

**Small Company Coalition/Alexicon Telecommunications Consulting
FCC Ex Parte Meeting
September 18, 2012**

September 20, 2012

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

**Re: WC Docket No. 10-90 Connect America Fund;
GN Docket No. 09-51 A National Broadband Plan for Our Future;
WC Docket No. 07-135 Establishing Just and Reasonable Rates for Local Exchange Carriers;
WC Docket No. 05-337 High-Cost Universal Service Support;
CC Docket No. 01-92 Developing a Unified Intercarrier Compensation Regime;
CC Docket No. 96-45 Federal-State Joint Board on Universal Service;
WC Docket No. 03-109 Lifeline and Link-Up**

Dear Ms. Dortch,

On September 18, 2012, the Small Company Coalition (SCC) and Alexicon Telecommunications Consulting (Alexicon) presented an alternative model (Appendix A) to the Wireline Competition Bureau (WCB), which represents a predictable and equitable alternative of dispersing CAF and ICC funds compared to the Quantile Regression Analysis (QRA) model and other ICC reforms currently being used by the Federal Communications Commission. In attendance from the SCC were Jim Kail and Luke Kail. In attendance from Alexicon were Vince Wiemer, Rob Strait, and Doug Kitch. In attendance from the WCB were Julie Veach, Chief, WCB; Carol Matthey, Deputy Chief, WCB; Trent Harkrader, Chief, Telecommunications Access Policy Division; Amy Bender, Deputy Chief, Telecommunications Access Policy Division; Victoria Goldberg, Pricing Policy Division; and Greg Guice, Director, FCC Office of Legislative Affairs. The offices of Senator Casey, Congressman Critz, and Congressman Murphy were also present.

This *Notice of Ex Parte Presentation* is filed to document this meeting in accordance with the Commission's rules. The purpose of this meeting was to present and describe an alternative to

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the Commission's QRA benchmark model. The SCC/Alexicon alternative model and presentation outlines how certain aspects of the Commission's Universal Service Fund and Intercarrier Compensation reform proposals, and ultimately funding mechanism, would be more fairly and equitably distributed. In addition, the model includes a modified version of the current high cost loop USF algorithm, which the FCC retained as part of its CAF funding mechanism. Alexicon presented this alternative comprehensive plan, including the model, for Universal Service Fund and Intercarrier Compensation Reform.

During the meeting, Wireline Competition Bureau personnel asked several questions about the SCC's proposed plan. The purpose for this letter is to supplement the record to help address those questions and to provide the following overview for Universal Service Fund and Intercarrier Compensation Reform.

The SCC's Alternative for Universal Service Fund and Intercarrier Compensation Reform

Goals and Principles

The goals of the SCC plan are to: (1) modernize universal service fund and intercarrier compensation mechanisms; (2) create incentive-based USF for small RoR carriers to deploy broadband; (3) modernize USF rules to advance Internet protocol (IP) technology; (4) provide efficiency within the USF system; and (5) accomplish these goals in a manner consistent with current ratemaking and Universal Service Funding algorithms.

In order to comply with the principles set forth in Section 254 of the Telecommunications Act, Universal Service Funds must be sufficient to provide: (1) quality services at just, reasonable, and affordable rates; (2) access to advanced services; and (3) access in rural and high cost areas that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas. Furthermore, explicit funds should provide specific, predictable and sufficient support to preserve and advance universal service.

The Commission's current focus on advanced services, specifically broadband deployment, is necessary to carry out goals mandated by Congress in the National Broadband Plan. New support mechanisms must recognize and sufficiently provide for both traditionally-supported telecommunications services as well as advanced services. In order to address the Commission's long-term vision of ubiquitous broadband deployment, the SCC believes that the support algorithms must recognize the causes of the higher costs of deployment and support provision of broadband service in rural, high cost areas. The higher costs of broadband deployment in rural

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areas are a function of several factors, including population density, geographic location, the costs related to economies of limited scale and scope which result in higher costs for deploying broadband-capable loops; central office, field unit and customer premises electronics; as well as bandwidth access (often referred to as “middle mile cost”).

The SCC Plan – Summary

The SCC Plan for Universal Service Fund and Intercarrier Compensation Reform consists of two main parts:

The Broadband High Cost Loop Fund addresses a comprehensive solution solely for rate-of-return (RoR) carriers. The Fund provides support for the deployment of broadband services as well as current voice telephony services. Support is based on actual costs and calculated through a revised high cost loop algorithm. The Broadband High Cost Loop Fund would effectively replace the current High Cost Loop Fund for RoR carriers.

Intercarrier Compensation Reform would be accomplished on a variety of fronts: utilizing new/current FCC *Transformation Order* rules; utilizing current CFR Part 32, Part 36, and Part 69 rules; utilizing the current MAG shift adjustment; and utilizing the Broadband High Cost Loop Fund model to assist in funding new broadband deployment, while relieving pressure from current special access and broadband access rates via the ratemaking process. In working with the Commission, RoR carriers would modify the current MAG shift adjustment to move a predetermined amount of traffic sensitive switched access revenue requirement to the common line element. The common line costs are recovered through Interstate Common Line Support. A default rate for access traffic received without a compensation agreement would be established and applied uniformly in a technology neutral manner to wired, wireless, circuit-switched, and Voice over Internet Protocol (VoIP) traffic.

The Broadband High Cost Loop Fund

The current high cost loop USF algorithm has been an effective tool in providing universal service support to high cost loop areas. As the Commission itself has acknowledged, the current system has enabled many rural telecommunications providers to deploy broadband-capable networks. This is because the current algorithm supports one of the primary barriers to ubiquitous broadband deployment – loop costs. The SCC proposes that the current high cost loop algorithm be modified to support the central office and field unit circuit equipment as well as cable and wire facilities allocated to broadband services.

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Rural Carrier Broadband High Cost Loop Algorithm

The proposed funding mechanism is based on the same algorithm and is calculated on actual company costs. For rural carrier funding, the details of the proposed Broadband High Cost Loop Data Descriptions, Cost Company Broadband Loop Algorithm, National Average Broadband Cost Per Loop (NABCL) Algorithm, Expense Adjustment Algorithm, and the Broadband High Cost Loop Recovery Adjustment are attached as Appendix B.

In summary, the SCC proposes including the following accounts in the algorithm:

- Category 4.11 Wideband Exchange Line Circuit Equipment allocated to the Interstate jurisdiction as defined in 47 CFR § 36.126 (b) (1) (i).
- Category 4.22 Interexchange Circuit Equipment Used for Wideband Services including Satellite and Earth Station Equipment used for Wideband Service allocated to the Interstate jurisdiction as defined in 47 CFR § 36.126 (b) (2) (ii).
- Category 2 Wideband and Exchange Trunk Cable and Wire Facilities allocated to the Interstate jurisdiction as defined in 47 CFR § 36.152(a)(2) and 47 CFR § 36.155.

No revisions to Part 36 Separations Rules would be needed to accommodate the inclusion of these broadband accounts in the Broadband High Cost Loop Fund algorithm. In support of this position, the description and accounting of broadband circuit and cable & wire facility already required of cost settlement companies is described in the National Exchange Carrier Association's Cost Reporting Guideline Paper entitled *Separations Treatment of ADSL and SDSL Services* (revision released December 17, 2009).

The proposed algorithm computes the gross allocators that attribute expenses to the broadband category equipment in the same manner as Category 4.13 circuit equipment and Category 1 cable & wire facility. Total Broadband Unseparated Costs equals the sum of operating expenses, depreciation, operating taxes, and return on investment attributed to Categories 1 and 2 cable & wire facility and Categories 4.11, 4.13, and 4.22 circuit equipment. Study Area Broadband Cost per Loop (SABCL) is calculated as the Broadband Unseparated Costs divided by Study Area Total Loops.

The National Average Broadband Cost per Loop (NABCL) would be calculated as total Nationwide Broadband Unseparated Costs divided by Nationwide USF Loops. The Expense Adjustment Algorithm would maintain the current 65% / 75% recovery thresholds for study areas reporting fewer than 200,000 access lines.

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The Broadband High Cost Loop Recovery Adjustment

The SCC recognizes that the proposed broadband equipment categories are currently recovered through interstate special access charges. Consequently, an adjustment to the calculation of special access charges is needed to avoid excessive cost recovery. The proposed Broadband High Cost Loop Fund algorithm would allow the identification of the exact amount of support attributed to the broadband equipment categories. This amount can be reduced from the interstate special access element revenue requirement and added to the other element revenue requirement in a manner similar to the way line port costs are shifted in the MAG adjustment. The proposed adjustment would result in decreased rates for broadband services charged to consumers by reducing the subject revenue requirement.

Benefits of the Proposed Broadband High Cost Loop Fund

The SCC's proposed Broadband High Cost Loop Fund has several advantages. First, it would leverage an existing, proven algorithm. Second, it would provide incentives for broadband deployment by supporting the causes of higher costs for broadband deployment. Third, it also would directly reduce the cost of service to consumers through the broadband recovery adjustment. Fourth, it would provide a specific and predictable funding mechanism.

Alexicon has already developed a fully operational model capable of calculating the Study Area Broadband Cost per Loop (SABCL) of every rural RoR cost company in the nation. The model calculates Broadband High Cost Loop Support per Study Area based on the proposed data descriptions and algorithms. The model has the capability to calculate a revised National Average Broadband Cost per Loop (NABCL) in order to account for support with a capped fund.

Removal of Artificial Mechanisms from the Fund Calculations

The SCC also notes the need to remove artificial mechanisms from the calculations of support. These artificial mechanisms have inevitably led to consequences contrary to universal service goals. For example, identical support for CETCs has resulted in support funds provided to carriers without proof of those carriers' need for support in order to provide service at affordable rates. No carrier should be allowed to receive high cost support without a demonstration that it actually incurs high costs in order to provide service. This is one of the main reasons the SCC is adamant that cost-based algorithms are necessary for the efficient and effective calculation of high cost support as opposed to proxy or model-based mechanisms. Identical support for CETCs has significantly increased the demand for universal service support.

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Intercarrier Compensation Reform

The Intercarrier Compensation System

ICC is a system of payments between carriers to compensate each other for the origination, transport and termination of telecommunications traffic. For RoR carriers, ICC recovers the cost of the network used to perform these functions. There are two forms of intercarrier compensation: (1) access rates, a uniform mechanism to recover the cost of providing access services needed to originate or terminate interstate and foreign telecommunications, were established following the AT&T divestiture in 1984; and (2) reciprocal compensation, which is applied to the transport and termination of telecommunications within the same local calling area, was established in the 1996 Telecommunications Act.

There are several factors that complicate ICC. Rate application depends on call jurisdiction (interstate, intrastate, local); the type of carriers involved (ILECs, CLECs, IXCs, CMRS, VoIP); and the type of traffic (wireline voice, wireless voice, ISP-bound, data).

Problems with the ICC System

The *USF and ICC Transformation Order* notes the following fundamental problems with the intercarrier compensation system:

- The per-minute structure is outdated;
- Rates vary for different types of providers or origination location despite same function performed (and facilities used);
- Above cost rate structure creates incentives to retain old technologies and engage in regulatory arbitrage;
- Technological changes result in declining compensable minutes.

The SCC notes the following additional problems for RoR carriers:

- Compensation agreements are designed for direct interconnection situations and most RoR companies are indirectly connected with IXC, VoIP, CLECS, and CMRS carriers
- Indirect business relationships create compensation issues
- Vast balance of traffic differences for small carriers
- Separations rules create disparate Interstate/Intrastate rates for RoR carriers

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Intercarrier Compensation Reform Goals and Principles

ICC reforms should reflect the fundamental shifts in technology, consumer behavior, and competition; create proper incentives for carriers to invest in broadband technologies; and eliminate regulatory arbitrage opportunities that lead to phantom traffic and improper access stimulation.

The SCC believes the following principles should apply to ICC reform:

- Reforms must be technology-neutral and jurisdictionally consistent to create a level field for competition and regulation. A unified rate should apply to all carriers (ILEC, CLEC, CMRS, VoIP) and all jurisdictions (interstate, intrastate, local) to eliminate regulatory arbitrage opportunities.
- Rules must be flexible to account for continually changing technologies; they should be consistent with the transition to an all-IP network.
- Explicit support mechanisms are needed to maintain affordable service in high-cost, insular, and Tribal areas.
- The distribution channel for voice and broadband should be paid for by the cost causers/beneficiaries.
- Bill-and-Keep is not appropriate because most carrier relationships have uneven balances of traffic originated/terminated. However, the SCC recognizes that an “end game” reasonable access rate is fair, and also reiterates that the proposed model incorporates methodology to address this issue

The SCC's ICC Reform Proposal – Rate of Return Carriers

Interstate Common Line Support (ICLS) helps to offset interstate access charges and is designed to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its subscriber line charges remain affordable to its customers. ICLS recognizes that a portion of the common line is used for interstate purposes. Because the Commission is including broadband as an advanced universal service and declaring its authority over broadband as an interstate service, the interstate usage of the common line will increase in the future. Interstate Common Line Support (ICLS) is the obvious mechanism for recovery of other access rate amounts shifted due to Intercarrier Compensation Reform. The SCC recommends modifying the current MAG shift adjustment for RoR carriers to move a predetermined amount of traffic sensitive switched access revenue requirement to the common line element in order to meet the Commission's access rate goal. This will provide an explicit, predictable and sufficient support mechanism that preserves current universal service policies.

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Special access services can be offered on a tariffed or de-tariffed basis as they are currently. The transition to special access IP services is well underway and does not have the same per-minute measurement issues as switched access services.

Advantages to the SCC's Rate-of-Return ICC Reform Proposal

Moving a predetermined amount of traffic sensitive switched access revenue requirements to common line, coupled with a reasonable “end game” access rate, provides RoR carriers with a fair revenue stream in recognition of the value of their networks.

The SCC's proposal also properly focuses RoR ICC reform on cost recovery. It permits each RoR carrier to recover its common line and traffic sensitive switched access revenue requirements. This is consistent with the 1996 Act's dual goals of “moving toward cost-based rates and protecting universal service.”

The proposal is also technology neutral and forward-looking. It allows for a seamless transition to an all-IP network because the traffic measurement issues associated with IP-traffic would be eliminated. It would also remove disincentives to transition to IP networks.

Using ICLS for recovery would efficiently leverage an existing explicit support mechanism. The SCC's plan also does not require a transition period. It can also be quantified using NECA pooling data and company-specific tariff filings.

Fund Size

The SCC notes that the size of its proposed plan works within the constraints of the Commission's current funding levels.

Conclusion

The SCC Plan for Universal Service Fund and Intercarrier Compensation Reform provides a comprehensive solution to meet the Commission's goals to:

- Modernize universal service fund and intercarrier compensation mechanisms;
- Create proper incentives to deploy broadband;
- Modernize USF and ICC rules to advance IP technology;
- Provide efficiency within the USF system and Intercarrier Compensation regime;
- Enact reforms that reflect the fundamental shifts in technology, consumer behavior, and competition; and

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- Remove regulatory arbitrage opportunities that lead to phantom traffic and improper access stimulation.

The Plan efficiently leverages the successful parts of current programs. Substantial public resources have already been invested in rural networks, participation in the rule making proceeding, and related mechanisms. These investments should be leveraged for the public benefit whenever possible. Furthermore, our proposal works within the constraints of a capped fund. Utilizing the SCC's model, the Commission's goals of providing ubiquitous broadband deployment can be achieved by increasing predictability in funding and providing a nondiscriminatory and fair distribution mechanism to all recipients of future CAF and ICC funding.

Sincerely,

A handwritten signature in black ink, appearing to read 'Douglas K. Kitch', written in a cursive style.

Douglas K. Kitch, CPA, Principal
Alexicon Telecommunications Consulting



Universal Service Fund and Intercarrier Compensation Reform Plan

Presented by:
Alexicon Consulting



Introduction

- The Small Company Coalition (SCC) is an alliance of rural telecommunications companies formed to educate and empower small rural ILEC communications providers.
- The SCC, which is an initiative led by small company executives, strives to ensure that the voice of small companies is heard by those who have a genuine interest in providing advanced telecommunications services to our communities in rural America.

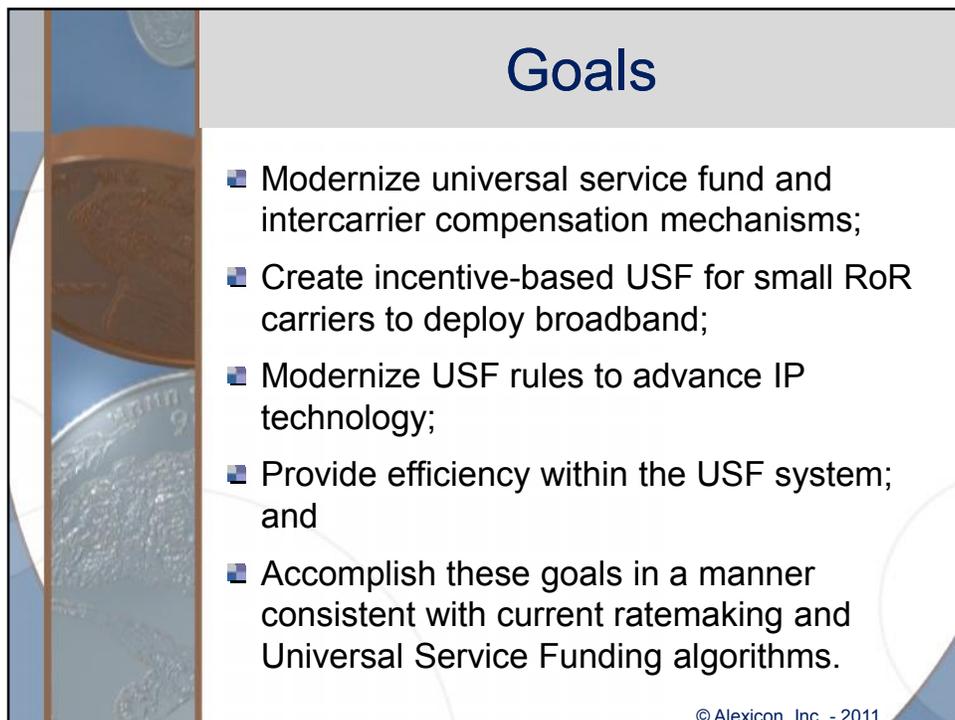
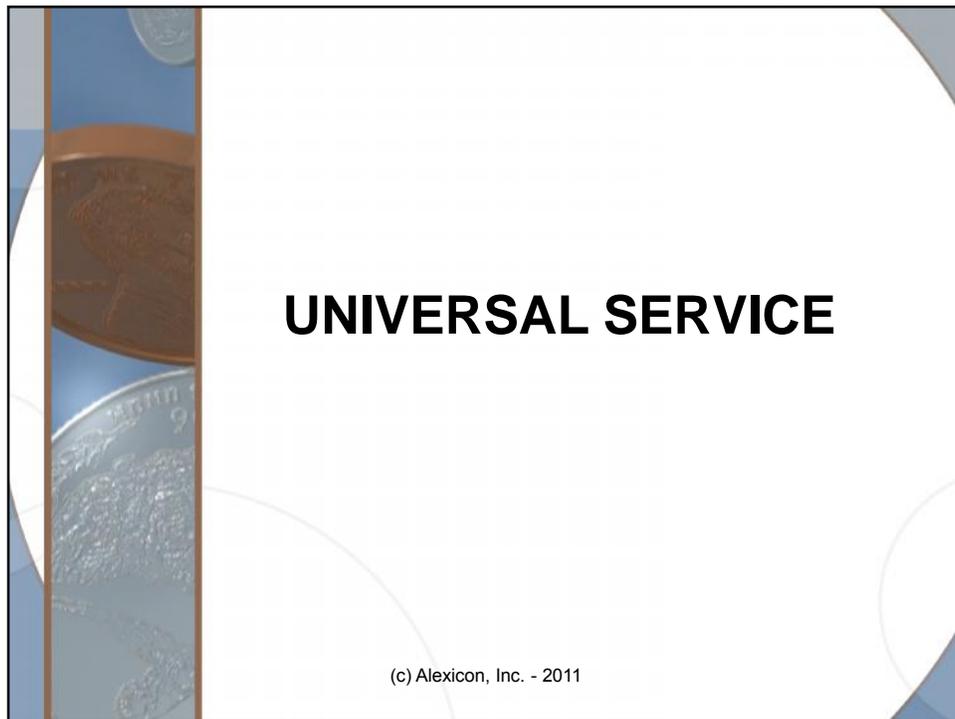
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Introduction

- Alexicon Telecommunications Consulting provides management consulting services to approximately two dozen independent local exchange carriers serving rural areas.
- Alexicon's clients include privately-owned, co-operatives, and tribal companies in eleven states and represent communities ranging from 250 to 40,000 access lines.
- Alexicon advises its clients on rate-of-return (RoR) regulation, universal service funding, intercarrier compensation, and interconnection issues among other services.

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SCC Plan for USF/ICC Reform

- **Guiding Principles:**
 - ▶ USF should support the causes of the higher cost of the deployment and provision of universal services – loop costs; central office and field equipment; and bandwidth access.
 - ▶ Explicit funds should provide specific, predictable and sufficient support to preserve and advance universal services.
- **Proposed Support:**
 - ▶ The Broadband High Cost Loop Fund
 - ▶ Interstate Common Line Support
 - ▶ Intercarrier Compensation Reform

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The Broadband High Cost Loop Fund

- Current HCL algorithm is driven by investment in Category 1 Exchange C&WF and Cat 4.13 Subscriber Circuit Equipment.
- ***Proposal:*** Include broadband equipment categories in a broadband-based high cost loop algorithm.
 - ▶ Category 4.11 Wideband Exchange Line Circuit Equipment allocated to the Interstate jurisdiction
 - ▶ Category 4.22 Interexchange Circuit Equipment Used for Wideband Services allocated to the Interstate jurisdiction
 - ▶ Category 2 Wideband and Exchange Trunk Cable and Wire Facilities allocated to the Interstate jurisdiction.

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The Broadband High Cost Loop Fund (continued)

- Current separations and record-keeping rules do not have to be modified.
 - ▶ Equipment Categories are defined in 47 CFR 36.126(b)(1)(i); 36.126(b)(2)(ii); 36.152(a)(2) and 36.155.
 - ▶ Required Continuing Property Records (CPRs) kept by carriers contain this data.
- Support for broadband equipment that is currently recovered via interstate special access rates is quantified and removed to avoid “double recovery”.

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SCC Broadband HCL Algorithm Development

- Reproduced the 2010 SACPL and HCL support calculation for every rate-of-return carrier in the U.S. using NECA’s national database and current algorithm.
- Revised the algorithm to include broadband equipment categories Cat 2 CWF, Cat 4.11 COE, and Cat 4.22 COE.
- Estimated broadband equipment category amounts for each company by applying data and category relationships from the 2010 NECA Tariff Review Plan.

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SCC Broadband HCL Algorithm Development (cont'd)

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
RATE OF RETURN
PROSPECTIVE COST ANALYSIS SUMMARY (\$000)

DATE: 11/17/11
EXHIBIT 2
Page: 3 of 8

| TIME PERIOD (FISCAL YEAR OR FISCAL QUARTER) | SWITCHED TRAFFIC SENSITIVE | | | | | | | | |
|---|----------------------------|-------------------|-----------|------------------|-------------------|------------------------|-------------------|----------------------------|----------------------|
| | LOCAL SWITCHING (M) | LOCAL ROUTING (M) | LOCAL (M) | INTERCARRIER (M) | INTRA-CARRIER (M) | LOCAL TRANSMISSION (M) | INTRA-CARRIER (M) | TOTAL SWITCHED TRAFFIC (M) | PERCENT OF TOTAL (M) |
| TELEPHONE PLANT IN SERVICE | | | | | | | | | |
| 310 Service Support | 171,517 | 0 | 0 | 0 | 3,269 | 21,427 | 14,393 | 240,706 | 222,809 |
| 320 Central Office Equipment - Switch | 1,125,921 | 0 | 0 | 0 | 23,985 | 0 | 0 | 1,150,107 | 0 |
| 321 Central Office Equipment - Switch | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 322 Local Switching | 0 | 0 | 0 | 0 | 23,985 | 0 | 0 | 23,985 | 0 |
| 323 Local Switching C&S | 1,125,921 | 0 | 0 | 0 | 0 | 0 | 0 | 1,125,921 | 0 |
| 324 Local Access | 2,490 | 0 | 0 | 0 | 0 | 0 | 0 | 2,490 | 0 |
| 330 Central Office Equipment - Trunks | 0 | 0 | 0 | 0 | 0 | 0 | 184,809 | 48,700 | 1,021,722 |
| 331 Interexchange Circuit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 332 Interexchange Circuit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 333 Interexchange Circuit | 0 | 0 | 0 | 0 | 0 | 0 | 154,026 | 0 | 184,809 |
| 334 High Rate | 0 | 0 | 0 | 0 | 0 | 0 | 43,700 | 43,700 | 0 |
| 340 Central Office | 0 | 0 | 0 | 0 | 0 | 0 | 128,818 | 14,111 | 211,857 |
| 341 Interexchange Line | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 342 Interexchange Circuit | 0 | 0 | 0 | 0 | 0 | 0 | 752 | 0 | 0 |
| 343 Interexchange Circuit | 0 | 0 | 0 | 0 | 0 | 0 | 170,144 | 0 | 170,144 |
| 344 High Rate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 350 1/4 Office Equipment | 4,927 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 360 Accessible Route | 1,304,285 | 0 | 0 | 0 | 27,261 | 428,055 | 114,148 | 1,874,656 | 1,943,910 |
| 370 Total Plant Service | | | | | | | | | |

| | TOTAL TPIS | Total Circuit | Total CWF | COE 4.11 - Wideband Exchange Line Circuit Equipment - Interstate | COE 4.22 - Interexchange Wideband Circuit - Interstate | CAT 2.00 AVG CWF - Interstate |
|----------------------------|-----------------------|-----------------------|-----------------------|--|--|-------------------------------|
| | DL160_ACCT_2001 | DL240_ACCT_2230 | DL255_ACCT_2410 | | | |
| SUM OF RURAL AREAS: | 68,002,152,353 | 14,975,354,692 | 37,098,078,868 | | | |
| NECATRIP DETAIL: | 24,951,283,000 | 4,977,202,000 | 14,066,458,000 | 689,130,000 | 16,967,000 | 369,755,000 |
| | 36.7% | 33.2% | 37.9% | 13.8457% | 0.3409% | 2.6286% |
| | | | | % of Total Circuit (DL240) | % of Total Circuit (DL240) | % of Total CWF (DL255) |

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SCC Broadband HCL Algorithm Calculation Notes

- The following current conditions are maintained in the calculation:
 - ▶ Corporate Operations Expense limitation calculation
 - ▶ 65% / 75% recovery thresholds for study areas reporting fewer than 200,000 access lines
- Support amounts attributed to broadband equipment will be removed from special access ratemaking for each carrier (the Broadband Recovery Adjustment) to avoid double recovery of costs.

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SCC-Alexicon Broadband HCL Algorithm Calculation Notes (continued)

Other mechanism notes

- ▶ Elimination of CETC Identical Support.
- ▶ Section 54.305 rule support limitations removed. investment
 - ✓ Acquired exchanges receive 100% support.
 - ✓ "Parent trap" rule is bad policy – the failure to provide financial incentive to deploy broadband is contrary to the FCC's stated goals
- ▶ Adjust the fixed Rural NACPL of \$240 to \$258 account for effect of added broadband investment
 - ✓ Our estimates show a 7.57% increase in HCL costs
 - ✓ The mechanism of adjusting the NACPL to accommodate a capped fund remains the same.

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| ALEXICON BROADBAND HCL MODEL - INDIVIDUAL COMPANY HCL CALCULATIONS | | | | | | | | | | | | | |
|--|-----------------------------------|-----------------------------------|---------------------------|---------------------------------|-----------------------------|------------------------|---------------------------------------|--|-----------------------------------|------------------------------------|-------------------------------------|---------------------------------------|---|
| BASED ON NECA 2010 USF DATA SUBMISSION | | | | | | | | | | | | | |
| - Cost Companies (USF2010LC10.xls) | | | | | | | | | | | | | |
| Line: | 1 | 1a | 2 | 2a | 3 | 3a | 4 | 4a | 5 | 5a | 6 | 6a | |
| Formula: | $(DL255 * (DL170/DL700)) + DL820$ | $(DL255 * (DL170/DL700)) + DL821$ | $DL250 + DL810$ | $DL285 + DL290 + DL811 + DL812$ | $AL1/(DL255 + DL815)$ | $AL1a/(DL255 + DL815)$ | $AL2/(DL230 + DL235 + DL240 + DL805)$ | $AL3a/(DL230 + DL235 + DL240 + DL805)$ | $AL1/DL160$ | $AL1a/DL160$ | $AL2/DL160$ | $AL2a/DL160$ | |
| SAC | SANAME | CFW & Leases deemed Cat 1 | CFW & Leases deemed Cat 2 | COE 4.13 incl Leases | COE 4.11 & 4.22 incl Leases | "A" Factor CWF - Cat 1 | "A2" Factor CWF - Cat 2 | "B" Factor COE - Cat 4.13 | "B2" Factor COE - Cat 4.13 & 4.22 | "C" Factor (CWF 3 Gross Allocator) | "C2" Factor (CWF 2 Gross Allocator) | "D" Factor (COE 4.13 Gross Allocator) | "D2" Factor (COE 4.11 & 4.22 Gross Allocator) |
| 100002 | OXFORD WEST TEL CO | 11,287,421 | 313,439 | 1,956,706 | 414,372 | 0.930997 | 0.026334 | 0.278900 | 0.061740 | 0.016102 | 0.099881 | 0.022183 | 0.022183 |
| 100003 | LINCOLNVILLE NETWORKS | 16,132,108 | 472,625 | 3,216,541 | 1,160,083 | 0.903661 | 0.026457 | 0.216205 | 0.075626 | 0.401083 | 0.011715 | 0.082457 | 0.028842 |
| 100004 | CHINA TEL CO. | 5,169,669 | 144,106 | 1,847,477 | 415,955 | 0.946054 | 0.026371 | 0.321454 | 0.089891 | 0.472435 | 0.013169 | 0.135935 | 0.038012 |
| 100007 | ISLAND TEL CO | 1,572,337 | 64,357 | 723,146 | 393,497 | 0.642335 | 0.026291 | 0.176308 | 0.095938 | 0.222223 | 0.009096 | 0.102204 | 0.055614 |
| 100010 | HAMPDEN TEL CO | 3,705,397 | 105,151 | 1,325,539 | 301,174 | 0.930391 | 0.026402 | 0.446248 | 0.101391 | 0.458445 | 0.013010 | 0.164000 | 0.037262 |
| 100011 | HARTLAND & ST ALBANS | 6,377,347 | 182,126 | 2,222,677 | 399,055 | 0.921956 | 0.026330 | 0.494854 | 0.088845 | 0.495913 | 0.014162 | 0.172839 | 0.031031 |
| 100024 | SOMERSET TEL CO | 20,860,041 | 630,813 | 6,183,396 | 1,371,434 | 0.873697 | 0.026421 | 0.373438 | 0.082826 | 0.473906 | 0.014313 | 0.140477 | 0.049117 |
| 100025 | STANDISH TEL CO | 25,669,350 | 691,384 | 11,024,469 | 2,587,364 | 0.979055 | 0.026370 | 0.478651 | 0.112336 | 0.493339 | 0.013288 | 0.211879 | 0.049727 |
| 100027 | UNION RIVER TEL CO | 3,697,060 | 118,323 | 1,530,598 | 341,022 | 0.899016 | 0.028773 | 0.518276 | 0.115474 | 0.442525 | 0.014163 | 0.183207 | 0.040819 |
| 100029 | UNITEL, INC. | 6,493,336 | 184,588 | 2,018,379 | 449,255 | 0.932535 | 0.026509 | 0.388820 | 0.085544 | 0.413521 | 0.011755 | 0.128538 | 0.028610 |
| 100031 | WARREN TEL CO | 3,697,223 | 85,565 | 949,879 | 171,322 | 0.942983 | 0.026306 | 0.456282 | 0.082297 | 0.479767 | 0.013384 | 0.148578 | 0.026798 |
| 100034 | WEST PENOBSCOT TEL | 3,744,887 | 114,083 | 1,126,590 | 240,863 | 0.864607 | 0.026339 | 0.323267 | 0.069114 | 0.404027 | 0.012108 | 0.121545 | 0.025986 |

| ALEXICON BROADBAND HCL MODEL - INDIVIDUAL COMPANY HCL CALCULATIONS | | | | | | | | | | | |
|--|-----------------------|-------------------------------|-------------------------------|----------------------------------|---|--|---|--|--|----------|----------|
| BASED ON NECA 2010 USF DATA SUBMISSION | | | | | | | | | | | |
| - Cost Companies (USF2010LC10.xls) | | | | | | | | | | | |
| Line: | 7 | 7a | 8 | 8a | 9 | 9a | 10 | 10a | 11 | 12 | |
| Formula: | $AL5 * DL170$ | $AL5a * DL170$ | $AL6 * DL170$ | $AL6a * DL170$ | $AL3 * ((DL280 + DL330) / (DL815/DL800) + DL195)$ | $AL3a * ((DL280 + DL330) / (DL815/DL800) + DL195)$ | $AL4 * ((DL260 + DL265 + DL270 + DL310 + DL315) / (DL805/DL800) + DL320) * DL195$ | $AL4a * ((DL260 + DL265 + DL270 + DL310 + DL315) / (DL805/DL800) + DL320) * DL195$ | RESERVED | RESERVED | |
| SAC | SANAME | Materials & Supplies to CWF 1 | Materials & Supplies to CWF 2 | Materials & Supplies to COE 4.13 | Materials & Supplies to COE 4.11 & 4.22 | Accum Depr&Amort + Non Def'd Op Tax to CWF 1 | Accum Depr&Amort + Non Def'd Op Tax to CWF 2 | Accum Depr&Amort + Non Def'd Op Tax to COE 4.13 | Accum Depr&Amort + Non Def'd Op Tax to COE 4.11 & 4.22 | RESERVED | RESERVED |
| 100002 | OXFORD WEST TEL CO | - | - | - | - | 8,962,318 | 255,436 | 1,681,390 | 373,415 | | |
| 100003 | LINCOLNVILLE NETWORKS | 246,509 | 7,222 | 50,679 | 17,727 | 13,499,761 | 395,505 | 2,736,578 | 957,219 | | |
| 100004 | CHINA TEL CO. | 20,856 | 581 | 6,001 | 1,678 | 4,684,147 | 130,572 | 1,261,435 | 352,745 | | |
| 100007 | ISLAND TEL CO | 2,293 | 94 | 1,055 | 574 | 1,380,897 | 56,521 | 663,658 | 361,127 | | |
| 100010 | HAMPDEN TEL CO | 19,177 | 544 | 6,860 | 1,559 | 2,950,799 | 83,737 | 858,591 | 195,079 | | |
| 100011 | HARTLAND & ST ALBANS | 45,949 | 1,312 | 16,015 | 2,875 | 6,007,501 | 171,564 | 1,844,832 | 331,218 | | |
| 100024 | SOMERSET TEL CO | 75,616 | 2,287 | 22,414 | 4,971 | 18,812,227 | 568,886 | 5,021,617 | 1,113,760 | | |
| 100025 | STANDISH TEL CO | 130,828 | 3,524 | 56,188 | 13,187 | 23,687,280 | 637,999 | 8,422,291 | 1,976,651 | | |
| 100027 | UNION RIVER TEL CO | 88,194 | 2,823 | 36,513 | 8,135 | 1,491,724 | 47,742 | 844,890 | 188,244 | | |
| 100029 | UNITEL, INC. | 44,022 | 1,251 | 13,684 | 3,046 | 4,112,863 | 116,918 | 1,585,425 | 352,887 | | |
| 100031 | WARREN TEL CO | 16,619 | 464 | 5,147 | 928 | 2,852,245 | 79,567 | 557,932 | 100,630 | | |
| 100034 | WEST PENOBSCOT TEL | 16,193 | 493 | 4,871 | 1,041 | 3,492,934 | 106,407 | 985,791 | 210,760 | | |

| ALEXICON BROADBAND HCL MODEL | | INDIVIDUAL COMPANY HCL CALCULATIONS | | | | | | | | | | |
|--|-----------------------|--|-----------------------|--------------------------|---------------------------------|--|---|------------------------------------|---|-------------------------|-------------------------|-----|
| BASED ON NECA 2010 USF DATA SUBMISSION | | | | | | | | | | | | |
| - Cost Companies (USF2010LC10.xls) | | Line: | 13 | 13a | 14 | 14a | 15 | 15a | 16 | 16a | 17 | 17a |
| Formula: | | $AL3 * (DL430 - DL435 - DL440) + AL3a * (DL430 - DL435 - DL440) + AL4 * (DL385 + DL390 + DL395 - DL390 - DL395 - DL400 - DL405) + AL4a * (DL385 + DL390 + DL395 - DL390 - DL395 - DL400 - DL405) + (AL5 + AL6) * (DL335 - DL340 - DL345 - DL350 - DL355 - DL360) + (AL5 + AL6) * (DL335 - DL340 - DL345 - DL350 - DL355 - DL360) + (AL5 + AL6) * (DL450 - DL455) + (AL5 + AL6) * (DL450 - DL455) + AL3 * (DL530 + DL415/DL800 + DL430) + AL3a * (DL530 + DL415/DL800 + DL430)$ | | | | | | | | | | |
| SAC | SANAME | COE Main Exp to Cat 1 | COE Main Exp to Cat 2 | COE Main Exp to Cat 4.13 | COE Main Exp to Cat 4.11 & 4.22 | Network & General Support Exp to CWF 1; COE 4.13 | Network & General Support Exp to CWF 2; COE 4.11 & 4.22 | Network Ops Exp to CWF 1; COE 4.13 | Network Ops Exp to CWF 2; COE 4.11 & 4.22 | Depr/Amort Exp to CWF 1 | Depr/Amort Exp to CWF 2 | |
| 100002 | OXFORD WEST TEL CO | 247,414 | 7,622 | 76,050 | 16,890 | 453,183 | 26,097 | 192,167 | 11,066 | 201,941 | 5,756 | |
| 100003 | LINCOLNVILLE NETWORKS | 212,462 | 6,325 | 126,744 | 44,341 | 79,409 | 1,687 | 371,640 | 31,201 | 477,965 | 13,991 | |
| 100004 | CHINA TEL CO. | 44,431 | 2,365 | 58,993 | 16,497 | 155,917 | 13,117 | 123,098 | 10,356 | 243,254 | 6,725 | |
| 100007 | ISLAND TEL CO | 30,959 | 1,267 | 13,926 | 7,578 | 10,950 | 2,184 | 26,505 | 5,287 | 42,678 | 1,747 | |
| 100010 | HAMPDEN TEL CO | 107,793 | 3,059 | 46,963 | 10,670 | 64,637 | 5,220 | 100,189 | 8,092 | 132,321 | 3,755 | |
| 100011 | HARTLAND & ST ALBANS | 85,042 | 2,429 | 27,762 | 4,984 | 77,595 | 5,244 | 140,241 | 9,477 | 117,158 | 3,346 | |
| 100024 | SOMERSET TEL CO | 135,918 | 4,110 | 121,999 | 27,058 | 227,141 | 16,817 | 495,156 | 32,218 | 668,198 | 20,206 | |
| 100025 | STANDISH TEL CO | 567,681 | 15,290 | 461,314 | 108,267 | 804,586 | 71,893 | 676,395 | 60,439 | 1,265,140 | 34,076 | |
| 100027 | UNION RIVER TEL CO | 79,931 | 2,558 | 91,953 | 20,487 | 36,970 | 3,248 | 124,837 | 10,969 | 131,486 | 4,208 | |
| 100029 | UNITEL, INC. | 293,106 | 8,332 | 132,004 | 29,382 | 114,938 | 8,559 | 80,198 | 5,972 | 323,895 | 9,207 | |
| 100031 | WARREN TEL CO | 36,823 | 1,027 | 23,191 | 4,183 | 41,862 | 2,877 | 53,953 | 3,450 | 74,220 | 2,076 | |
| 100034 | WEST PENOBSCOT TEL | 69,704 | 1,123 | 19,768 | 4,126 | 40,091 | 3,931 | 82,628 | 6,020 | 56,890 | 1,732 | |

| ALEXICON BROADBAND HCL MODEL | | INDIVIDUAL COMPANY HCL CALCULATIONS | | | | | | | | | | |
|--|-----------------------|--|-----------------------------------|---|--|------------------------------------|---|--|---|-----------------------------------|--|-----|
| BASED ON NECA 2010 USF DATA SUBMISSION | | | | | | | | | | | | |
| - Cost Companies (USF2010LC10.xls) | | Line: | 18 | 18a | 19 | 19a | 20 | 20a | 21 | 21a | 22 | 22a |
| Formula: | | $AL4 * (DL510 + DL515 + DL520) + AL4a * (DL510 + DL515 + DL520) + (AL5 + AL6) * (DL535 - DL535 - DL550) + (AL5 + AL6) * (DL535 - DL550) + (AL5 + AL6) * (DL650 - DL650) + (AL5 + AL6) * (DL650 - DL650) + (AL5 + AL6) * (DL600 - DL600 - DL650 - DL655) + (AL5 + AL6) * (DL610 - DL610) + (AL5 + AL6) * (DL610 - DL610)$ | | | | | | | | | | |
| SAC | SANAME | Depr/Amort Exp to COE 4.13 | Depr/Amort Exp to COE 4.11 & 4.22 | Corp Ops Exp to CWF 1; COE 4.13 - Limited | Corp Ops Exp to CWF 2; COE 4.11 & 4.22 - Limited | Operating Taxes to CWF 1; COE 4.13 | Operating Taxes to CWF 2; COE 4.11 & 4.22 | Benefits (non-Corp Ops) to CWF 1; COE 4.13 | Benefits (non-Corp Ops) to CWF 2; COE 4.11 & 4.22 | Rents assigned to CWF 1; COE 4.13 | Rents assigned to CWF 1 & 2; COE 4.11, 4.13 & 4.22 | |
| 100002 | OXFORD WEST TEL CO | 44,740 | 9,936 | 598,994 | 32,190 | 154,254 | 8,883 | 198,702 | 11,442 | 81,641 | 4,701 | |
| 100003 | LINCOLNVILLE NETWORKS | 141,256 | 49,584 | 810,498 | 68,098 | 507,472 | 42,602 | 0 | 0 | 95,979 | 8,032 | |
| 100004 | CHINA TEL CO. | 99,737 | 27,890 | 281,005 | 23,641 | 115,220 | 9,693 | 36,462 | 1,032 | 48,063 | 4,044 | |
| 100007 | ISLAND TEL CO | 23,396 | 12,731 | 31,188 | 6,221 | 99,479 | 19,842 | 23,681 | 4,723 | 8,664 | 1,728 | |
| 100010 | HAMPDEN TEL CO | 177,741 | 40,384 | 234,874 | 18,970 | 154,050 | 12,442 | 99,346 | 8,024 | 39,251 | 3,170 | |
| 100011 | HARTLAND & ST ALBANS | 78,224 | 14,044 | 306,414 | 20,707 | 283,326 | 15,147 | 140,974 | 9,527 | 111,782 | 7,554 | |
| 100024 | SOMERSET TEL CO | 259,712 | 57,602 | 828,919 | 61,372 | 1,085,383 | 80,360 | 292,825 | 21,680 | 195,832 | 14,499 | |
| 100025 | STANDISH TEL CO | 518,884 | 121,778 | 1,414,859 | 126,424 | 387,070 | 34,586 | 235,386 | 21,033 | 253,175 | 22,622 | |
| 100027 | UNION RIVER TEL CO | 92,365 | 20,579 | 379,753 | 33,368 | 99,018 | 8,701 | 37,017 | 1,253 | 20,451 | 1,797 | |
| 100029 | UNITEL, INC. | 114,968 | 25,596 | 724,272 | 53,935 | 190,526 | 14,188 | 159,468 | 11,875 | 11,875 | 1,797 | |
| 100031 | WARREN TEL CO | 71,330 | 13,226 | 138,073 | 8,829 | 160,160 | 10,242 | 60,121 | 1,845 | 24,985 | 1,998 | |
| 100034 | WEST PENOBSCOT TEL | 20,938 | 4,476 | 154,197 | 11,235 | 170,903 | 12,452 | 58,599 | 4,270 | 51,402 | 3,745 | |

| ALEXICON BROADBAND HCL MODEL | | INDIVIDUAL COMPANY HCL CALCULATIONS | | | | | | | | | | |
|--|-----------------------|---|----------------------------|-------------------------------|--------------------------------------|-----------------------------------|---|-----------------------------------|--|--|--|--|
| BASED ON NECA 2010 USF DATA SUBMISSION | | | | | | | | | | | | |
| - Cost Companies (USF2010LC10.xls) | | Line: | 23 | 23a | 24 | 24a | 25 | 26 | | | | |
| Formula: | | $(AL1 + AL7 - AL9) * 0.1125 + (AL11a + AL7a - AL9a) * 0.1125 + (AL2 + AL8 - AL10) * 0.1125 + (AL2a + AL8a - AL10a) * 0.1125 + \text{Sum of AL13 thru AL24} + AL25/DL060 + AL25*(DL070/DL060)$ | | | | | | | | | | |
| SAC | SANAME | Return Component for CWF 1 | Return Component for CWF 2 | Return Component for COE 4.13 | Return Component for COE 4.11 & 4.22 | Total Broadband Unseparated Costs | Study Area Broadband Cost per Loop (SABC) | Cost Study Area Unseparated Costs | | | | |
| 100002 | OXFORD WEST TEL CO | 236,847 | 6,750 | 30,980 | 6,880 | 2,645,124 | \$ 432.21 | 2,598,013 | | | | |
| 100003 | LINCOLNVILLE NETWORKS | 323,871 | 9,489 | 70,947 | 24,816 | 3,523,280 | \$ 295.23 | 3,521,804 | | | | |
| 100004 | CHINA TEL CO. | 56,968 | 1,588 | 26,105 | 7,300 | 1,453,480 | \$ 631.67 | 1,445,268 | | | | |
| 100007 | ISLAND TEL CO | 21,795 | 892 | 6,811 | 3,706 | 407,935 | \$ 623.75 | 405,440 | | | | |
| 100010 | HAMPDEN TEL CO | 87,050 | 2,470 | 53,303 | 12,111 | 1,425,885 | \$ 542.16 | 1,396,608 | | | | |
| 100011 | HARTLAND & ST ALBANS | 46,777 | 1,336 | 44,309 | 7,955 | 1,565,355 | \$ 461.21 | 1,556,131 | | | | |
| 100024 | SOMERSET TEL CO | 238,886 | 7,224 | 133,222 | 29,548 | 4,995,885 | \$ 500.64 | 4,938,311 | | | | |
| 100025 | STANDISH TEL CO | 237,701 | 6,402 | 299,066 | 70,189 | 7,814,257 | \$ 660.77 | 7,766,021 | | | | |
| 100027 | UNION RIVER TEL CO | 258,022 | 8,258 | 81,250 | 18,103 | 1,568,581 | \$ 1,230.26 | 1,548,897 | | | | |
| 100029 | UNITEL, INC. | 272,756 | 7,754 | 50,247 | 11,184 | 2,642,393 | \$ 638.41 | 2,635,370 | | | | |
| 100031 | WARREN TEL CO | 26,055 | 727 | 44,673 | 8,057 | 817,376 | \$ 611.35 | 810,040 | | | | |
| 100034 | WEST PENOBSCOT TEL | 30,166 | 919 | 16,388 | 3,504 | 829,257 | \$ 383.21 | 822,743 | | | | |



Other Considerations

- Concur with the following FCC Order ideas:
 - ▶ Local Rate Floor
 - ▶ Revised Corporate Operations Expense Limit
 - ▶ Elimination of Safety Net Additive, Local Switching Support, and Identical Support for CETCs
- Benchmark cost thresholds could be established to trigger review
 - ▶ Unlikely that a sufficient statistical model can be developed to predict the capital and operating costs for such a varied universe of companies
 - ▶ No model should substitute real costs
 - ▶ Can be used as a reasonableness test to trigger a further review of costs

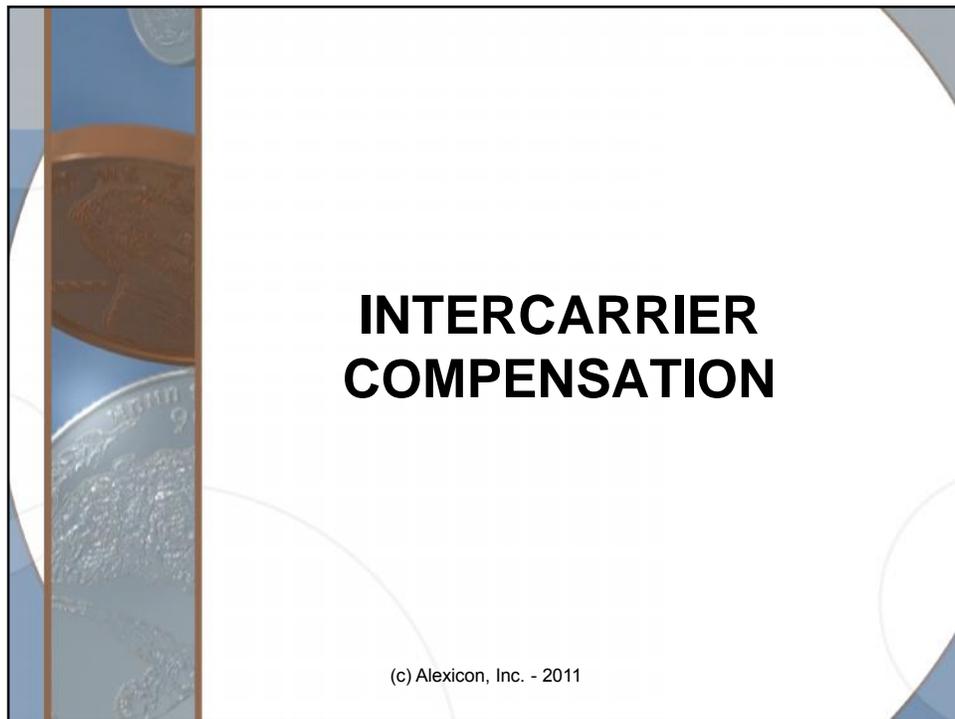
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Benefits of SCC Plan over FCC Order

- Provides actual incentives for broadband investment
- Significantly more predictable mechanism
- Avoids retroactive application of rules by maintaining support for prior investments
- Replaces a presumptive disallowance of costs via a flawed model with a trigger for review to maintaining oversight of costs
- Decreased special access rates = lower broadband costs for consumers

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The Intercarrier Compensation System

- ICC is a system of payments between carriers to compensate each other for the origination, transport and termination of telecommunications traffic
 - ▶ For rate of return (RoR) carriers, ICC recovers the cost of the network used
- Types of ICC
 - ▶ Access Rates (est. 1983 after AT&T Divestiture)
 - ✓ Uniform mechanism to recover the cost of providing access services needed to complete interstate and foreign telecommunications
 - ▶ Reciprocal Compensation (est. in the 1996 Act)
 - ✓ Applied to the transport and termination of telecommunications within the same local calling area (e.g., CMRS traffic)

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Problems with the ICC System

- NPRM notes the following fundamental problems:
 - ▶ Per-minute structure is outdated;
 - ▶ Rates vary for different types of providers or origination location despite same function performed (and facilities used);
 - ▶ Above cost rate structure creates incentives to retain old technologies and engage in regulatory arbitrage;
 - ▶ Technological changes result in declining compensable minutes.

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Problems with the ICC System (continued)

- We note the following additional problems for RoR carriers:
 - ▶ Compensation agreements are designed for direct interconnection situations and most RoR companies are indirectly connected with IXC, VoIP, CLECS, and CMRS carriers
 - ✓ Indirect business relationships create compensation issues
 - ▶ Vast balance of traffic differences for small carriers
 - ▶ Separations rules will always create disparate Interstate/Intrastate rates for RoR carriers

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Goals of ICC Reform

- Reforms should reflect the fundamental shifts in technology, consumer behavior, and competition
- Create proper incentives for carriers to invest in broadband technologies
- Remove regulatory arbitrage opportunities that lead to phantom traffic and improper access stimulation

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Intercarrier Compensation Recovery Issues

- Cost Recovery vs. Revenue Recovery
 - ▶ Rate-of-return must be maintained in high cost areas
 - ▶ Any compensation system involving frozen revenue replacement fails to provide for future investment
- Measurement vs. Usage
 - ▶ Decreased access minutes \neq decreased network usage
 - ▶ Outdated rules and changes in technology create a **measurement** issue – there isn't less originating and terminating traffic on ILEC networks, it just isn't being measured and, consequently, compensated
- Regulatory Arbitrage Issues:
 - ▶ VoIP Compensation; Phantom Traffic; Improper Access Stimulation

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SCC ICC Reform Proposal

- Lost ICC Revenue should be recovered through explicit support mechanisms.
 - ▶ Effective interstate recovery mechanisms (SLCs, USF contributions, etc.) for lost ICC revenue should be applied to all cost causers/beneficiaries of the system.
- Bill-and-Keep (traffic without compensation) is not appropriate.
 - ▶ Uneven balances of traffic originated/terminated;
 - ▶ No way for rate-of-return carriers to recover switching and transport costs;
 - ▶ Provides a disincentive to invest in broadband networks and IP switching.

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SCC ICC Reform Proposal

- ***Proposal 1:*** Modify the current MAG shift adjustment to move a larger portion of the traffic sensitive switched access revenue requirement to the common line element.
- Interstate Common Line Support is the obvious mechanism for recovery of other access rate amounts shifted due to Intercarrier Compensation reform.
 - ▶ ICLS helps to offset interstate access charges and is designed to permit each RoR carrier to recover its common line revenue requirement, while ensuring that subscriber line charges (SLC) remain affordable.

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SCC ICC Reform Proposal

- All other aspects of the ICLS should remain the same.
- Amount shifted to ICLS could be a total amount based on a capped support amount or a target access rate.
- Mechanism is flexible to include:
 - ▶ Access Recovery Charges
 - ▶ Corporate Operations Expense Limits

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SCC ICC Reform Proposal

- ***Proposal 2:*** Change billing-and-collection rules to “daisy chain” billing
 - ▶ Carriers collect from the carrier that hands off the traffic to them
 - ▶ Eliminates the fraud from “phantom” traffic and other billing issues from improper call information data
- ***Proposal 3:*** Update traffic measurement and compensation to properly compensate all traffic
 - ▶ Must have consistent treatment of traffic regardless of technology used to eliminate arbitrage and abuses of the system

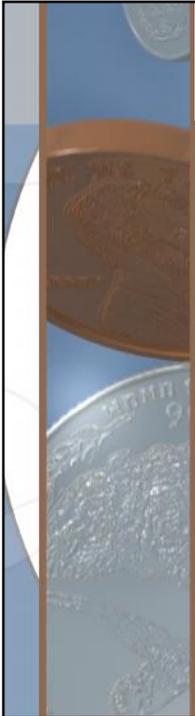
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| PART 1100000000 | | | | | | | | | | | | | | |
|-------------------------|---|---------------|--------------|---------------------|---------------------|----------------|-----------------|-----------------|------------------|-----------------|--------------|-----------|--------------|------------|
| Schedule: All NECA Pool | | | | | | | | | | | | | | |
| Line | Account/Category | Company Total | Revenue | COMMON LINE | | | | SWITCHED ACCESS | | | | SPECIAL | | |
| | | | | Carrier Common Line | Rate Factor Portion | Tx Acc | Local Switching | Information | Tandem Switching | Other Transport | Other Acc | BAC | Non-exchange | Other |
| 1 | Rate Base | \$ 9,616,046 | \$ 4,007,781 | \$ - | \$ 1,595,278 | \$ - | \$ 516,835 | \$ - | \$ - | \$ 133,025 | \$ 1,762,803 | \$ - | \$ - | \$ - |
| 2 | Rate of Return | 10.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% |
| 3 | Returns on Rate Base | \$ 1,011,701 | \$ 450,871 | \$ - | \$ 179,409 | \$ - | \$ 58,144 | \$ - | \$ - | \$ 14,965 | \$ 198,293 | \$ - | \$ - | \$ - |
| 4 | Allowance for Funds Used During Constr | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 5 | Net Return on Rate Base | \$ 1,011,701 | \$ 450,871 | \$ - | \$ 179,409 | \$ - | \$ 58,144 | \$ - | \$ - | \$ 14,965 | \$ 198,293 | \$ - | \$ - | \$ - |
| 6 | Returns on Rate Base, less AFUDC | 1,011,701 | 450,871 | - | 179,409 | - | 58,144 | - | - | 14,965 | 198,293 | - | - | - |
| 11 | Operating Expenses | 6,960,282 | 3,409,950 | - | 889,318 | - | 1,602,824 | 608 | - | 112,296 | 782,355 | 22,550 | - | - |
| 12 | Federal Income Taxes | 480,578 | 215,418 | - | 87,810 | - | 25,054 | - | - | 6,941 | 95,614 | - | - | - |
| 13 | State Income Taxes | 112,131 | 50,263 | - | 20,488 | - | 5,846 | - | - | 1,619 | 22,809 | - | - | - |
| 14 | Line Post Shift Adjustment | - | - | - | 214,075 | - | (214,075) | - | - | - | - | - | - | - |
| 15 | Net Allocation of TIC Revenues | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 16 | ICC Revenue Offset Adjustment | - | - | - | - | - | (1) | (0) | - | (0) | - | - | - | 1 |
| 17 | ICC Reform Shift Adjustment | - | - | - | 1,614,221 | - | (1,477,792) | (608) | - | (135,821) | - | - | - | 183,871 |
| 18 | Broadband HCL Recovery Adjustment | - | - | - | - | - | - | - | - | - | (183,871) | - | - | 183,871 |
| 19 | Corporate Operations Expense Cap (CLES) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20 | Revenue Requirement | \$ 7,964,652 | \$ 4,126,501 | \$ - | \$ 3,005,379 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 914,699 | \$ 22,550 | \$ - | \$ 183,873 |
| 21 | | | | | | | | | | | | | | |
| Schedule: All NECA 2 | | | | | | | | | | | | | | |
| Line | Account/Category | Company Total | Revenue | COMMON LINE | | | | SWITCHED ACCESS | | | | SPECIAL | | |
| | | | | Carrier Common Line | Rate Factor Portion | Tx Acc | Local Switching | Information | Tandem Switching | Other Transport | Other Acc | BAC | Non-exchange | Other |
| 22 | MAG SHEET CALCULATION: | | | | | | | | | | | | | |
| 23 | Revenue Requirement (before MAG) | \$ 7,964,652 | \$ 4,126,501 | \$ - | \$ 1,177,084 | \$ - | \$ 1,691,867 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - |
| 24 | Local Switching Support | (978,285) | - | - | - | - | (978,285) | - | - | - | - | - | - | - |
| 25 | Net Local Switching Revenue Request | \$ 3,148,216 | \$ - | \$ 1,177,084 | \$ - | \$ 713,982 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | \$ - |
| 26 | Basis of Adjustment | - | - | - | - | Default | Default | - | - | - | - | - | - | - |
| 27 | Line Post Shift Adjustment | \$ - | \$ - | \$ 214,075 | \$ - | \$ (214,075) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 28 | Rev Request after Line Post Shift Adj & LSS | \$ 3,148,216 | \$ - | \$ 1,391,159 | \$ - | \$ 499,508 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | \$ - |
| 29 | LSS/USE Contributions | (96,112) | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 | TIC Revenues (less of TIC or Rev Request) | \$ 3,039,554 | \$ - | \$ 1,305,047 | \$ - | \$ 499,508 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | \$ - |
| 31 | Basis for TIC Allocation | 100.000% | 100.000% | 42.070% | 100.000% | 16.470% | 100.000% | 100.000% | 4.607% | 76.142% | - | - | - | - |
| 32 | Percentage Distribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 33 | TIC Revenue Allocation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 34 | Net Allocation of TIC Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 35 | Revenue Requirement after MAG Shift: | \$ 4,126,501 | \$ - | \$ 1,391,159 | \$ - | \$ 1,477,793 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | \$ - |
| 36 | | | | | | | | | | | | | | |
| 37 | | | | | | | | | | | | | | |
| 38 | ICC REFORM SHEET CALCULATION: | | | | | | | | | | | | | |
| 39 | Revenue or Other Offset Adjustment | \$ - | \$ - | \$ - | \$ - | \$ (1) | \$ (0) | \$ - | \$ (0) | \$ - | \$ - | \$ - | \$ - | \$ 1 |
| 40 | Revenue Requirement after Offset | \$ 4,126,501 | \$ - | \$ 1,391,159 | \$ - | \$ 1,477,792 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | \$ 1 |
| 41 | Percentage Distribution - Switched Access | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% | 100.000% |
| 42 | Basis of Adjustment | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 43 | % of Traffic Sensitive Rev Request | 200% | - | - | - | - | (1,477,792) | (608) | - | (135,821) | - | - | - | - |
| 44 | ICC REFORM SHIFT ADJUSTMENT | \$ - | \$ - | \$ 1,614,221 | \$ - | \$ (1,477,792) | \$ (608) | \$ - | \$ (135,821) | \$ - | \$ - | \$ - | \$ - | \$ - |
| 45 | Revenue Requirement after ICC REFORM Shift: | \$ 4,126,501 | \$ - | \$ 3,005,380 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,098,570 | \$ 22,550 | \$ - | \$ 1 |

Advantages of SCC Proposal over FCC Order

- Properly focuses reform on cost recovery
 - ▶ Permits each RoR carrier to recover its common line and traffic sensitive switched access revenue requirements through a combination of end user charges, ICLS, and access charges;
 - ▶ Consistent with the 1996 Act's dual goals of "moving toward cost-based rates and protecting universal service";
 - ▶ FCC compensation method using a frozen and reducing recovery base does not recognize the economic realities and provides a disincentive for any investment in switching and transport;
 - ▶ SCC Plan provides actual incentives for broadband investment.

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Advantages of SCC Proposal (continued)

- Modernizes traffic measurement and billing:
 - ▶ Solves phantom traffic and VoIP compensation issues;
 - ▶ Eliminates originating carrier fraud and non-payment;
 - ▶ Addresses decreasing measurable/compensable minutes and increasing access rates.
- Technology Neutral and Forward-Looking
 - ▶ Allows for seamless transition to all-IP network because traffic measurement issues are addressed;
 - ▶ Removes any disincentives to transition to IP networks
- Efficiently leverages an existing explicit support mechanism
- Limited transition period required

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CONCLUSION

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Conclusion

- SCC's USF and ICC Reform proposals provide a comprehensive solution to meet the FCC stated's goals to:
 - ▶ Modernize universal service fund and intercarrier compensation mechanisms;
 - ▶ Create proper incentives to deploy broadband;
 - ▶ Modernize USF and ICC rules to advance IP technology;
 - ▶ Provide efficiency within the USF system and Intercarrier Compensation regime;
 - ▶ Enact reforms that reflect the fundamental shifts in technology, consumer behavior, and competition; and
 - ▶ Remove regulatory arbitrage opportunities that lead to phantom traffic and other fraud.

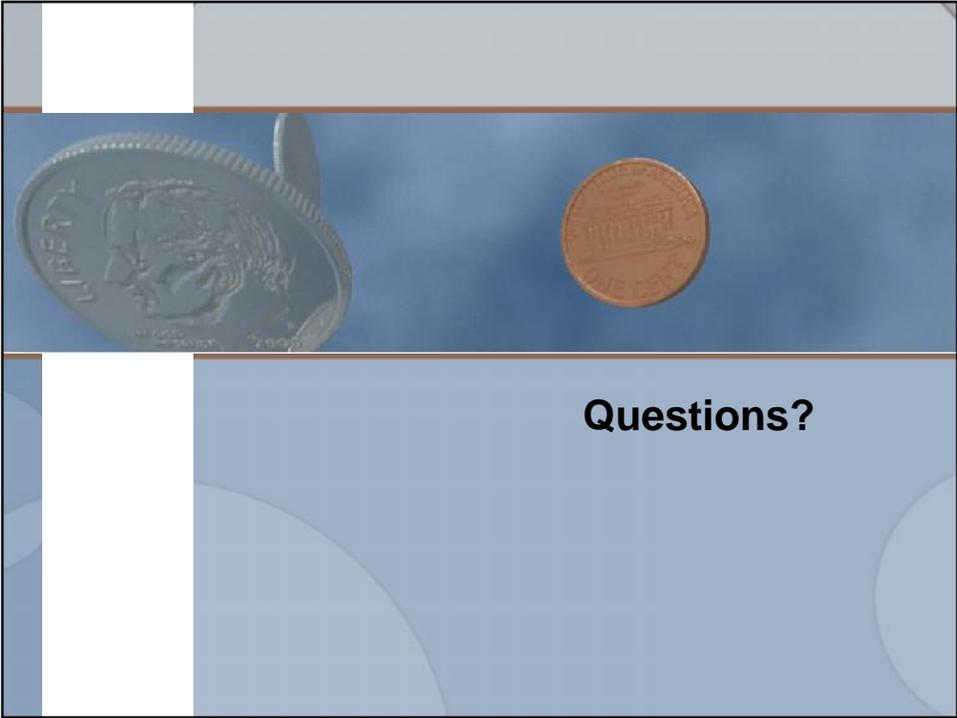
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Conclusion (continued)

- Efficiently leverages the successful parts of current programs.
- Addresses concerns of rate-of-return carriers:
 - ▶ No retroactive application; prior investments continue to be funded
 - ▶ Increased predictability allows business planning
 - ▶ Provides real incentives for broadband investments
 - ▶ Replaces presumptive disallowance of costs with a threshold trigger for review
 - ▶ Modernizes traffic measurement and billing to eliminate phantom traffic and other fraudulent practices
 - ▶ Recognizes the network's value, actual usage, and economic realities that should drive compensation

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**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

I. EXCHANGE CARRIER/DATA IDENTIFICATION

- (010) Exchange Carrier Study Area Code.
- (020) Contact Name: Person to contact for questions about this data.
- (030) Contact Telephone Number: Number of the person identified in Data Line (020).
- (040) Data Collection Period.

II. WORKING LOOPS

Working loops reported for USF must be as of the end-of-period identified on Data Line (040).

- (060) Total Loops: Enter the count of total Loops defined as Exchange Line Cable and Wire Facilities Subcategories 1.1 through 1.3. [Part 36.154 (a)]
- (070) Category 1.3 Loops: Enter the count of Category 1.3 Loops excluding Category 1.3 TWX (Teletypewriter Exchange service) loops. [Part 36.154 (a)]

III. INVESTMENT, PLANT OPERATIONS EXPENSE AND TAXES

Net Plant Investment

- (160) Account 2001 - Telecommunication Plant in Service
[Part 32.2001]
- (170) Account 1220 - Material and Supplies
[Part 32.1220]
- (190) Account 3100 - Accumulated Depreciation
[Part 32.3100]
- (195) Account 3400 - Accumulated Amortization - Tangible
[Part 32.3400]
- (210) Account 4340 - Net Non-current Deferred Operating Income Taxes
[Part 32.4340]

Note: Net Non-current Deferred Operating Income Taxes associated with the use of accelerated depreciation should be included in the amount reported for Account 4340 in the USF data collection.

- (220) Net Plant Investment -
Sum of Data Lines (160) + (170) minus Data Lines (190) through (210)

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Selected Plant Accounts

- (230) Account 2210 - Central Office Switching Equipment
[Part 32.2210]

- (235) Account 2220 - Operator System Equipment
[Part 32.2220]

- (240) Account 2230 - Central Office Transmission Equipment
[Part 32.2230]

- (245) Total Central Office Equipment
Sum of Data Lines (230) through (240)

- (250) Circuit Equipment - Category 4.13
[Part 36.126]
Enter the investment in Central Office Equipment Category 4.13 including power and common equipment. Development of this amount must be consistent with Responsible Accounting Officer Letter 21, dated September 8, 1992.

- (255) Account 2410 - Cable and Wire Facilities - Total
[Part 32.2410]

- (260) Account 3100 (2210) - Accumulated Depreciation - Central Office Switching Equipment
[Part 32.3100]

- (265) Account 3100 (2220) Accumulated Depreciation - Operator System Equipment
[Part 32.3100]

- (270) Account 3100 (2230) - Accumulated Depreciation - Central Office Transmission Equipment
[Part 32.3100]

- (275) Account 3100 (2210 through 2230) - Total Accumulated Depreciation - Central Office Equipment
Sum of Data Lines (260) through (270)

- (280) Account 3100 (2410) - Accumulated Depreciation - Cable and Wire Facilities
[Part 32.3100]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Selected Plant Accounts - continued

(285) Circuit Equipment - Category 4.11 Wideband Exchange Line Circuit Equipment - Interstate

[Part 36.126 (b) (1) (i)]

Enter the investment in Central Office Equipment Category 4.11 including power and common equipment allocated or assigned to the Interstate jurisdiction.

(290) Circuit Equipment - Category 4.22 Interexchange Circuit Equipment Used for Wideband Services including Satellite and Earth Station Equipment used for Wideband Service - Interstate

[Part 36.126 (b) (2) (ii)]

Enter the investment in Central Office Equipment Category 4.22 including power and common equipment allocated or assigned to the Interstate jurisdiction.

(310) Account 4340 (2210) - Net Non-current Deferred Operating Income Taxes - Central Office Switching Equipment

[Part 32.4340]

(315) Account 4340 (2220) - Net Non-current Deferred Operating Income Taxes - Operator System Equipment

[Part 32.4340]

(320) Account 4340 (2230) - Net Non-current Deferred Operating Income Taxes - Central Office Transmission Equipment

[Part 32.4340]

(325) Account 4340 (2210 through 2230) - Net Non-current Deferred Operating Income Taxes - Central Office Equipment
Sum of Data Lines (310) through (320)

(330) Account 4340 (2410) - Net Non-current Deferred Operating Income Taxes - Cable and Wire Facilities

[Part 32.4340]

Plant Specific Operations Expense

(335) Account 6110 - Network Support Expense - Total
[Part 32.6110]

(340) Account 6110 - Benefits - Network Support Expense
The amount of Benefits included in Account 6110

(345) Account 6110 - Rents - Network Support Expense
The amount of Rents included in Account 6110

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Plant Specific Operations Expense - continued

- (350) Account 6120 - General Support Expense - Total
[Part 32.6120]
- (355) Account 6120 - Benefits - General Support Expense
The amount of Benefits included in Account 6120
- (360) Account 6120 - Rents - General Support Expense
The amount of Rents included in Account 6120
- (365) Account 6210 - Central Office Switching Expense - Total
[Part 32.6210]
- (370) Account 6210 - Benefits - Central Office Switching Expense
The amount of Benefits included in Account 6210
- (375) Account 6210 - Rents - Central Office Switching Expense
The amount of Rents included in Account 6210
- (380) Account 6220 - Operator Systems Expense - Total
[Part 32.6220]
- (385) Account 6220 - Benefits - Operator Systems Expense
The amount of Benefits included in Account 6220
- (390) Account 6220 - Rents - Operator Systems Expense
The amount of Rents included in Account 6220
- (395) Account 6230 - Central Office Transmission Expense - Total
[Part 32.6230]
- (400) Account 6230 - Benefits - Central Office Transmission Expense
The amount of Benefits included in Account 6230
- (405) Account 6230 - Rents - Central Office Transmission Expense
The amount of Rents included in Account 6230
- (410) Accounts 6210-6230 - Central Office Expense - Total
Sum of Data Lines (365) + (380) + (395)
- (430) Account 6410 - Cable and Wire Facilities Expense - Total
[Part 32.6410]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Plant Specific Operations Expense – continued

(435) Account 6410 - Benefits - Cable and Wire Facilities Expense
The amount of Benefits included in Account 6410

(440) Account 6410 - Rents - Cable and Wire Facilities Expense
The amount of Rents included in Account 6410

(445) Total Plant Specific Expense -
Sum of Data Lines (335) + (350) + (365) + (380) + (395) + (430)

Plant Nonspecific Operations Expense

(450) Account 6530 - Network Operations Expense - Total
[Part 32.6530]

(455) Account 6530 - Benefits - Network Operations Expense
The amount of Benefits included in Account 6530

Depreciation and Amortization Expense

(510) Account 6560 (2210) - Depreciation and Amortization Expense -
Central Office Switching Equipment
[Part 32.6560]

(515) Account 6560 (2220) - Depreciation and Amortization Expense -
Operator System Equipment
[Part 32.6560]

(520) Account 6560 (2230) - Depreciation and Amortization Expense -
Central Office Transmission Equipment
[Part 32.6560]

(525) Account 6560 (2210 through 2230) - Depreciation and Amortization -
Central Office Equipment
Sum of Data Lines (510) through (520)

(530) Account 6560 (2410) - Depreciation and Amortization Expense -
Cable and Wire Facilities
[Part 32.6560]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Corporate Operations Expense

(535) Account 6710 - Executive and Planning Expense - Total
[Part 32.6710]

(540) Account 6710 - Benefits - Executive and Planning Expense
The amount of Benefits included in Account 6710

(550) Account 6720 - General and Administrative Expense - Total
[Part 32.6720]

(555) Account 6720 - Benefits - General and Administrative Expense
The amount of Benefits included in Account 6720

(565) Total Corporate Operations Expense
Sum of Data Lines (535) + (550)
Note: Corporate Operations Expense will be limited in accordance with §36.621(a)(4)

Other Expense and Revenues

(600) Benefits - The Benefits Portion included in all Plant Specific Operations Expense, Plant Non-specific Operations Expense, Customers Operation Expense and Corporate Operations Expense.

Note: Include the following accounts in the total reported for Data Line (600):

- Account 6110 - Benefits - Network Support Expense [Data Line (340)]
- Account 6120 - Benefits - General Support Expense [Data Line (355)]
- Account 6210 - Benefits - Central Office Switching Expense [Data Line (370)]
- Account 6220 - Benefits - Operator Systems Expense [Data Line (385)]
- Account 6230 - Benefits - Central Office Expense - Transmission Equipment [Data Line (400)]
- Account 6410 - Benefits - Cable and Wire Facilities Expense [Data Line (435)]
- Account 6510 - Benefits - Other Property Plant and Equipment Expense [Not separately reported]
- Account 6530 - Benefits - Network Operations Expense [Data Line (455)]
- Account 6540 - Benefits - Access Expense [Not separately reported in Data Collection]
- Account 6610 - Benefits - Marketing Expense [Not separately reported in Data Collection]
- Account 6620 - Benefits - Service Expense [Not separately reported in Data Collection]
- Account 6710 - Benefits - Executive and Planning Expense [Data Line (540)]
- Account 6720 - Benefits - General and Administrative Expense [Data Line (555)]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Other Expense and Revenues

(610) Rents - The Rents portion included in all Plant Specific Operations Expense.

Note: Include the following accounts in the total reported for Data Line (610):

- Account 6110 - Rents - Network Support Expense [Data Line (345)]
- Account 6120 - Rents - General Support Expense [Data Line (360)]
- Account 6210 - Rents - Central Office Switching Expense [Data Line (375)]
- Account 6220 - Rents - Operator Systems Expense [Data Line (390)]
- Account 6230 - Rents - Central Office Expense - Transmission Equipment [Data Line (405)]
- Account 6410 - Rents - Cable and Wire Facilities Expense [Data Line (440)]

Operating Taxes

(650) Account 7200 - Operating Taxes

Include the sum of all Account 72xx subaccounts.

[Part 32.7200]

IV. PART 36 - COST SEPARATIONS STUDY DATA

(700) Cost Study Average Investment in Cable and Wire Facilities

Enter the average investment in Account 2410.

(710) Cost Study Average in Cable and Wire Facilities - Category 1: Exchange Line
Cable and Wire Facilities excluding Wideband

Enter the average investment assigned to Exchange Line Cable and Wire Facilities excluding Wideband - Category 1 (total Categories 1.1 through 1.3). Development of this amount must be consistent with Responsible Accounting Officer Letter 21, dated September 8, 1992.

[Part 36.152(a)(1)]

(720) Cost Study Average in Cable and Wire Facilities - Category 2: Wideband and
Exchange Trunk Cable and Wire Facilities (Interstate)

Enter the average investment assigned to Wideband and Exchange Trunk Cable and Wire Facilities - Category 2 (Interstate).

[Part 36.152(a)(2) and Part 36.155]

V. AMORTIZABLE TANGIBLE ASSETS

Complete this section if any portion of a study area's unseparated Cable & Wire Facilities - Category 1 or Category 2 and/or Central Office Equipment - Categories 4.11, 4.13 and 4.22 has been acquired under a capital lease.

(800) Account 2680 - Amortizable Tangible Assets

[Part 32.2680]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

AMORTIZABLE TANGIBLE ASSETS - continued

(805) Account 2680 (2230) - Amortizable Tangible Assets - Central Office Transmission Equipment

Enter amount for equipment acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230.

[Part 32.2680, Part 32.2681]

(810) Account 2680 (2230) Amortizable Tangible Assets - Central Office Transmission Equipment Assigned to Category 4.13

Enter amount for equipment assigned to Category 4.13, acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230 and assigned to Category 4.13 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(811) Account 2680 (2230) Amortizable Tangible Assets - Central Office Transmission Equipment Assigned to Category 4.11

Enter amount for equipment assigned to Category 4.11, acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230 and assigned to Category 4.11 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(812) Account 2680 (2230) Amortizable Tangible Assets - Central Office Transmission Equipment Assigned to Category 4.22

Enter amount for equipment assigned to Category 4.22, acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230 and assigned to Category 4.11 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(815) Account 2680 (2410) Amortizable Tangible Assets - Cable & Wire Facilities

Enter amount for equipment acquired under a capital lease (Account 2681). This type of facility, if owned, would be booked to Account 2410.

[Part 32.2680, Part 32.2681]

(820) Account 2680 (2410) - Amortizable Tangible Assets - Cable & Wire Facilities Assigned to Category 1

Enter amount for equipment assigned to Category 1 and acquired under a capital lease (Account 2681). This type of facility, if owned, would be booked to Account 2410 and assigned to Category 1 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(830) Account 6560 (2680) Depreciation and Amortization Expense - Amortizable Tangible Assets

[Part 32.6560]

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

COST COMPANY BROADBAND LOOP COST ALGORITHM

| Line | Formula | Description |
|-------------|--|--|
| 1. | $(DL255 * (DL710/DL700)) + DL820$ | Cable & Wire Facilities plus C&WF portion of Capital Leases assigned to Category 1 |
| 1a. | $(DL255 * (DL720/DL700)) + DL821$ | Cable & Wire Facilities plus C&WF portion of Capital Leases assigned to Category 2 |
| 2. | $DL250 + DL810$ | Central Office Equipment plus COE portion of Capital leases assigned to Category 4.13 |
| 2a. | $DL285+DL290 +DL811+DL812$ | Central Office Equipment plus COE portion of Capital leases assigned to Category 4.11 and Category 4.22 |
| 3. | $AL1/(DL255 + DL815)$ | "A" Factor Cable & Wire Facilities. C&WF Category 1 divided by Total C&WF |
| 3a. | $AL1a/(DL255 + DL815)$ | "A2" Factor Cable & Wire Facilities. C&WF Category 2 divided by Total C&WF |
| 4. | $AL2/(DL230 + DL235 + DL240 + DL805)$ | "B" Factor Central Office Equipment. COE Category 4.13 divided by Total COE |
| 4a. | $AL2a/(DL230 + DL235 + DL240 + DL805)$ | "B2" Factor Central Office Equipment. COE Categories 4.11 & 4.22 divided by Total COE |
| 5. | $AL1/DL160$ | "C" Factor Cable & Wire Facilities Category 1(Gross Allocator) C&WF Category 1 divided by Total Plant in Service |
| 5a. | $AL1a/DL160$ | "C2" Factor Cable & Wire Facilities Category 2 (Gross Allocator) C&WF Category 2 divided by Total Plant in Service |
| 6. | $AL2/DL160$ | "D" Factor Central Office Equipment Category 4.13 (Gross Allocator) COE Category 4.13 divided by Total Plant In Service |
| 6a. | $AL2a/DL160$ | "D2" Factor Central Office Equipment Categories 4.11 & 4.22 (Gross Allocator) COE Categories 4.11 & 4.22 divided by Total Plant In Service |

Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms

| Line | Formula | Description |
|-------------|--|--|
| 7. | $AL5 * DL170$ | Materials & Supplies assigned to Cable & Wire Facilities Category 1 |
| 7a. | $AL5a * DL170$ | Materials & Supplies assigned to Cable & Wire Facilities Category 2 |
| 8. | $AL6 * DL170$ | Material & Supplies assigned to Central Office Equipment Category 4.13 |
| 8a. | $AL6a * DL170$ | Material & Supplies assigned to Central Office Equipment Categories 4.11 & 4.22 |
| 9. | $AL3 * ((DL280 + DL330) + (DL815/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned to C&WF Category 1 |
| 9a. | $AL3a * ((DL280 + DL330) + (DL815/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned to C&WF Category 2 |
| 10. | $AL4 * ((DL260 + DL265 + DL270 + DL310 + DL315 + DL320) + (DL805/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned COE Category 4.13 |
| 10a. | $AL4a * ((DL260 + DL265 + DL270 + DL310 + DL315 + DL320) + (DL805/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned COE Categories 4.11 & 4.22 |
| 11. | [Reserved] | |
| 12. | [Reserved] | |
| 13. | $AL3 * (DL430 - DL435 - DL440)$ | Cable & Wire Facilities Maintenance Expense assigned to Category 1 |
| 13a. | $AL3a * (DL430 - DL435 - DL440)$ | Cable & Wire Facilities Maintenance Expense assigned to Category 2 |
| 14. | $AL4 * (DL365 + DL380 + DL395 - DL370 - DL375 - DL385 - DL390 - DL400 - DL405)$ | Central Office Equipment Maintenance Expense assigned to Category 4.13 |
| 14a. | $AL4a * (DL365 + DL380 + DL395 - DL370 - DL375 - DL385 - DL390 - DL400 - DL405)$ | Central Office Equipment Maintenance Expense assigned to Categories 4.11 & 4.22 |

Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms

| Line | Formula | Description |
|-------------|---|---|
| 15. | $(AL5 + AL6) * (DL335 + DL350 - DL340 - DL345 - DL355 - DL360)$ | Network Support Expenses plus General Support Expenses assigned to C&WF Category 1 and COE Category 4.13 |
| 15a. | $(AL5a + AL6a) * (DL335 + DL350 - DL340 - DL345 - DL355 - DL360)$ | Network Support Expenses plus General Support Expenses assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 16. | $(AL5 + AL6) * (L450 - L455)$ | Network Operations Expenses assigned to C&WF Category 1 and COE Category 4.13 |
| 16a. | $(AL5a + AL6a) * (L450 - L455)$ | Network Operations Expenses assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 17. | $AL3 * (DL530 + ((DL815/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to C&WF Category 1 |
| 17a. | $AL3a * (DL530 + ((DL815/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to C&WF Category 2 |
| 18. | $AL4 * ((DL510 + DL515 + DL520) + ((DL805/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to COE Category 4.13 |
| 18a. | $AL4a * ((DL510 + DL515 + DL520) + ((DL805/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to COE Categories 4.11 & 4.22 |
| 19. | $(AL5 + AL6) * (DL535 + DL550)$ (Adjusted for Corporate Operations Expense Limitation) | Corporate Operations Expense assigned to C&WF Category 1 and COE Category 4.13, limited in accordance with §36.621(a)(4) |
| 19a. | $(AL5a + AL6a) * (DL535 + DL550)$ (Adjusted for Corporate Operations Expense Limitation) | Corporate Operations Expense assigned to C&WF Category 2 and COE Categories 4.11 & 4.22, limited in accordance with §36.621(a)(4) |
| 20. | $(AL5 + AL6) * DL650$ | Operating Taxes assigned to C&WF Category 1 and COE Category 4.13 |
| 20a. | $(AL5a + AL6a) * DL650$ | Operating Taxes assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 21. | $(AL5 + AL6) * (DL600 - DL540 - DL555)$ | Benefits other than Corporate Operations Expense assigned to C&WF Category 1 and COE Category 4.13 |
| 21a. | $(AL5a + AL6a) * (DL600 - DL540 - DL555)$ | Benefits other than Corporate Operations Expense assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |

Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms

| Line | Formula | Description |
|-------------|---------------------------------|--|
| 22. | $(AL5 + AL6) * DL610$ | Rents assigned to C&WF Category 1 and COE Category 4.13 |
| 22a. | $(AL5 + AL6) * DL610$ | Rents assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 23. | $(AL1 + AL7 - AL9) * 0.1125$ | Return Component for C&WF Category 1 |
| 23a. | $(AL1a + AL7a - AL9a) * 0.1125$ | Return Component for C&WF Category 2 |
| 24. | $(AL2 + AL8 - AL10) * 0.1125$ | Return Component for COE Category 4.13 |
| 24a. | $(AL2 + AL8 - AL10) * 0.1125$ | Return Component for COE Categories 4.11 & 4.22 |
| 25. | Sum of AL13 thru AL24 | Total Broadband Unseparated Costs |
| 26. | $AL25/DL060$ | Study Area Broadband Cost per Loop (SABCL) |

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

NATIONAL AVERAGE BROADBAND COST PER LOOP (NABCL) ALGORITHM

- **Cost Study Area Broadband Unseparated Costs =**
$$\text{Total Broadband Unseparated Costs} * (\text{Study Area USF Loops} / \text{Study Area Total Loops})$$

- **Nationwide Broadband Unseparated Costs =**
$$\begin{aligned} &\text{Sum of Cost Study Area Broadband Unseparated Costs} \\ &+ \text{Sum of Average Schedule Study Area Broadband Unseparated Costs} \end{aligned}$$

- **National Average Broadband Cost Per Loop (NABCL) =**
$$(\text{Nationwide Broadband Unseparated Costs}) / (\text{Nationwide USF Loops})$$

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

EXPENSE ADJUSTMENT ALGORITHM

Study Areas Reporting 200,000 or Fewer Loops

- In excess of 115% NABCL, but not greater than 150% NABCL, 65% SABCL x USF Loops
- In excess of 150% NABCL, 75% SABCL x USF Loops

Study Areas Reporting More Than 200,000 Loops

- In excess of 115% NABCL, but not greater than 160% NABCL, 10% SABCL x USF Loops
- In excess of 160% NABCL, but not greater than 200% NABCL, 30% SABCL x USF Loops
- In excess of 200% NABCL, but not greater than 250% NABCL, 60% SABCL x USF Loops
- In excess of 250% NABCL, 75% SABCL x USF Loops

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

BROADBAND HIGH COST LOOP RECOVERY ADJUSTMENT

- **Interstate Categories Unseparated Costs =**

Sum of 13a, 14a, 15a, 16a, 17a, 18a, 19a, 20a, 21a, 22a, 23a, 24a

Note: Sum of Unseparated Broadband Costs attributed to CWF Category 2 and
COE Categories 4.11 & 4.22

- **Interstate Categories Broadband Cost per Loop = Interstate Categories Unseparated Costs / USF Loops**

- **Percentage of SABCL attributed to Interstate Categories =**

Interstate Categories Broadband Cost per Loop / SABCL

- **Broadband High Cost Loop Recovery Adjustment =**

Percentage of SABCL attributed to Interstate Categories

x Total Broadband HCL Support per Loop

x USF Loops