



6712-01

FEDERAL COMMUNICATIONS COMMISSION

47 CFR Parts 51, 54, and 69

[WC Docket Nos. 10-90, 14-58; CC Docket No. 01-92; FCC 18-13]

Developing a Unified Intercarrier Compensation Regime

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: In this document, the Commission reconsiders rules adopted in the Rate-of-Return Reform Order. Specifically, the Commission replaces the surrogate cost methods for Consumer Only Broadband Loops, revises CBOL imputation rules, and lastly, clarifies matters concerning reductions in the Connect America Fund Broadband Loop Support. Further review of the record supports the adjustments, and further promotes the Commission's goals of providing certainty and stability for carriers and continued consumer access to advanced telecommunications and information services.

DATES: Effective [INSERT DATE 30 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER]

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SUPPLEMENTARY INFORMATION: This is a summary of the Commission's Second Order on Reconsideration and Clarification, WC Docket Nos. 10-90 and 14-58, CC Docket No. 01-92; FCC 18-13, released on February 16, 2018. A full-text copy of this document may be obtained at the following internet address: https://apps.fcc.gov/edocs_public/attachmatch/FCC-18-13A1.docx.

Synopsis

I. INTRODUCTION

1. By the Second Order on Reconsideration and Clarification (Order), we reconsider rules adopted in the Rate-of-Return Reform Order relating to rate-of-return local exchange carriers' (LECs) provision of consumer broadband-only loops (CBOLs). First, we revise our rules to replace the surrogate cost method for determining the cost of CBOLs with rules employing existing separations and cost allocation procedures. Second, we revise the rule requiring rate-of-return carriers to impute on CBOLs an amount equal to the Access Recovery Charge (ARC) that could have been assessed on a voice or voice/broadband line to better implement our intent to maintain the balance between end user charges and universal service adopted in the USF/ICC Transformation Order. Finally, we clarify two matters pertaining to reductions in Connect America Fund Broadband Loop Support (CAF BLS) due to competitive overlap. Making these adjustments to the rules for rate-of-return carriers serves the Commission's goals of providing more certainty and stability for carriers investing for the future, thereby ensuring that all consumers have access to advanced telecommunications and information services.

II. BACKGROUND

2. In the Rate-of-Return Reform Order, the Commission revised its approach to providing universal service support to rate-of-return LECs. The Commission adopted a voluntary path under which rate-of-return carriers could elect model-based support for a term of 10 years in exchange for meeting defined build-out obligations. For carriers not electing model-based support, among other things, the Commission modernized the existing interstate common line support rules to provide support in situations where customers subscribe to stand-alone broadband service, instead of traditional regulated local exchange voice service.

3. To implement the provision of universal service support for stand-alone broadband, the Commission defined a new type of service that would receive such support – CBOL service. Because CBOL costs were included in the Special Access category by the separations and Part 69 cost allocation rules, the Commission required carriers to shift CBOL costs from the Special Access category to a new CBOL category. The goal was to avoid including such CBOL costs in the determination of just and

reasonable rates for special access services and to develop the support mechanism and tariff rates for CBOL service. Reasoning that CBOL costs were similar to common line costs, the Commission decided to use common line costs as a surrogate for identifying the CBOL costs to be shifted from the Special Access category to the CBOL category for each CBOL. This process is referred to as the “surrogate method.” The surrogate method included the broadest definition of loop costs feasible based on the Commission’s then-current cost accounting rules. It also was intended to identify those costs in an expansive manner, to segregate the broadband-only loop investment and expenses from other special access costs currently included in the Special Access category, and to preclude cross-subsidization. The Commission recognized, however, that it might be appropriate to revisit the surrogate method in the future if it was not working as intended.

4. In the course of implementing the new rules and carrier introduction of the new CBOL service, it became apparent that, in certain limited situations, the surrogate cost methodology over-allocated costs out of the Special Access category, thereby reducing the revenue requirement and resulting special access services rates more than intended; indeed, in the worst case scenario, rates would have been reduced to zero. Concluding that it would be unreasonable to apply the surrogate method in such circumstances, the Wireline Competition Bureau (Bureau) granted a limited waiver of sections 69.311 and 69.416 of the Commission’s rules in cases where use of the surrogate cost method would result in such unintended rate reductions. The Bureau granted a similar limited waiver of the rules concerning use of the surrogate cost method for the 2017 annual access charge tariff filing, and any later tariff filings related to the development of the CBOL revenue requirement.

5. In the Rate-of-Return Reform Order, the Commission also adopted a rule requiring that rate-of-return carriers impute an amount equal to the ARC on CBOL service as part of the process of calculating their CAF ICC Support. The Commission anticipated the migration of some end users from their current voice/broadband offerings to supported broadband-only lines due to increased affordability of these services. It recognized that as such migration occurred, the reduction in the number of ARC-eligible lines would require carriers to recover more from CAF ICC support. To help maintain the careful

balance between end-user charges and universal service support adopted in the USF/ICC Transformation Order, the Commission adopted the ARC imputation rule for CBOL service. Those rules do not distinguish between carriers' revenue from new and existing broadband only loop subscribers.

6. NTCA – The Rural Broadband Association filed a petition asking the Commission to reconsider portions of the Rate-of-Return Reform Order. Among other things, NTCA asks that the Commission reconsider the surrogate method for estimating CBOL costs, and instead adopt a more cost-based method. NTCA also requests that the Commission reconsider the ARC imputation rule and grandfather stand-alone broadband connections in place as of September 30, 2011 from imputation of the ARC amounts.

7. Further, the Commission also adopted rules in the Rate-of-Return Reform Order to eliminate CAF BLS in census blocks served by an unsubsidized competitor. The Commission recognized that the census blocks served by an unsubsidized competitor are likely to be lower cost areas, as compared to the other census blocks in the carrier's study area. Accordingly, the Commission provided that a carrier subject to competitive overlap may elect one of three methodologies to "disaggregate" its support into competitive census blocks (in which support would be eliminated) and non-competitive census blocks (in which support would not be eliminated). The Commission further adopted a plan for transitioning support reductions for areas subject to competitive overlap.

III. DISCUSSION

8. Upon review of the record, we modify our rules by replacing the surrogate cost method for determining the cost of CBOLs and revise the rule requiring rate-of-return carriers to impute an amount equal to the ARC that could have been assessed on a voice or voice/broadband line. We also clarify two matters pertaining to the manner in which competitive overlap can lead to a reduction in CAF BLS. These actions will further advance our goal of ensuring deployment of advanced telecommunications and information services networks throughout "all regions of the nation."

A. Replacing the Surrogate Method

9. First, we revise sections 69.311 and 69.416 as set forth in the Appendix to determine CBOL costs from the Part 36 and Part 69 cost studies without using a surrogate method. While the surrogate method produced CBOL cost estimates in the expected ranges for many, if not most, carriers, in other situations the estimates were problematic. For a few carriers, particularly those that elected to freeze their separations category relationships, use of the surrogate method would have eliminated the Special Access revenue requirement thereby requiring carriers to offer special access services at no charge. The costs shifted to the CBOL category are also an input into the amount of CAF BLS a carrier is eligible to receive; accordingly, this over-allocation would have had the unintended effect of increasing the projected revenue requirement for CAF BLS. Because use of the surrogate method does not result in an appropriate cost allocation for some rate-of-return carriers, we now reconsider and adopt a different approach for identifying CBOL costs that should be shifted from the Special Access category to the CBOL category commencing with the 2018 annual access charge tariff filings.

10. We find the approach suggested by NTCA to be a significantly better approach than the surrogate method. NTCA proposes that the Commission revise section 69.311(b) to specify that broadband-only investment shall equal the amount of broadband-only loop investment included in CWF Category 2 Wideband and COE Category 4.11 Wideband Exchange Line Circuit Equipment, and related reserves and other investment, assigned to interstate special access pursuant to Parts 36 and 69 of the Commission's rules. It further proposes that broadband-only loop expenses should then be determined by reference to such investments. We note that the National Exchange Carrier Association (NECA) supported a similar concept for moving forward. No party has opposed this approach.

11. Rate-of-return carriers, other than average schedule carriers and those that elected to freeze their separations category relationships, perform cost studies to implement the Part 36 and 69 cost allocations in the process of establishing interstate access rates. The approach proposed by NTCA and supported by NECA would use existing cost categories and allocation procedures to identify the costs shifted to the CBOL category. Because this approach takes the actual costs from the cost studies into

consideration rather than using common line costs as a surrogate, it should produce a more accurate means of identifying and allocating these costs. Under this approach, carriers can identify and track CBOL investment costs that are directly assigned to the Special Access category, as well as track indirect costs to the new CBOL category. Once investments are assigned, the existing rules provide procedures for allocating expenses among categories in a consistent manner that will allow carriers to determine the expenses associated with CBOL services and shift them to the CBOL category. In addition to producing more accurate results, using the current cost study process minimizes the burden on carriers and the likelihood of cost variability and distortions in future years.

12. While NTCA proposes specific assignment categories – separations category 2.1, cable and wire facilities, and category 4.1.1, circuit equipment – we find that the better approach is to be less specific concerning permitted cost categories. The Federal-State Joint Board on Jurisdictional Separations is considering reforms of the separations procedures that have been frozen since 2000. More generic rule language will simplify harmonization of any reforms adopted in that proceeding with the cost allocation rules in Part 69. Therefore, the new rules will require rate-of-return carriers to use direct assignment principles to the extent possible before making any indirect allocations.

13. Rate-of-return carriers shall use the revised procedures for determining broadband-only line costs to be shifted beginning July 1, 2018. Such carriers have already completed the cost studies necessary for developing data related to support amounts and access rates for tariff year 2017 and the Second Cost Surrogate Waiver Order mitigated the most significant short-term concerns with the surrogate method. Moreover, the changes we adopt largely reflect longer-term considerations. Making the revisions to these rules applicable beginning July 1, 2018 allows carriers to plan for these changes as part of the next annual access tariff filings.

B. ARC Imputation

14. Upon further consideration, we also revise, effective for a period of five years, section 51.917(f) of our rules to address NTCA's concern that, under the existing rule, a carrier's CAF ICC support is reduced because of the imputation of an amount on CBOLs that was not part of the balance

struck in the USF/ICC Transformation Order. NTCA argues that “[a] standalone broadband connection in place as of September 30, 2011 was never included within the CAF-ICC baseline and thus was not part of the ‘careful balancing’ that went into establishing the mechanism.” Other parties support reconsideration of the ARC imputation rule and the solution proposed by NTCA.

15. We agree with NTCA that our focus on reconsideration should be on the goal of balancing end-user and universal service support adopted in the USF/ICC Transformation Order. The ARC imputation for CBOLs was intended to ensure that new support for CBOLs would not unduly increase CAF ICC. Although the ARC imputation achieves that goal, we agree with NTCA that, as implemented, the ARC imputation may unduly penalize rate-of-return carriers that offered stand-alone broadband connections before the Rate-of-Return Reform Order. As such, we believe adjusting the ARC imputation calculation is appropriate. At the same time, however, we are mindful of the concerns raised by NTCA regarding the need to ensure that any exemption that we create “be properly targeted and limit potential adverse impacts on carriers that do not qualify for such an exemption.”

16. We limit the ARC imputation amount so that the total ARC revenues and imputation for the current tariff period will not exceed a pre-Rate-of-Return Reform Order baseline as a result of CBOL imputation. Specifically, we set the baseline as the ARC revenues from the most recent tariff period prior to the effective date of the CBOL imputation rule (tariff year 2015-16). Under this approach, a rate-of-return carrier’s CAF ICC support will be reduced by the ARC imputation on CBOLs only if a carrier’s maximum assessable ARCs and imputed CBOL ARCs falls short of the baseline amount. We revise section 51.917(f) of the Commission’s rules to explain the process for making the necessary comparisons and any resulting imputation on CBOLs.

17. The revisions to section 51.917(f) rules will take effect on July 1, 2018, the date that the upcoming annual access tariffs will take effect. This effective date will simplify implementation and avoid any complications that would occur as a result of a need to true-up such amounts in 2019. All rate-of-return carriers must reflect the effects of these rule revisions in their Tariff Review Plans for the June 2018 annual access charge tariff filings. We adopt NTCA’s recommendation to sunset section

51.917(f)(5), the provision implementing our revisions to the imputation requirement, after five years. We believe that such a limitation is warranted in light of our currently-limited experience with CAF-supported CBOL-based service. We will monitor the effects of section 51.917(f)(5) during that period and take further action as necessary.

18. We reject the grandfathering approach suggested by NTCA. That approach raises unnecessarily complicated administrative issues with respect to the determination and verification of the number of stand-alone broadband lines in service on September 30, 2011. We also question whether a simple frozen number of lines is the best approach since some turnover would be expected over time. For these reasons, we decline to adopt the grandfathering solution suggested by NTCA.

C. Clarification of Competitive Overlap Procedures

19. In addition to the issues on reconsideration addressed above, we also clarify two matters related to reductions in support due to the competitive overlap procedure adopted in the Rate-of-Return Reform Order.

20. First we clarify the reduction amounts associated with the second disaggregation method. In the Rate-of-Return Reform Order, the Commission published a table showing the “reduction ratio” for specified “competitive ratios” (i.e., the ratio of competitive square miles to non-competitive square miles in a study area). While the table sets forth a precise reduction ratio for each competitive ratio that was listed, it did not clearly reflect the intent of the Commission with respect to the reduction ratios that should apply to competitive ratios in between the specified competitive ratios. The table below fills in the gaps in accordance with the Commission’s clear intent and replaces the table in the Rate-of-Return Reform Order.

| Competitive Ratio | | Reduction |
|--------------------------|-------------------------|------------------|
| More than | But no more than | Ratio |
| 0% | 20% | N/A |
| 20% | 25% | 3.3% |
| 25% | 30% | 6.7% |
| 30% | 35% | 10.0% |
| 35% | 40% | 13.3% |
| 40% | 45% | 16.7% |
| 45% | 50% | 20.0% |
| 50% | 55% | 25.0% |
| 55% | 60% | 30.0% |
| 60% | 65% | 35.0% |
| 65% | 70% | 40.0% |
| 70% | 75% | 45.0% |
| 75% | 80% | 50.0% |
| 80% | 85% | 62.5% |
| 85% | 90% | 75.0% |
| 90% | 95% | 87.5% |
| 95% | 100% | 100% |

21. Second, in discussing the transition to support reductions and in the associated rule, the Commission referred to the transition schedule where the CAF BLS subject to competitive overlap is “more than 25 percent” of total CAF BLS. This reference was in contrast to areas “where the reduction of CAF BLS from competitive census block(s) represents less than 25 percent of the total CAF BLS support the carrier would have received in the study area in the absence of this rule.” To prevent a gap when the reduction is exactly 25 percent, we clarify that that schedule applies where the CAF BLS subject to competitive overlap is 25 percent or more of total CAF BLS, and modify section 54.319(g) to reflect that

clarification.

IV. PROCEDURAL MATTERS

A. Paperwork Reduction Act Analysis

22. This document does not contain new or modified information collection requirements subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. Therefore, it does not contain any new or modified information collection burdens for small business concerns with fewer than 25 employees, pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, see 44 U.S.C. 3506(c)(4).

B. Congressional Review Act

23. The Commission will send a copy of this Second Order on Reconsideration and Clarification to Congress and the Government Accountability Office pursuant to the Congressional Review Act, *see* 5 U.S.C. 801(a)(1)(A).

C. Final Regulatory Flexibility Certification

24. The Regulatory Flexibility Act of 1980, as amended (RFA), requires agencies to prepare a regulatory flexibility analysis for rulemaking proceedings, unless the agency certifies that “the rule will not have a significant economic impact on a substantial number of small entities.” The RFA generally defines “small entity” as having the same meaning as the terms “small business,” “small organization,” and “small governmental jurisdiction.” In addition, the term “small business” has the same meaning as the term “small business concern” under the Small Business Act. A small business concern is one which: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the Small Business Administration (SBA).

25. This Order amends rules adopted in the Rate-of-Return Reform Order by replacing the surrogate cost method for calculating the costs of Consumer Broadband-only Loops (CBOLs) and revising the Access Recovery Charge (ARC) imputation rules for CBOLs. These revisions do not create any burdens, benefits, or requirements that were not addressed by the Final Regulatory Flexibility

Analysis attached to the Rate-of-Return Reform Order. Therefore, we certify that the rule revisions adopted in this Second Order on Reconsideration and Clarification will not have a significant economic impact on a substantial number of small entities.

26. The Commission will send a copy of the Second Order on Reconsideration and Clarification, including a copy of this Final Certification, in a report to Congress pursuant to the Congressional Review Act. In addition, the Second Order on Reconsideration and Clarification and this Final Certification will be sent to the Chief Counsel for Advocacy of the SBA, and will be published in the Federal Register.

V. ORDERING CLAUSES

27. Accordingly, IT IS ORDERED, pursuant to the authority contained in sections 1, 2, 4(i), 205, 214, 218-220, 251, 252, 254, 256, 303(r), 332, 403, and 405 of the Communications Act of 1934, as amended, and section 706 of the Telecommunications Act of 1996, 47 U.S.C. 151, 152, 154(i), 155, 205, 214, 218-220, 251, 252, 254, 256, 303(r), 332, 403, 405, 1302, that this Second Order on Reconsideration and Clarification IS ADOPTED, effective thirty (30) days after publication of the text or summary thereof in the Federal Register.

28. IT IS FURTHER ORDERED that Parts 51, 54, and 69 of the Commission's rules, 47 CFR parts 51, 54, and 69, ARE AMENDED as set forth in the Appendix, and such rule amendments SHALL BE EFFECTIVE thirty (30) days after publication of the rules amendments in the Federal Register.

29. IT IS FURTHER ORDERED that the Commission SHALL SEND a copy of this Second Order on Reconsideration and Clarification to Congress and the Government Accountability Office pursuant to the Congressional Review Act, see 5 U.S.C. 801(a)(1)(A).

30. IT IS FURTHER ORDERED, that the Commission's Consumer and Governmental Affairs Bureau, Reference Information Center, SHALL SEND a copy of this Second Order on Reconsideration and Clarification, including the Final Regulatory Flexibility Certification, to the Chief

Counsel for Advocacy of the Small Business Administration.

31. IT IS FURTHER ORDERED that the Petition for Reconsideration and/or Clarification of NTCA – The Rural Broadband Association filed May 25, 2016, is GRANTED IN PART as described herein.

List of Subjects

47 CFR Part 51

Communications common carriers, Telecommunications.

47 CFR Part 54

Communications common carriers, Health facilities, Infants and children, Internet, Libraries, Reporting and recordkeeping requirements, Schools, Telecommunications, Telephone.

47 CFR Part 69

Communications common carriers, Reporting and recordkeeping requirements, Telephone.

FEDERAL COMMUNICATIONS COMMISSION

Katura Jackson,
Federal Register Liaison Officer,
Office of the Secretary

Final Rules

For the reasons discussed in the preamble, the Federal Communications Commission amends 47 CFR parts 51, 54 and 69 as follows:

PART 51—INTERCONNECTION

1. The authority citation for part 51 continues to read as follows:

AUTHORITY: 47 U.S.C. 151-55, 201-05, 207-09, 218, 220, 225-27, 251-54, 256, 271, 303(r), 332, 1302.

2. Amend § 51.917 by revising the first sentence of paragraph (f)(4) and adding paragraph (f)(5) to read as follows:

§ 51.917 Revenue recovery for Rate-of-Return Carriers.

* * * * *

(f) * * *

(4) Except as provided in paragraph (f)(5) of this section, a Rate-of-Return Carrier must impute an amount equal to the Access Recovery Charge for each Consumer Broadband-Only Loop line that receives support pursuant to §54.901 of this chapter, with the imputation applied before CAF-ICC recovery is determined. * * *

(5) Notwithstanding paragraph (f)(4) of this section, commencing July 1, 2018 and ending June 30, 2023, the maximum total dollar amount a carrier must impute on supported consumer broadband-only loops is limited as follows:

(i) For the affected tariff year, the carrier shall compare the amounts in paragraphs (f)(5)(i)(A) and (B) of this section.

(A) The sum of the revenues from projected Access Recovery Charges assessed pursuant to paragraph (e) of this section, any amounts imputed

pursuant to paragraph (f)(2) of this section, and any imputation pursuant to paragraph (f)(4) of this section.

(B) The sum of the revenues from Access Recovery Charges assessed pursuant to paragraph (e) of this section and any amounts imputed pursuant to paragraph (f)(2) of this section for tariff year 2015-16, after being trued-up.

(ii) If the amount determined in paragraph (f)(5)(i)(A) of this section is greater than the amount determined in paragraph (f)(5)(i)(B), the sum of the revenues from projected Access Recovery Charges assessed pursuant to paragraph (e) of this section and any amounts imputed pursuant to paragraph (f)(2) of this section for the affected year must be compared to the amount determined in paragraph (f)(5)(ii)(B) of this section.

(A) If the former amount is greater than the latter amount, no imputation is made on Consumer Broadband-Only Loops.

(B) If the former amount is equal to or less than the latter amount, the imputation on Consumer Broadband-Only Loops is limited to the difference between the two amounts.

PART 54—UNIVERSAL SERVICE

3. The authority citation for part 54 continues to read as follows:

AUTHORITY: 47 U.S.C. 151, 154(i), 155, 201, 205, 214, 219, 220, 254, 303(r), 403, and 1302 unless otherwise noted.

4. Amend § 54.319 by revising paragraph (g) introductory text to read as follows:

§ 54.319 Elimination of high-cost support in areas with 100 percent coverage by an unsubsidized competitor.

* * * * *

(g) For any incumbent local exchange carrier for which the disaggregated support for competitive census blocks represents 25 percent or more of the support the carrier would have received in the study area in the absence of this rule, support shall be reduced for each competitive census block according to the following schedule:

* * * * *

PART 69—ACCESS CHARGES

5. The authority citation for part 69 continues to read as follows:

AUTHORITY: 47 U.S.C. 154, 201, 202, 203, 205, 218, 220, 254, 403.

6. Amend § 69.311 by revising the introductory text of paragraph (b) and adding paragraph (c) to read as follows:

§ 69.311 Consumer Broadband-Only Loop investment.

* * * * *

(b) Until June 30, 2018, the consumer broadband-only loop investment to be removed from the special access category shall be determined using the following estimation method.

* * * * *

(c) Beginning July 1, 2018, each carrier shall determine, consistent with the Part 36 and Part 69 cost allocation rules, the amount of Consumer Broadband-Only Loop investment and related reserves and other investment assigned to the interstate Special Access category that is to be shifted to the Consumer Broadband-Only Loop category.

7. Amend § 69.416 by revising the introductory text of paragraph (b) and adding paragraph (c) to read as follows:

§ 69.416 Consumer Broadband-Only Loop expenses.

* * * * *

(b) Until June 30, 2018, the consumer broadband-only loop expenses to be removed from the special access category shall be determined using the following estimation method.

* * * * *

(c) Beginning July 1, 2018, each carrier shall determine, consistent with the Part 36 and Part 69 cost allocation rules, the amount of Consumer Broadband-Only Loop expenses assigned to the interstate Special Access category that are to be shifted to the Consumer Broadband-Only Loop category.

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