1634 Eye Street NW, Suite 510
Washington, D.C. 20006

Jeffrey E. Dupree
Vice President
Government Relations
PH 202-682-2495
FX 202-682-0154
jdupree@neca.org

September 14, 2012

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Investigation of Certain 2012 Annual Access Tariffs*
WC Docket No. 12-233 and WCB/Pricing No. 12-09

Dear Ms. Dortch:

On September 13, 2012, NECA representatives, Jim Frame, Regina McNeil, Pat Chirico, Rick Askoff, Victor Glass, Jennifer Leonard, Joe Prinzivalli, Chuchu Kang, Stela Stefanova and the undersigned, met via conference call with Victoria Goldberg, Pam Arluk, Doug Slotten, Dick Kwiatkowski, and Don Sussman of the Wireline Competition Bureau regarding the above-referenced matter.

In the meeting we proposed to use an allocation method based on total Eligible Recovery amounts rather than interstate Base Period Revenue, which was the method suggested in the *Order Designating Issues for Investigation* (DA 12-1430, rel. August 31, 2012). The attachment was used in the discussion and describes the proposed methodology.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office.

Sincerely,

Attachment

cc: Victoria Goldberg
Pam Arluk
Doug Slotten
Dick Kwiatkowski
Don Sussman

In its Designation Order released on August 31, 2012, the Bureau determined that NECA's approach to projecting interstate received switched access revenue for each pooling LEC "appears to be inconsistent with the intent of the *USF/ICC Transformation Order."* The Bureau found that the Order contemplated a continuation of the pooling process for switched access services, and that the results of that process should be the basis for allocating projected 2012-13 switched access revenues.

The Designation Order suggests that it would be reasonable to allocate projected revenues in relation to each LEC's interstate Base Period Revenue divided by the projected pool Base Period Revenue, and invited parties to comment on this approach. The Designation further stated that if NECA finds the Bureau's pooling approach acceptable, it must file revised TRPs supporting each of its pooling members' calculation of Eligible Recovery using the method specified by the Bureau.

Consistent with the Bureau's findings NECA proposes to include with its Direct Case TRPs that reflect the continuation of pooling for switched access services. However, NECA would propose to use an allocation method based on total Eligible Recovery amounts rather than interstate Base Period Revenue. For pooling companies that have projected switched access revenue that exceeds their adjusted base period revenue requirement ("Negative Eligible Recovery"), NECA intends to propose to continue the pooling process by reallocating billed switched access revenues to pooling companies with positive Eligible Recovery. Specifically, NECA will distribute among all pooling carriers with positive total eligible recovery the 2012-13 excess switched access revenues from each LEC with negative total eligible recovery as long as that LEC has enough projected 2012-13 billed interstate revenue to offset or partially offset its own total negative eligible recovery amount. Using this approach NECA will eliminate most total Negative Eligible Recovery (including amounts which have resulted from the intrastate jurisdiction).

The allocation of the excess 2012-13 interstate switched access revenues to each pooling LEC with positive total Eligible Recovery will be done relative to the proportion of a LEC's Eligible Recovery to the pool's Eligible Recovery. NECA's approach ensures that the carriers with Negative Eligible Recovery do not retain more revenue than their adjusted base period revenue, and at the same time do not assess their end user customers an ARC rate. Allocating funds to avoid having negative Eligible Recovery companies assess an ARC eliminates the incentive for these companies to leave the pool, lower rates below the cap just enough to avoid assessing their customers ARC charges.

Pool estimates

	TY 2012-2013 Interstate Eligible Recovery	TY 2012-2013 Eligible Recovery	TY 2012 - 2013 Negative Eligible Recovery	TY 2012 - 2013 ARC Revenues	TY 2012 - 2013 CAF ICC
Amounts calculated using Annual Filing data	$ 199,022,562	$ 320,700,738	$ (5,493,529)	$ 21,032,401	$ 299,668,884
Amounts with adjusted TY interstate switched revenues	$ 199,022,562	$ 315,239,668	$ (32,459)	$ 21,026,517	$ 294,213,152
$ Difference	$ -	$ (5,461,070)	$ 5,461,070	$ (5,884)	$ (5,455,732)
% Difference	0%	-2%	-99%	0%	-2%

Notes:
1. All estimates reflect 6/18/2012 Annual Filing amounts excluding rate of return affiliates to price cap carriers that have since exited the NECA Traffic Sensitive Pool.

2. Negative total eligible recovery up to the amount of projected interstate access revenue for each study area with negative total eligible recovery is allocated to study areas with positive total eligible recovery relative to the proportion of each study area's total eligible recovery to the pool total eligible recovery.

Illustrative Examples of companies with negative total eligible recovery

Example 1 of company with negative total eligible recovery which has enough Interstate Revenue to offset its total negative ER

	TY interstate revenue	TY interstate Eligible Recovery	TY intrastate revenue	TY intrastate eligible recovery	TY Total eligible recovery
Prior to adjustment	100	-20	40	-10	-30
Adjustment	-30	30	0	0	30
After adjustment	70	10	40	-10	0

The $30 are used to increase 2012-13 interstate switched revenues of the LECs with positive total eligible recovery. The amount is spread among these carriers in proportion to their own total eligible recovery divided by the pool total eligible recovery.

Explanations:
Before the adjustment the company had a negative $30 in total ER.
On the interstate side it billed $100 and had a negative $20 interstate ER. On the intrastate side it had a negative $10 intrastate ER.

Since the company has $100 interstate billed revenues flowing through the pool, NECA can take $30 to be used to offset the negative $30 in total ER
After the adjustment, on the interstate side, instead of keeping the $100 billed interstate revenues, the company gives $30 to be allocated to pooling carriers with positive total eligible recovery so in effect the company is left with $70 interstate revenues, which leads to a positive $10 interstate Eligible Recovery and eliminates completely the $30 of negative eligible recovery.

Example 2 of company with negative total eligible recovery which does not have enough Interstate Revenue to offset the total negative ER

	TY interstate revenue	TY interstate Eligible Recovery	TY intrastate revenue	TY intrastate eligible recovery	TY Total eligible recovery
Prior to adjustment	100	20	600	-420	-400
Adjustment	-100	100	0	0	100
After adjustment	0	120	600	-420	-300

The $100 are used to increase 2012-13 interstate switched revenues of the LECs with positive total eligible recovery. The amount is spread among these carriers in proportion to their own total eligible recovery divided by the pool total eligible recovery.

NECA is not able to completely eliminate the negative total Eligible Recovery. The negative total ER is reduced up to each LEC's interstate billed revenue flowing through the NECA pool.

Explanations:
Before the adjustment the company had a negative $400 in total ER.
On the interstate side it billed $100 and had a positive $20 interstate ER.
On the intrastate side it had a negative $420 intrastate ER.
After the adjustment, on the interstate side, instead of keeping the $100 billed interstate revenues, it now gives $100 to be allocated to the pool
NECA will spread $100 to pool members with positive eligible recovery.