNW Consulting, Inc.

Attachment 5

NORTH-STATE TELEPHONE CO.

One Telephone Drive
P. O. Box 609
Mt. Vernon, Oregon 97865
(541) 932-4411

November 8, 2004

Ms Karen M. Majcher
Universal Service Administrative Company
High Cost & Low Income Division
2000 L Street, N.W.
Suite 200
Washington, DC 20036

Dear Ms Majcher:

This letter is to appeal the adjustments identified in your October 1, 2004 letter regarding "Local Switching Support Calculation Errors". Based on the clarification that you provided in your October 27, 2004 letter, we do not believe the adjustment is appropriate.

In your clarification letter you cited the 85 percent cap rule contained in Part 54.301(a)(3). The rule indicates that if the sum of the unweighted DEM factor and the LSS factor exceed .85, then the LSS factor would be reduced so that the sum did not exceed .85. You indicated that "when the original 2001 LSS true-up calculation was performed, if the sum of the unweighted interstate DEM factor and the local support factor exceeded 85 percent, the sum of the two factors was not reduced to 85 percent. This calculation was inconsistent with the FCC's rules and was an error. During an audit of the 2001 LSS true-up, this error in the LSS calculation was found."

We appeal this adjustment because the sum of the LSS and the unweighted DEM did not exceed the 85% limitation. Following are the two components of the test:

LSS – 1996 weighted DEM minus the 1996 unweighted DEM	.604778
2001 unweighted DEM	.227690
Sum of two components	.832468

As the sum of these two components did not exceed the 85% limit, there should be no adjustment to the company's LSS.

Ms Karen M. Majcher
Universal Service Administrative Company
High Cost & Low Income Division

Date

This appeal is being filed as provided in the remedies section of your letter of October 27, 2004.

If you have any questions about the above request, please contact our consultant Ken Burchett at GVNW Consulting Inc. at 503 612-4408

Sincerely,

Gary Miller
General Manager
North-State Telephone Company

CC: Jeffery Carlisle (Chief Wireline Competition Bureau)
Jeff Dupree (NECA Whippany)
Ken Burchett (GVNW)

Attachment 6

USAC

Universal Service Administrative Company
High Cost & Low Income Division

Karen M. Majcher
Director, High Cost Support Mechanism

February 9, 2005

Gary Miller
North-State Telephone Company
One Telephone Drive
P.O. Box 609
Mt. Vernon, OR 97865-0609

Attn: Carsten

RE: Appeal

Dear Gary Miller:

This letter is to inform you that USAC has received your appeal to the High Cost and Low Income Committee. Currently, USAC is in the process of reviewing your appeal in order to make a determination based on its merits. Please be advised that USAC may require additional information in order to make a decision with regard to your appeal. USAC expects to have a decision within ninety (90) days of the date of this letter.

Should you have any questions, please contact a representative of the High Cost group, at 202-776-0200.

Sincerely,

Karen M. Majcher
Director, High Cost Support Mechanism

2000 L Street, N.W., Suite 200, Washington, DC 20036 Voice: 202.776.0200 Fax: 202.776.0080
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Attachment 7

USAC Universal Service Administrative Company

June 3, 2005

Post-it® Fax Note 7671	Date 6/9/05 # of pages ▶ 4
To Carsten	From Dennis
Co./Dept.	Co.
Phone #	Phone #
Fax #	Fax #

Mr. Gary Miller
North State Telephone Company
One Telephone Drive
P.O. Box 609
Mt. Vernon, OR 97865

RE: North State Telephone Company

Dear Mr. Miller:

After thorough review, the Universal Service Administrative Company (USAC) has completed its evaluation of the Letter of Appeal filed on behalf of North State Telephone Company (North State) dated November 8, 2004. Your appeal challenges USAC's adjustment to Local Switching Support (LSS) for the 2001 True-Up period.

Factual Background:
Periodically, USAC is subject to both internal and external audits. When audit findings demonstrate that USAC has made errors in calculating support paid to carriers, USAC must ensure that such findings are addressed through payment corrections.

An audit revealed that USAC did not apply the 0.85 percent interstate allocation factor cap discussed in Section 54.301(a)(3) of the FCC's rules when it calculated the 2001 LSS true-up amounts for all carriers. When USAC learned of this finding, USAC performed a recalculation of the 2001 LSS true-up amounts for all carriers in a manner consistent with FCC rules. When USAC performed this recalculation, it determined that North State was overpaid when the original 2001 LSS true-up was calculated. As such, USAC recovered the support that was overpaid in the original 2001 LSS true-up calculation.

North State filed a Letter of Appeal dated November 8, 2004 stating that its interstate allocation factor was not in excess of the 0.85 percent cap. North State had used its 2001 unweighted interstate DEM factor in its interstate allocation factor. Per the letter, the values used to determine the interstate allocation factor were:

LSS Factor:	0.604778
2001 Unweighted Interstate DEM:	0.227690
Total - Interstate Allocation Factor:	0.832468

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USAC used the following values when it recalculated 2001 LSS true-up amounts:

LSS Factor:	0.604778
1996 Unweighted Interstate DEM:	**0.302389**
Total - Interstate Allocation Factor:	0.907167

When recalculations were performed, USAC capped the above interstate allocation factor at 0.85 percent rather than 0.907167. USAC used the 1996 unweighted interstate DEM amount rather than the 2001 unweighted interstate DEM amount as listed above and provided by North State in its Letter of Appeal.

Discussion:
From the inception of the LSS program, USAC's practice has been to use the 1996 unweighted interstate DEM factor in the interstate allocation factor calculations pursuant to Section 54.301(a)(3) of the FCC rules. The discrepancy between the 1996 unweighted interstate DEM used in USAC's 2001 LSS true-up calculation and the factor cited in North State's Letter of Appeal occurs because North State provided its 2001 unweighted interstate DEM rather than its 1996 unweighted interstate DEM.

USAC's practice of using the 1996 unweighted interstate DEM in the determination of the interstate allocation factor is driven by the data collected on the Office of Management and Budget (OMB) approved FCC Form LSSc (OMB Control No. 3060-0814). This FCC form only collects DEM data for 1996. Data line (060) collects the "1996 Interstate Unweighted Dial Equipment Minute (DEM) Factor used in 1996 Cost Study (n.nnnnnn)"[1]. Data Line (060) is the only approved data collection point for DEM on the FCC's LSSc Form. Other than the 1996 DEM Weighting Factor collected on data line (070) of the LSSc Form, no other information associated with any DEM data is collected.

When performing the recalculation of the 2001 LSS true-up amounts, USAC determined that North State's LSS factor and 1996 unweighted interstate DEM factor exceeded the 0.85 percent cap placed on the sum of these components. The sum of North State's LSS factor and 1996 unweighted interstate DEM factor using USAC's numbers was 0.907167, as detailed above. Since this amount exceeds 0.85 percent, the cap was implemented in accordance with Section 54.301(a)(3) of the FCC's rules. When USAC recalculated support for all carriers and applied the 0.85 percent cap in a manner consistent with the FCC rules, USAC determined that North State was overpaid LSS for 2001. Thus, USAC recovered the amount overpaid to North State in error.

[1] FCC Form LSSc, OMB Control No. 3060-0814.

Decision on Appeal: Denied.

USAC hereby denies North State's Appeal.

If you disagree with the USAC response to your Letter of Appeal, you may file an appeal with the FCC. Your appeal must be **POSTMARKED** within 60 days of the date of this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. If you are submitting your appeal via the United States Postal Service, you should direct the appeal to:

Federal Communications Commission
Office of the Secretary
445-12th Street, SW
Room TW-A325
Washington, DC 20554

Documents sent by Federal Express or any other express mail should use the following address:

Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, MD 20743
(8:00A.M. – 5:30 P.M. ET)

For hand-delivered or messenger-delivered items, please use the following address:

Federal Communications Commission
Office of the Secretary
236 Massachusetts Avenue, NE, Suite 110
Washington, DC 20002
(8:00A.M. – 7:00 P.M. ET)

For security purposes, hand-delivered or messenger-delivered documents will not be accepted if they are enclosed in the envelope. Any envelopes must be disposed of before entering the building. Hand deliveries must be held together with rubber bands or fasteners.

Appeals may also be submitted to the FCC electronically, either by the Electronic Comment Filing System (ECFS) or by fax. The FCC recommends filing with the ECFS to ensure timely filing. Instructions for using ECFS can be found on the ECFS page of the FCC web site. Appeals to the FCC filed by fax must be faxed to 202-418-0187. Electronic appeals will be considered filed on a business day if they are received at any time before 12:00 A.M. (midnight), Eastern Standard Time. Fax transmissions will be

considered filed on a business day if the complete transmission is received at any time before 12:00 A.M. EST.

Please be sure to reference CC Docket No. 96-45 on all communications with the FCC. The appeal transmission must also provide your company's name and study area code, plus necessary contact information including name, address, telephone number, fax number, and e-mail address of the person filing the appeal. Unless the appeal is filed using ECFS, please include a copy of the USAC letter being appealed.

Sincerely,

USAC
Universal Service Administrative Company

Attachment 8

GVNW

February 26, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

RE: Ex Parte Notice, CC Docket No. 96-45

Dear Ms. Salas:

On February 26, 1998, I visited with Mr. Steve Burnett from the Accounting and Audits Division of the Common Carrier Bureau. We discussed the attached list of issues related to the methodology surrounding the calculation of local switching support.

An original and one copy of this ex parte notice are being filed. Please include a copy of this notice in the public record of these proceedings.

Respectfully submitted,

Kenneth T. Burchett

Kenneth T. Burchett
Attachments - 1

cc:

Mr. Steve Burnett
Accounting and Audits Division
Federal Communications Commission
2000 L Street, NW - Room 257
Washington, DC 20036

I:\KTB\SALAS226.DOC

GVNW INC/MANAGEMENT
P.O. Box 230399 · Portland, Oregon 97281-0399 · 7125 S.W. Hampton · Portland, Oregon 97223 · (503) 624-7075 · Fax: (503) 624-7076

GVNW's Analysis of Switching Support Rules
Items needing clarification or correction

1. It appears that some data items are needed for the computation but are not included in the data submitted to the administrator per 54.301(b)

   A. Accumulated depreciation by primary plant account
      - Switching Reserve – Account 3100 Subaccount 2210
      - GSF Reserve – Account 3100 Subaccount 2110

   B. Depreciation & Amortization Expense by primary plant account
      - Switching Depreciation & Amortization – Account 6560 Subaccount 2210
      - GSF Depreciation & Amortization – Account 6560 Subaccount 2110

2. Items asked for but apparently not used in development of the Local Switching Support

   A. Access Expense – Account 6540
   B. Deferred Charges – Account 1439

3. It appears that 54.301(b) is requiring end of year investment data rather than average year data. It appears that the average is not determined until after all of the end of year amounts have been assigned to the local switching by way of the allocations developed in 54.301(c). Does this mean that the allocation factors that are developed in 54.301(c) are developed using the end of period investment collected in paragraph b?

4. The allocations to switching in 54.301(c) fail to assign any of the direct switching investment i.e. Account 2210 Category 3. This investment should be assigned 100% to switching.

5. The formulae for calculating the local switching revenue requirement appears to double count the depreciation by including it in 54.301(d)(2), but not excluding it from 54.301(d)(3). ***(Note: This was corrected in Errata)***

6. It is not clear if the Depreciation included in 54.301(d)(2) is only that portion related to account 6560 subaccount 2210, or if it also includes that portion of the 2110 subaccount of 6560 that has been allocated to local switching in 54.301(c).

7. Is it the intent to use the maximum statutory Federal Income Tax rate for computing the FIT associated with the Unseparated Local switching Return, or should a data item be added to request the effective FIT rate for each company.

8. There is no calculation of State Income Tax in the formulae. Is it the intent to include the SIT with the expenses in 54.301(d)(3). If this is the case, it would be helpful to change the wording to clearly say expense and taxes (excluding FIT) in 54.301(d)(3).

Local Switching Support

Company Data Input

1	Company Name	
2	NECA Study Area Code	
3	Study Year	1998
4	Effective FIT Rate	0.0000%

Local Switch Support Factor Inputs

5	1996 Weighted DEM	0.474360
6	1996 Unweighted DEM	0.158120
7	Study Year Unweighted DEM	0.158120
8	Study Year Access Lines	4332

Investment Inputs

	Description	Account(s)	Prior Year End Bal.	Study Year End. Bal.
9	TPIS	2001	12,709,960	14,240,946
10	Tele. Plant - PHFU	2002	0	0
11	Tele. Plant - CWIP	2003	0	0
12	Tele. Plant - Tel. Plant Adjustment	2005	0	0
13	GSF	2110	2,379,594	2,763,623
14	COE - Switching-Total	2210	1,467,167	1,554,716
15	COE- Switching, Cat. 3	2210, Cat. 3	1,379,992	1,467,541
16	COE - Operator	2220	0	0
17	COE - Transmission	2230	2,030,379	2,411,229
18	IOT	2310	0	0
19	C&WF	2410	6,261,883	6,727,891
20	Amort. Tang. Assets	2680	570,937	783,487
21	Intangibles	2690	0	0
22	RTB Stock	included in 1402	148,900	148,900
23	M&S	1220.1	47,330	50,000
24	Cash Working Capital	part 65.820(d)	30,539	30,939
25	Accum. Depr. - Total	3100	0	0
26	Accum. Depr. - GSF	3100.2110	1,259,156	1,397,590
27	Accum. Depr. - COE Switching	3100.2210	1,014,899	1,128,219
28	Accum. Amort - Tang.	3400	7,462	41,323
29	Accum. Amort - Intang.	3500	0	0
30	Accum. Amort - Other	3600	0	0
31	Net Def. Income Taxes	4100, 4340	0	0
32	Other Non-Current Assets	1410	0	0
33	Deferred Maint. and Retirements	1438	0	0
34	Deferred Charges	1439	0	0
35	Other Juris. Assets and Liab	1500, 4370	0	0
36	Customer Deposits	4040	29,346	30,000
37	Other Long Term Liabilities	4310	0	0

Expense & Tax Inputs

38	Net Support Expenses	6110	6,935	8,697
39	General Support Expenses	6120	162,049	211,170
40	COE Expense - Switching	6210	119,292	136,479
41	COE Expense - Operator	6220	0	0
42	COE Expense - Transmission	6230	57,482	57,541
43	IOT Expenses	6310	0	0
44	C&WF Expenses	6410	284,634	331,049
45	Oth. Prop., Plant, & Equip. Exp.	6510	0	0
46	Network Op. Expense	6530	136,004	177,135
47	Access Expenses	6540	0	18,549
48	Depr. and Amort. Exp. - Total	6560	0	0
49	Depr. and Amort. Exp. - GSF	6560.2110	168,759	216,651
50	Depr. and Amort. Exp. - COE Switching	6560.2210	109,096	113,321
51	Marketing Exp.	6610	94,909	142,455
52	Services Expense	6620	305,561	361,655
53	Corp. Oper. Expense - Executive	6710	189,667	202,020
54	Corp. Oper. Expense - Other	6720	535,706	613,511
55	Operating State and Local Taxes	7230	0	0
56	Operating Other Taxes	7240	68,466	75,466
57	FIT Credits	7210	0	0
58	Prov. for Def. Op. Income Taxes	7250	0	0
59	AFUDC	7340	0	0
60	Charitable Contr.	included in 7370	47,787	29,250
61	Interest and related items	7500	509,699	608,847

Local Switching Support
Factor Development

1998

Local Switching Support Factor (54.301(a)(2)-(3))

1	1996 Unweighted DEM	0.158120
2	Multiple For Additive to DEM	2
3	Preliminary Switch Support Factor	0.316240
	85% Test	
4	Preliminary Switch Support Factor	0.316240
5	Study Year Unwtd. DEM	0.158120
6	Total For Test	0.474360
7	Adjustment if over 85%	0.000000
8	Adjusted LSS Factor	**0.316240**

Allocation Factors

	Prior Year 1997	Study Year 1998
Factor 1 - COE Cat 3/(2210+2220+2230+2310+2410)	0.141401	0.137232
Factor 2 - COE Cat 3/Acct 2001	0.108576	0.103051
Factor 3 - COE Cat 3/Acct 2210	0.940583	0.943929
Factor 4 - COE Cat 3/Acct 2001 (Same as Factor 2)	0.108576	0.103051
Factor 5 - (COE Cat 3/COE)*(COE Exp./Big 3 Exp.)	0.128268	0.117712
Factor 6 - COE Cat 3/(2210+2220+2230)	0.394560	0.370036
Factor 7 - COE Cat 3 is 100% local switching	1.000000	1.000000

Local Switching Support
Allocations

1998

	Description	Account(s)	Alloc. Ref.	Prior Year End Bal.	Unsep Alloc. Factor	1997 Unsep. Local Switching	1998 Study Year End. Bal.	Unsep Alloc. Factor	1998 Unsep. Local Switching
Gross Investment									
1	Tele. Plant - Other	2002, 2003, 2005	2	0	0.108576	0	0	0.103051	0
2	GSF	2110	1	2,379,594	0.141401	336,477	2,763,623	0.137232	379,259
3	COE- Switching, Cat. 3	2210, Cat. 3	7	1,379,992	1.000000	1,379,992	1,467,541	1.000000	1,467,541
4	Amort. Tang. Assets	2680	1	570,937	0.141401	80,731	783,487	0.137232	107,520
5	Intangibles	2690	1	0	0.141401	0	0	0.137232	0
6	RTB Stock	included in 1402	2	148,900	0.108576	16,167	148,900	0.103051	15,344
7	M&S	1220.1	2	47,330	0.108576	5,139	50,000	0.103051	5,153
8	Cash Working Capital	part 65.820(d)	2	30,539	0.108576	3,316	30,939	0.103051	3,188
9	Other Non-Current Assets	1410	2	0	0.108576	0	0	0.103051	0
10	Deferred Maint. and Retirements	1438	2	0	0.108576	0	0	0.103051	0
11	Total Gross Investment Attributable To Cat 3					1,821,821			1,978,005
Reserves, Deferals & Customer Deposits									
12	Accum. Depr. - GSF	3100.2110	4	1,259,156	0.108576	136,714	1,397,590	0.103051	144,023
13	Accum. Depr. - COE Switching	3100.2210	3	1,014,899	0.940583	954,597	1,128,219	0.943929	1,064,958
14	Accum. Amort	3400, 3500, 3600	2	7,462	0.108576	810	41,323	0.103051	4,258
15	Net Def. Income Taxes	4100, 4340	2	0	0.108576	0	0	0.103051	0
16	Other Juris. Assets and Liab	1500, 4370	2	0	0.108576	0	0	0.103051	0
17	Customer Deposits	4040	2	29,346	0.108576	3,186	30,000	0.103051	3,092
18	Other Long Term Liabilities	4310	2	0	0.108576	0	0	0.103051	0
19	Total Reserves Deferals & Cust Dep.					1,095,307			1,216,331
20	**Net Investment**					726,515			761,674
Expense & Tax Inputs									
21	Net Support Expenses	6110	2	6,935	0.108576	753	8,697	0.103051	896
22	General Support Expenses	6120	1	162,049	0.141401	22,914	211,170	0.137232	28,979
23	COE Expense	6210, 6220, 6230	6	176,774	0.394560	69,748	194,020	0.370036	71,794
24	Oth. Prop., Plant, & Equip. Exp.	6510	2	0	0.108576	0	0	0.103051	0
25	Network Op. Expense	6530	2	136,004	0.108576	14,767	177,135	0.103051	18,254
26	Depr. and Amort. Exp. - GSF	6560.2110	4	168,759	0.108576	18,323	216,651	0.103051	22,326
27	Depr. and Amort. Exp. - COE Swi	6560.2210	3	109,096	0.940583	102,614	113,321	0.943929	106,967
28	Marketing Exp.	6610	2	94,909	0.108576	10,305	142,455	0.103051	14,680
29	Services Expense	6620	2	305,561	0.108576	33,176	361,655	0.103051	37,269
30	Corp. Oper. Expense	6710, 6720	5	725,373	0.128268	93,042	815,531	0.117712	95,997
31	Operating State and Local Taxes	7230	2	0	0.108576	0	0	0.103051	0
32	Operating Other Taxes	7240	2	68,466	0.108576	7,434	75,466	0.103051	7,777
33	Prov. for Def. Op. Income Taxes	7250	2	0	0.108576	0	0	0.103051	0
34	Charitable Contr.	included in 7370	2	47,787	0.108576	5,189	29,250	0.103051	3,014
35	Total Expenses					378,264			407,954
36	AFUDC	7340	2	0	0.108576	0	0	0.103051	0
37	Interest and related items	7500	2	509,699	0.108576	55,341	608,847	0.103051	62,742
38	FIT Credits	7210	2	0	0.108576	0	0	0.103051	0

Local Switching Support
Calculation of Support

1998

Calculation of Unseparated Local Switching Revenue Requirement (54.301(d))

	Ending Prior Year 1997	Ending Study Year 1998	1998 Study Year Average
Step 1 (Part 54.301(d)(1))			
1 Gross Investment in Local Switching	$1,821,821	$1,978,005	
2 Reserves, Deferral & Cust. Deposits	$1,095,307	$1,216,331	
3 COE Cat 3 Net Investment	$726,515	$761,674	$744,094
4 Authorized Rate of Return			11.25%
5 Return Component			$83,711
Step 2 (Part 54.301(d)(2))			
1 COE Cat 3 Depr. (Incl. both 2110 & 2210 Related Depr.)			$129,293
Step 3 (Part 54.301(d)(3))			
1 Expenses			$278,661
Step 4 (Part 54.301(d)(4))			
1 Return on Investment			$83,711
2 Account 7340		$0	
3 Account 7500		$62,742	
4 Account 7210		$0	
5 Total Reductions			$62,742
6 Tax Base			$20,968
7 Federal Income Tax Rate		0.00%	
8 FIT Gross Up Rate (1-Fed. Inc. Tax Rate)			0.00%
9 Federal Income Tax			$0
Local Switching Revenue Requirement (Sum of Steps 1 through 4)			$491,665

Calculation of Swithing Support (54.301(a)(1))

1 Local Switching Revenue Requirement	$491,665
2 Local Switching Support Factor	0.316240
3 Local Switching Support	**$155,484**