

Advocates for Regulatory Action  
Ex Parte Presentation in WCD No. 05-337 and CCD No. 96-45  
September 18, 2007

***ADVOCATES FOR REGULATORY ACTION***

September 18, 2007

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Room TW-A325  
Washington, D.C. 20554

Dear Ms. Dortch: [VIA ECFS]

**RE: Ex parte filing in WC Docket No. 05-337 and CC Docket No. 96-45**

On September 18, Jeffrey Smith from GVNW Consulting and Michael Fox from RT Communications conducted an ex parte meeting with John Hunter and Olayemi Oladapo, Law Clerk of Commissioner McDowell's office.

The purpose of this meeting was to review the proposal to replace the identical support rule with Wireless Carrier Actual Cost (WiCAC). This WiCAC proposal is intended to provide an auditable and administratively workable solution to the vexing problem of wireless CETCs receiving support based on another carrier's costs. The WiCAC proposal is geared to provide an identical **basis** of support related to the High-Cost Loop fund.

If there are any questions, please call me on 503.612.4409.

Sincerely,

[s/JHS filed via ECFS]

Jeffrey H. Smith

Attachment – WiCAC algorithm

Copy to State Joint Board Commissioner Ray Baum, Oregon PUC  
Michael Fox, RT Communications

**A PROPOSAL TO CALCULATE WIRELESS CARRIER USE COSTS  
TABLE OF CONTENTS**

<i>Executive Summary</i>	3
INTRODUCTION	4
AN OVERVIEW OF THE WiCAC PROPOSAL	5
The current HCF algorithm has been adapted to wireless architecture	
THE IDENTICAL SUPPORT RULE SHOULD BE RESCINDED	6
A large number of parties support this type of change	
A CETC USE PLAN SHOULD BE AUDITABLE	7
A CETC USE PLAN SHOULD BE ADMINISTRATIVELY WORKABLE	8
The recommended timeline for the Joint Board and Commission meets the target date established by the Joint Board	
RECOMMENDED REVISIONS TO FCC RULES AND REGULATIONS	9
Changes to Part 32	9
Changes to Part 54	16

***Executive Summary***

The purpose of this ex parte proposal is to replace the identical support rule with Wireless Carrier Actual Cost (WiCAC). This WiCAC proposal is intended to provide an auditable and administratively workable solution to the vexing problem of wireless CETCs receiving support based on another carrier's costs. The WiCAC proposal is targeted to provide an identical basis of support related to the High-Cost Loop fund.

Responding to concerns from wireless ETCs that the Part 32 system of accounts is too difficult to implement, the WiCAC proposal limits accounting required to 23 Part 32 accounts: 12 investment and reserve accounts and 11 operating expense and tax accounts. The numbering system that is used draws in part from the prior Part 31 account nomenclature in order to distinguish CETC accounts from ETC accounts.

In virtually every other context, including presentations made in order to ensure they received ETC status, wireless carriers assert that they are staffed by capable and talented individuals. We believe that such individuals are capable of mapping to twenty-three (23) accounts and posting the account balances to an algorithm data request that is transmitted to the fund Administrator.

This ex parte includes both recommended Part 32 and Part 54 rule changes and a copy of the algorithm that is used to calculate WiCAC. In the recommended Part 32 rules, the account descriptions include notations as to what line number of the WiCAC input is the proper destination for the mapped accounting amounts.

## INTRODUCTION

The purpose of this ex parte is to respond to the September 6, 2007 statement of the Federal-State Joint Board on Universal Service (Joint Board) that future support mechanisms will be guided on principles that include cost control and accountability. The Joint Board had earlier requested specific comments on their recent recommendation that the Commission impose an interim, emergency cap<sup>1</sup> on the amount of high-cost support that competitive eligible telecommunications carriers may receive. The recent rapid rise in CETC support has demonstrated that the USF is a scarce national resource that should be monitored in order to meet the public interest.

One of the objections of wireless carriers is that to impose the complexity of Part 32 accounting would be “overly burdensome” and unfair.<sup>2</sup> In virtually every other context, including presentations made in order to ensure they received ETC status, wireless carriers assert that they are staffed by capable and talented individuals. We believe that such individuals are capable of mapping to twenty-three (23) accounts and posting the account balances to an algorithm data request that is transmitted to the fund Administrator.

---

<sup>1</sup> Due to the nature of the current USF dilemma, the recommendation offered by the Joint Board is intended to be a short-term solution while a balanced longer-term solution is crafted. This WiCAC proposal is geared to offer a framework for an intermediate term solution after the short-term solution period has expired.

<sup>2</sup> Comments in CCD No. 96-45 and WCD No. 05-337, May 31, 2007, see for example Alltel, page 20; Sprint Nextel, pages 10-13. See also CTIA at page 9, where CTIA erroneously asserts that there would be “indeterminable new reporting requirements”, which does not comport with a request to isolate data in 23 accounts. See also Sprint Nextel at page 11. Sprint opines that “it is unclear how certain wireless-specific costs – spectrum acquisition costs, roaming fees, interconnection charges, and handset subsidies, to name only a few – would be categorized..” This is a red herring. WiCAC has captured spectrum acquisition costs in the algorithm, and all carriers experience interconnection charges. Handset subsidies have never been recovered from a high-cost loop support fund. Such arguments from Sprint characterize the modus operandi of some wireless carriers – avoidance of accountability.

## **AN OVERVIEW OF THE WiCAC PROPOSAL**

The following proposal provides the Joint Board and Commission with an equitable approach to replace the current identical support rule with an “identical basis” approach for the high-cost loop fund that is known as the Wireless Carrier Actual Cost (WiCAC). In simplest terms, this WiCAC proposal replicates the current wireline HCF algorithm in a manner that recognizes the differences between wireline and wireless architecture. For example, the proposed 23 accounts in a new 32.8000 are based on the investments a wireless carrier must make (e.g., towers, spectrum acquisition). Several modifications are proposed to Part 54 to enable cost-based wireless carrier support. Based on the results of the WiCAC algorithm, wireless CETCs could then be compared against the current National Average Cost per Loop (NACPL) to determine support eligibility, or used in a separate mobility funding mechanism.

### The current HCF algorithm has been adapted to wireless architecture

Responding to concerns from wireless ETCs that the Part 32 system of accounts is too difficult to implement, the WiCAC proposal limits accounting required to 23 Part 32 accounts: 12 investment and reserve accounts and 11 operating expense and tax accounts. The numbering system that is recommended draws in part from the prior Part 31 account nomenclature in order to distinguish CETC accounts from ETC accounts.

This ex parte includes both recommended Part 32 and Part 54 rule changes and a copy of the algorithm that is used to calculate WiCAC. In the recommended Part 32 rules, the account descriptions include notations as to what line number of the WiCAC input is the proper destination for the mapped accounting amounts. This should expedite the data request responses noted on page 8.

## **THE IDENTICAL SUPPORT RULE SHOULD BE RESCINDED**

For the past several years, at least two FCC Commissioners<sup>3</sup> have questioned the public policy foundation<sup>4</sup> of the identical support rule. Treating carriers that do not have an obligation to serve all customers similar to those that do have that costly obligation has contributed significantly to the current USF problems. In its September 6, 2007 statement, the Federal-State Joint Board indicated that the equal support rule will not be a part of future support mechanisms.

### A large number of parties support this type of change

There are a large number of commenters that have expressed a broad base of support for the Joint Board recommendation of an interim cap on CETC support and with the concept of eliminating the identical support rule.

This broad base of support includes Public Utility Commissions including urban states (Ohio); consumer groups (NASUCA); large (Verizon and Verizon Wireless), medium (TDS) and small (GVNW Consulting filing) carriers; state associations (Alaska Telephone Association) and national associations including the NTCA, WTA and OPASTCO. The Commission has sufficient support to adopt the Joint Board recommendation based on the evidence in the public record.

---

<sup>3</sup> On March 1, 2007, Commissioner Copps testified before the Senate Commerce Committee on the topic of USF reform. In recommending that the identical support rule be eliminated, he stated in part: “...*the time has come to put an end to the irrational and costly system of supporting wireless carriers based on the cost of wireline incumbents.*”

<sup>4</sup> At a 2004 OPASTCO meeting, Commissioner Adelstein addressed USF issues in the following manner: “*A large number of CETCs are wireless carriers. Wireline and wireless carriers provide different types of services and operate under different rules and regulations. Their cost structures are not the same. To allow a wireless CETC to receive the same amount of funding as the wireline carrier, without any reference to their cost structures, is artificial.*”

## **A CETC USF PLAN SHOULD BE AUDITABLE**

A large number of CETCs are wireless carriers. Wireline and wireless carriers provide different types of services and operate under different rules and regulations. In the approximately 800 study areas where wireless carriers receive USF support, carriers not receiving support provide substantially more wireless coverage. So, despite collecting over \$637 million in subsidies in 2006 for providing service in the lower 48 U.S. states, wireless CETCs provide little incremental coverage<sup>5</sup>. In addition, contrary to the claims of wireless carriers, when holding constant key factors that affect availability of wireless service, there is no statistical correlation between the amount of USF support paid and the proportion of the population or land area that has wireless coverage.

Objections on the part of wireless carriers that they would be unable to capture data for less than two dozen accounts appear to be disingenuous. It is hard to believe that these carriers do not have some level of budgeting<sup>6</sup> against which to measure their progress. One of the benefits<sup>7</sup> of moving wireless carriers to the WiCAC for HCL support is that a cost-based approach to high-cost funding would establish “a modicum<sup>8</sup> of competitive neutrality in the high-cost system” for ETCs and CETCs. Another benefit is that it could ameliorate the misreporting on lines by CETCs.<sup>9</sup>

---

<sup>5</sup> Nicholas Vantzelfde, *The Availability of Unsubsidized Wireless and Wireline Competition in Areas Receiving Universal Service Funds*, Criterion Economics (June 2007), page 1.

<sup>6</sup> We anticipate that if the Federal Communications Commission informed Congress that they had spent their budget monies, but could not account for it properly within 23 accounts, that Congress would be less than sanguine with such an assertion.

<sup>7</sup> We also support reexamining the portability of support for access replacement mechanisms.

<sup>8</sup> WCD No. 05-337, Reply comments of OPASTCO, July 2, 2007, pages 13-14. OPASTCO further states: “If competitive ETCs do not want to provide and support their costs and be held accountable for the use of publicly provided funds – just as rural ILECs are – they can choose not to seek ETC designation.”

<sup>9</sup> WCD No. 05-337 and CCD No. 96-45, Comments of GVNW Consulting, May 31, 2007, page 13: “The record to date contains anecdotal evidence that some lines appear to be reported based on the level of

## **A CETC USF PLAN SHOULD BE ADMINISTRATIVELY WORKABLE**

Most parties agree that the Joint Board and Commission should move with considerable purpose to develop balanced long-term solutions to the universal service conundrum. Several of the proposals currently in the record, such as reverse auctions, could easily require considerable time to develop and implement<sup>10</sup>.

As noted below, the WiCAC proposal would be able to be implemented within the recommended timeframe that the Joint Board has suggested for implementation of long-term solution sets.

### Recommended Timeline For Joint Board Staff and Commission meets the target date established by the Joint Board

While we anticipate that wireless ETCs will issue a new set of reasons as to why they should not be required to provide justification for their over \$1,000,000,000 draw of USF support, we recommend that the Joint Board staff issue a data request to each wireless CETC that is currently receiving USF support to initiate this process. The following task timeline would permit a timely implementation of the WiCAC concept.

Data request issued to wireless CETCs	Day zero
Data responses due to Joint Board	Day 60
Joint Board staff review data and audit results as needed	Day 150
Develop final WiCAC recommendation and rules	Day 180
FCC comment cycle	Day 240
Final FCC Order on WiCAC	Day 270

---

support potentially available to that carrier, as opposed to where the customer resides or maintains an address of record.”

<sup>10</sup> Reverse auction implementation tasks include, but are not limited to: defining discrete areas to auction, determining what type of package bids are acceptable, establishing auction reserves, establishing safeguards in the case that bidders fail to serve customers, etc.

**RECOMMENDED CHANGES TO FCC RULES AND REGULATIONS:**

**Changes to Part 32**

A new Subpart G begins at 32.8000.  
The prior Subpart G Glossary is now Subpart H.

**32.8000 Accounting Rules for Wireless Carriers**

The following accounts shall be used by wireless eligible telecommunications carriers for use in populating the inputs as referenced at 54.1000-1904 (Wireless Carrier Actual Cost – WiCAC).

**INVESTMENT AND RESERVE ACCOUNTS**

**32.8100 Telecommunications Plant in Service**

(a) This account shall include all amounts, utilized by carriers subject to this section, related to allowable telecommunications plant in service.

(b) If the applicable regulatory authority has placed build-out requirements on the wireless CETC, any amounts not yet placed into service by the carrier as of the target date will be imputed as if placed in service for purposes of 54.1000.

(c) This amount shall be input on line 160 of the WiCAC algorithm.

**32.8122 Materials and Supplies**

(a) This account shall include amounts related to the cost of material and supplies held in stock including plant supplies, motor vehicles supplies, tools, fuels, other supplies and material and articles of the company in process of manufacture for supply stock.

(b) This amount shall be input on line 170 of the WiCAC algorithm.

**32.8171 Accumulated Depreciation**

(a) This account shall include the accumulated depreciation associated with the investment contained in Account 8100, Telecommunications Plant in Service.

(b) This amount in total shall be input on line 190 of the WiCAC algorithm.

(c) This account shall include detailed sub accounts so as to permit the following input for the WiCAC algorithm (noted parenthetically below are the WiCAC input line numbers):

General Support (no input)  
Wireless Switching (line 260)  
Operator System Equipment (line 265)  
Wireless Transmission (line 270)  
Hand Sets (no input)  
Spectrum Acquisition\* (line 280)  
All other (no input)

\* For the Spectrum Acquisition reserve, a true-up accounting entry for WiCAC purposes equivalent to the amount that the carrier has previously amortized the spectrum is required. If the carrier has adopted Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets, amortization of the wireless license may have ceased as of a certain date if a determination was made that they are indefinite lived intangible assets. If this is the case, no additional amortization is required for WiCAC.

32.8172      Accumulated Amortizable Depreciation

(a) This account shall include amounts of accumulated amortization related to capital leases and leasehold improvements.

(b) This amount shall be input on line 195 of the WiCAC algorithm.

32.8176      Net Noncurrent Deferred Operating Income Taxes

(a) This account shall include the balance of income tax expense related to non-current items from regulated operations which have been deferred to later periods as a result of comprehensive interperiod tax allocation related to temporary differences that arise from regulated operations.

(b) This amount shall be input on line 210 of the WiCAC algorithm. (Note: A credit balance is input as a positive amount and a debit balance is input as negative.)

(c) This account shall include detailed sub accounts so as to permit the following input for the WiCAC algorithm (noted parenthetically below are the WiCAC input line numbers):

Wireless Switching (line 310)  
Operator System Equipment (line 315)  
Wireless Transmission (line 320)  
Spectrum Acquisition (line 330)  
All other (no input)

32.8212 General Support Assets

(a) This account shall include amounts in land, motor vehicles, aircraft, tools and other work equipment, buildings, furniture, office equipment, and general purpose computers.

32.8221 Wireless Equipment – Switching

(a) This account shall include amounts in switching (e.g., MTSO) investment.

(b) This amount shall be input on line 230 of the WiCAC algorithm.

32.8222 Wireless Equipment – Operator

(a) This account shall include amounts in operator systems investment.

(b) This amount shall be input on line 235 of the WiCAC algorithm.

32.8223 Wireless Equipment – Transmission and Towers

(a) This account shall include amounts related to cell site towers.

(b) This account shall include amounts used for the amplification, modulation, regeneration, balancing or control of signaling transmitted between towers and switching points (e.g., for rural wireless carriers, this would include backhaul equipment costs).

(c) This amount shall be input on line 240 of the WiCAC algorithm.

32.8231 Hand Set Costs

(a) This account shall include amounts related to the cost of customer handsets, including subsidies.

(b) No amounts from 32.8231 are to be included into the WiCAC calculation.

32.8242 Spectrum Costs

(a) This account shall include amounts related to spectrum acquisition, maintained by vintage.

(b) This amount shall be input on line 255 of the WiCAC algorithm.

32.8268 Amortizable Tangible Assets

(a) This account shall include amounts related to property acquired under capital leases and the original cost of leasehold improvements. (WiCAC line 800)

(b) This account shall include detailed sub accounts so as to permit the following input for the WiCAC algorithm (noted parenthetically below are the WiCAC input line numbers):

Wireless Transmission (line 805)  
All other (no input)

## OPERATING EXPENSE AND TAX ACCOUNTS

WiCAC algorithm (54.1000) input line numbers are shown parenthetically in order to assist wireless carriers with their USF reporting obligations.

### 32.8601 Network Support expenses

(a) This account shall include amounts related to plant specific (e.g., maintenance) expenses for items related to motor vehicles, aircraft, and tools and other work equipment. (WiCAC input line number 335).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 340) and rents (WiCAC input line number 345).

(c) Credits shall be made to this account for amounts transferred to Construction and/or other expense accounts. These amounts shall be computed on the basis of direct labor hours.

### 32.8602 General Support expenses

(a) This account shall include amounts related to plant specific (e.g., maintenance) expenses for items related to land and buildings, furniture and artworks, office equipment, and general purpose computers. (WiCAC input line number 350).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 355) and rents (WiCAC input line number 360).

(c) Credits shall be made to this account for amounts transferred to Construction and/or other expense accounts. These amounts shall be computed on the basis of direct labor hours.

32.8604 Wireless Switching expenses

(a) This account shall include amounts related to plant specific (e.g., maintenance) expenses related to wireless switching investment. (WiCAC input line number 365).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 370) and rents (WiCAC input line number 375).

(c) Credits shall be made to this account for amounts transferred to Construction and/or other expense accounts. These amounts shall be computed on the basis of direct labor hours.

32.8605 Operator expenses

(a) This account shall include amounts related to plant specific (e.g., maintenance) expenses related to wireless operator investment. (WiCAC input line number 380).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 385) and rents (WiCAC input line number 390).

(c) Credits shall be made to this account for amounts transferred to Construction and/or other expense accounts. These amounts shall be computed on the basis of direct labor hours.

32.8606 Wireless Transmission expenses

(a) This account shall include amounts related to plant specific (e.g., maintenance) expenses related to wireless transmission investment. (WiCAC input line number 395).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 400) and rents (WiCAC input line number 405).

(c) Credits shall be made to this account for amounts transferred to Construction and/or other expense accounts. These amounts shall be computed on the basis of direct labor hours.

32.8610 Wireless Spectrum expenses

(a) This account shall include amounts related to plant specific (e.g., maintenance) expenses related to wireless spectrum investment. (WiCAC input line number 430).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 435) and rents (WiCAC input line number 440).

(c) Credits shall be made to this account for amounts transferred to Construction and/or other expense accounts. These amounts shall be computed on the basis of direct labor hours.

32.8611 Network operations expenses

(a) This account shall include amounts related to plant specific (e.g., maintenance) expenses for items related to power, network administration, testing, plant operations administration, and engineering. (WiCAC input line number 450).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 455).

(c) Credits shall be made to this account for amounts transferred to Construction and/or other expense accounts. These amounts shall be computed on the basis of direct labor hours.

32.8608 Depreciation Expense

(a) This account shall include amounts related to the depreciation expense of capitalized costs included in Accounts 8122 through 8242, inclusive.

(b) This account shall include detailed sub accounts so as to permit the following input for the WiCAC algorithm (noted parenthetically below are the WiCAC input line numbers):

General Support (no input)  
Wireless Switching (line 510)  
Operator System Equipment (line 515)  
Wireless Transmission (line 520)  
Hand Sets (no input)  
Spectrum Acquisition (line 530)  
Other (no input)

(c) For input into the WiCAC algorithm for line 530, the depreciation rate to be applied to the spectrum acquisition account is no greater than 5% per annum. If the carrier has adopted Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets, amortization of the wireless license may have ceased as of a certain date if a determination was made that they are indefinite lived intangible assets. If this is the case, no additional amortization is permitted for WiCAC.

32.8665          General administrative expenses

(a) This account shall include amounts related to: providing accounting and financial services; maintaining relations with government, regulators, other companies and the general public; performing personnel administration activities; planning and maintaining application systems and databases for general purpose computers; providing legal services; procuring material and supplies, including office supplies; performing general administrative activities not directly charged to the user or detailed in this paragraph above. (WiCAC input line number 550).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 555).

32.8675          Executive and planning expenses

(a) This account shall include amounts related to: formulating corporate policy and in providing overall administration and management, including the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs; developing and evaluating long-term courses of action for the future operations of the company. (WiCAC input line number 535).

(b) This account shall provide sufficient detail so that the carrier may identify benefits (WiCAC input line number 540).

32.8720          Operating Taxes

(a) This account shall include amounts related to the amount of Federal income taxes booked in the current period; the amount of state and local income taxes booked in the current period; and all taxes, other than Federal, state and local income taxes and payroll related taxes, related to items such as property, gross receipts, and franchise and capital stock taxes. (WiCAC input line number 650).

(b) This account shall also reflect subsequent adjustments to amounts previously charged.

## Changes to Part 54

A new Subpart L begins at 54.1000.

Subpart L – Wireless Carrier Actual Cost (WiCAC) Mechanism for Wireless Carriers

### 54.1000 Support for Wireless ETCs

(a) Concurrent with the Commission order dated [month date, 2008] abolishing the identical support rule, wireless carriers are eligible to submit cost data that provides universal service support on an identical basis to that of wireline carriers. In order to be eligible for WiCAC support, wireless ETCs must submit data to the administrator by July 31 of each calendar year and submit a certification under oath from a company officer attesting that the cost information is true and accurate.

### 54.1100 Total Lines and Voice-only Lines for WiCAC algorithm

(a) Each wireless CETC shall compute its total lines in service as of December 31 of each year for input into the WiCAC USF algorithm. This amount is input on line 60 of the algorithm.

(b) Each wireless CETC shall compute its voice-only lines in service as of December 31 of each year for input into the WiCAC USF algorithm. This amount is input on line 70 of the algorithm.

### 54.1169 Wireless Carrier Actual Cost (WiCAC) Algorithm

In order to be eligible for loop support, each wireless CETC must complete by July 31 of each year the WiCAC data request.

### 54.1200 Wireless IntraMSA ratio

(a) This ratio is developed for the study area using the traffic (MOUs) that is both originated and terminated within the MSA to the total traffic within the study area. For study areas outside an MSA, the factor will be developed using the intrastudy area traffic compared to total traffic. This amount is the input for line 710 of the WiCAC algorithm.

(b) If the company does not have the capability of measuring the MOUs or chooses not to measure, a default ratio of 0.5 will be used at line 710 of the WiCAC algorithm.

54.1904 Carrier Certification

(a) Carriers that desire to receive support pursuant to this subpart shall file a certification with the Administrator and the Federal Communications Commission stating that all WiCAC support provided to such carrier will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Support provided pursuant to this subpart shall only be provided to the extent that the carrier has filed the requisite certification pursuant to this section.

***Terms added to Glossary:***

Total lines – A wireless carrier’s total lines are the total number of lines served as of December 31 (the end of each calendar year).

Voice-only Lines – A wireless carrier’s voice-only lines are the number of voice-only lines served as of December 31 (the end of each calendar year).

Wireless Carrier Actual Cost (WiCAC) - The replacement to the identical support rule that was rescinded by the Commission on [month, date, 2008] in WCD No.05-337 and CC Docket No. 96-45. (FCC 08-xxx)