November 30, 2016

Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, N.W.  
TW-A325  
Washington, D.C.  20554

Re: National Exchange Carrier Association, Inc.  
2016 Interim Modification of Average Schedules, WC Docket No. 15-298

Dear Ms. Dortch:

Attached is NECA’s 2016 Interim Modification of Average Schedules. This filing is made in compliance with section 69.606 of the Commission’s rules, 47 C.F.R. § 69.606, and contains proposed interim revisions to formulas used for average schedule interstate settlement disbursements. These interim revisions are necessary for the implementation of CAF BLS support in compliance with the Commission’s Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking (FCC 16-33), released on March 30, 2016. These average schedule formula revisions are proposed to become effective for a six-month period beginning on January 1, 2017.

In accordance with the Commission’s rules, this 2016 Interim Modification of Average Schedules has been filed electronically in the above-referenced docket. If you have questions regarding the content of these files, please contact Tanja Curovic, Sr. Director, Average Schedules, at 973-884-8483.

Sincerely,

[Signature]

Attachment: 2016 Interim Modification of Average Schedules

Cc: Douglas Slotten, WCB  
Pamela Arluk, WCB  
Kalpak Gude, WCB  
Best Copy
In this filing, the National Exchange Carrier Association, Inc. (NECA) proposes interim modifications to the currently-effective average schedule formulas.¹ These revised formulas incorporate the Commission’s new limit on Operating Expenses and new mechanism to recover broadband-only loop costs imposed under the Commission’s March 30, 2016 Rate-of-Return USF Reform Order,² (Report and Order) and are needed to calculate NECA common line and traffic sensitive pool settlements to average schedule companies for the first six months of the 2017 calendar year. The Capital Investment Allowance limits, although applicable to average schedule companies, had no effect on the current formulas because no average schedule sample companies used in the study were affected. The overall impact on average schedule settlements from the formula revisions proposed in this filing is a de minimis increase of less than 0.01%. The following text describes methods used by NECA to implement these two changes.

A. **Operating Expenses Limitation**

Using account data of sample average schedule companies included in the December 2015 Filing, NECA recalculated the Operating Expenses of each sample study area based on the Commission’s new limit. NECA then applied the same cost allocations and algorithm methods described in the December 2015 Filing, to calculate a new loop cost for each sample average schedule study area. Finally, NECA used the account data included in the December 2015 Filing to derive a new limit adjustment coefficient to be used in the current common line formula and also in the new Consumer Broadband Only Loop (CBOL) settlement formula discussed in the next section. Following is an explanation of the development of this new coefficient.

As described in the December 2015 Filing, sample average companies report account data to NECA for purposes of preparing modifications to the average schedule formulas, including separate amounts in the Operating Expense accounts. The December 2015 Filing described the use of this data in cost allocations, along with data from other accounts, to calculate revenue requirements in common line, switched, and special access categories.

For this further modification, NECA applied the same cost allocation methods as described in the December 2015 Filing, but substituted the capped value of Operating Expense on top of the already capped Corporate Operations Expense amounts as required by the *Report and Order*. Using this data with the same methods described in the December 2015 Filing, NECA recalculated the sample company revenue requirements in the access cost categories described above.

By comparing revenue requirements from the December 2015 Filing, which only reflected the Corporate Operations Expense cap, with those recalculated to reflect both the Corporate Operations Expense cap and the new cap on Operating Expenses, NECA determined the proportionate share the cap would have on the total sample of average schedule companies. Amounts used in this calculation include common line revenue requirements, the central office revenue requirements
which drive amounts assigned to common line as the “line port shift”, and the transport revenue requirements which drive amounts assigned to common line as the “TIC shift”. Exhibit 1 displays this data. Revenue requirements are sums of sample company data, weighted by sample weights, as described in the December 2015 Filing.

<table>
<thead>
<tr>
<th>Exhibit 1</th>
<th>Operating Expenses Adjustment Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Sample Revenue Requirement – Uncapped</td>
</tr>
<tr>
<td>B</td>
<td>Sample Revenue Requirement – Corporate Operations Expense Capped</td>
</tr>
<tr>
<td>C</td>
<td>Sample Revenue Requirement – Operating Expense Capped (on top of B)</td>
</tr>
<tr>
<td>D</td>
<td>Corporate Operations Adjustment Ratio (B / A) (currently-effective)</td>
</tr>
<tr>
<td>E</td>
<td>Opex Limits Adjustment Ratio (C / A)</td>
</tr>
</tbody>
</table>

NECA proposes to use the Opex Limits Adjustment Ratio (E) in Exhibit 1 to replace the currently-effective Corporate Operations Expense Limit Factor in the Common Line settlement formulas to implement the new limit on operating expense recovery imposed by the Report and Order. Exhibit 2 shows the resulting common line formulas. The Adjustment Ratio appears as part of the Common Line Formula at the bottom of this exhibit. This ratio will also apply to the CBOL formula described in the next section.
Exhibit 2
Common Line Formula Proposed for January 2017

COMMON LINE BASIC FORMULA (UNCHANGED)
Settlement = Settlement Access Lines x Common Line Settlement per Access Line
Common Line Settlement per Access Line
  If Access Lines per Exchange (LPE) less than 350 then, $28.746778 – ($0.009603 x LPE)
  If LPE between 350 and 700 then, $13.888318 + ($4,024.09 / LPE)
  If LPE between 700 and 3,500 then, $20.914964 – ($0.001826 x LPE)
  If LPE 3,500 or more then, 0.9659 x {[$13.888318 + ($4,024.09 / LPE)]

COMMON LINE FORMULA
0.989914 x (Common Line Access Line Formula + Baseline Line Port Shift
  + Baseline CL TIC Shift)
0.989914 = Adjustment due to Operating Expenses limits (includes the Corporate Expense Limit)

B. Broadband-Only Loop Costs Recovery

1. Consumer Broadband Only Loop Settlement Formula

The Report and Order expands the Interstate Common Line Support (ICLS) mechanism to the Connect America Fund Broadband Loop Support (CAF BLS) to recover consumer broadband loop costs, which requires the amount equal to Data-Only Loop revenue requirement to be shifted from the Special Access category to the Common Line category. NECA proposes to accomplish this by moving the current Data-Only Line Cost Increment formula and the Data-Only component of the current DSL Basic formula net of Second Mile costs to the new Consumer Broadband-only settlement formula (Second Mile costs are discussed further below). The shifted amount is further adjusted by the new Operating Expenses limit factor displayed in Section A.
Exhibit 3
Consumer Broadband Only Settlement Formula

CBOL Settlement = (Data-Only Line Cost Increment + Data-Only Settlement net of Second Mile) × Opex Limits Factor
Opex Limits Factor = 0.989914

I) Data-Only Line Cost Increment = DSL Data-Only Lines × Cost per Line (UNCHANGED)
Lines = Access Lines + DSL Data-Only Lines

If number of Lines is less than 50,000, and:
    If Lines per Exchange is less than 600, then:
        I) Cost per Line = $ 96.484644 – $0.052441 × Lines per Exchange
    If Lines per Exchange is greater than or equal to 600 but less than 1,600, then:
        Cost per Line = $ 76.619440 – $0.019333 × Lines per Exchange

If number of Lines is greater than or equal to 50,000 or if Lines per Exchange is greater than or equal to 1,600, then:
    Cost per Line = $ 45.6871

II) Data-Only Settlement net of Second Mile Costs = Data-Only Lines × (Settlement per DSL Line - $0.74)

Settlement per DSL Line (UNCHANGED) =
    If Percent DSL less than 40: $41.01 – 0.512648 × Percent DSL
    If Percent DSL between 40 and 60: $30.76 – 0.256324 × Percent DSL
    If Percent DSL greater than 60: $15.3794
Lines = Average Base Period 2014/2015 Access Lines + DSL Data Only Lines

Percent DSL = (DSL Lines / Lines) × 100

2. Data-Only Second Mile Cost Formula

Second Mile transport costs associated with the provision of data-only lines remaining in special access require a separate settlement formula. Currently these costs are averaged in the DSL Basic formula which does not distinguish between companies with and without Second Mile transport. In this filing NECA proposes a new separate settlement formula aimed to compensate study areas with Second Mile Transport for their Second Mile costs associated with the provision of data-only lines.
Second Mile transport is defined as interoffice facility connecting the DSL serving wire center (SWC) and the SWC where the DSL Access service connection point (ASCP) is located. No Second Mile transport is present if no interoffice facility is used, i.e. if a study area has a DSL ASCP at each of its DSL SWCs.

The new DSL Data-Only Second Mile Formula shown in Exhibit 4 compensates for Second Mile costs if a study area is identified to have Second Mile facilities based on its network configuration in NECA’s Tariff 4. The settlement rate is equal to the median monthly Data-Only Second Mile RRQ per Data-Only line for Group C cost companies with Second Mile costs based on 2015 Cost studies.

**Exhibit 4**
Second Mile Data-Only Settlement Formula

For average schedule study areas identified as not having Second Mile costs:

Monthly Data-Only Second Mile Settlement = 0

For study areas identified as having Second Mile costs:

Monthly Data-Only Second Mile Settlement = $2.78 \times \text{Data-Only Lines}

Furthermore, NECA used the Second Mile settlement rate to estimate the Second Mile costs embedded in the Data-Only component of the current DSL Basic formula in order to remove this cost from the current Data-Only formula. Using the sample data from the 2015 cost study and Second Mile classification of study areas with Data-Only lines NECA estimated that the current formula is higher by $0.74 per Data-Only line for all study areas regardless of the presence of Second Mile costs. This amount is shown in Exhibit 3, Part II by which the current Data-Only settlement per Data-Only line is reduced.
C. **Impact on Settlements**

The combined impact on average schedule settlements shown in Exhibit 7.6 in the 2015 December Filing from the formula revisions proposed in this filing is a projected increase of 0.0099%. This increase is due to an introduction of the Second Mile settlement formula which is not completely offset by the reduction of $0.74 per data-only line for the removal of Second Mile costs embedded in the current Data-Only formula.

While the removal of the Second Mile settlement from the companies without Second Mile transport and the addition of a distinct Second Mile formula for those with Second Mile transport is revenue neutral for the sample companies used in the study, the settlement effect in the population is slightly higher because of a greater share of data-only lines with Second Mile transport in the population compared to the sample.
Exhibit 6 below shows the settlement impact by category using the data from Exhibit 7.6 mentioned above.

**Exhibit 6**  
Monthly Settlements by Category (Based on Exhibit 7.6 in 2015 December Filing)

<table>
<thead>
<tr>
<th>Category</th>
<th>Original Amount in Exhibit 7.6</th>
<th>Impact of Proposed Revisions $ Amounts</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Common Line Basic with MAG Shifts After Limits</td>
<td>$14,690,182</td>
<td>($678)</td>
<td>-0.0046%</td>
</tr>
<tr>
<td>B. CL Universal Service Contribution</td>
<td>$1,709,784</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Common Line Total (A + B)</td>
<td>$16,399,966</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. Special Access Non DSL with TIC Shift</td>
<td>$3,571,056</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Special Access DSL Basic with TIC Shift</td>
<td>$2,818,163</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F. DSL Data-Only Increment</td>
<td>$473,144</td>
<td>($4,772)</td>
<td>-1.0086%</td>
</tr>
<tr>
<td>G. Special Access DSL with TIC Shift (E + F)</td>
<td>$3,291,307</td>
<td>$8,177</td>
<td>0.2484%</td>
</tr>
<tr>
<td>H. Traffic Sensitive Switched</td>
<td>$4,315,480</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Traffic Sensitive Total (D + G + H)</td>
<td>$11,177,842</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J. Overall Total (C + I)</td>
<td>$27,577,809</td>
<td>$2,727</td>
<td>0.0099%</td>
</tr>
</tbody>
</table>
Conclusion

NECA proposes the settlement formulas shown above in Exhibits 2, 3, and 4 take effect on January 1, 2017 for the remaining 6 months of the 2016/2017 Test period, replacing the current Common Line formula and the current Data-Only formulas. The settlement effect of these changes is projected to amount to an overall *de minimis* increase of less than 0.01% based on the settlement data contained in the December 2015 Filing.