Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
National Exchange Carrier	)	
Association, Inc. (NECA)	)	AAD 96-132
	)	
Supplemental Modification of the 1996	)	
Interstate Average Schedule Formula	)	

ORDER

Adopted: March 25, 1997 **Released: March 26, 1997**

By the Chief, Common Carrier Bureau:

I. INTRODUCTION

1. On December 27, 1996, the National Exchange Carrier Association, Inc. ("NECA") filed a supplemental modification to its interstate average schedule common line formula to reflect the deregulation of pay telephone station equipment required by Section 276[1] of the Communications Act of 1934, as amended (*"Act"*). Comments were filed by two parties: the United States Telephone Association ("USTA") and the National Telephone Cooperative Organization "NTCA"). In this Order, we approve the proposed modification to the common line formula, which will become effective April 15, 1997.

II. BACKGROUND

2. Incumbent local exchange carriers ("ILECs") that participate in the NECA pools receive compensation for the use of their facilities in originating and terminating interstate

[1] 47 U.S.C. § 276. *See also* Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, *Report and Order*, CC Docket No. 96-128, FCC 96-388 (Sept. 20 1996) (*"Pay Telephone Order"*); *Order on Reconsideration*, FCC 96-439, (Nov. 8, 1996) (*"Order on Reconsideration"*); and Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, 61 Fed. Reg. 52307 (1996).

common carrier telecommunications services either on the basis of cost studies or average schedule formulas. Average schedule formulas are based on surrogate cost factors and are designed to "simulate the disbursements that would be received . . . by a [cost study] company that is representative of average schedule companies."[2] Average schedule companies currently receive interstate compensation pursuant to formulas that became effective July 1, 1996.[3]

3. One of the formulas that average schedule companies use to determine compensation is the common line settlement formula. This formula is designed to compensate average schedule companies for the interstate costs associated with subscriber lines. The formula bases compensation to recover common line revenue requirements upon the number of access lines per exchange. Currently only access lines subject to the subscriber line charge ("SLC") are counted for use in the formula.

4. Until the requirements of the *Pay Telephone Order* become effective, a number of conditions prevail that have not encouraged competition among pay telephone providers. For example, while independent payphone providers must pay the SLC for the loop used by each of their payphones, ILECs have not imputed SLC charges to their own provision of payphones. Therefore, ILECs have had a competitive advantage over independent payphone providers.

5. In order to promote competition among pay telephone service providers, Congress, through the *Act*, directed ILECs to "discontinue the intrastate and interstate carrier access charge payphone service elements and payments in effect on such date of enactment. . . ."[4] In order to implement this directive of the *Act*, the Commission stated in the *Pay Telephone Order* that ILECs must file revised carrier common line tariffs with the Common Carrier Bureau no later than January 15, 1997 to reduce their interstate CCL charges by an amount equal to the interstate allocation of payphone costs currently recovered through those charges.[5] The Commission ordered that such reduced charges shall take effect April 15, 1997.[6] In addition to the removal of pay telephone costs from the common line charges, the Commission ordered that the "SLC . . . apply to subscriber lines that terminate at both LEC and competitive payphones."[7]

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[2] 47 C.F.R. § 69.606(a).

[3] National Exchange Carrier Association, Inc., Proposed Modifications to the Interstate Average Schedule Formulas, *Memorandum Opinion and Order*, 11 FCC Rcd. 7651 (1996) ("*NECA Filing*").

[4] 47 U.S.C. § 276(b)(1)(B).

[5] *See Pay Telephone Order* at ¶ 183.

[6] *Id.* at ¶ 183.

[7] *Id.* at ¶ 187.

III. PLEADINGS

A. NECA's Filing

6. NECA proposes to modify the common line formula for the period April 1, 1997 through June 30, 1997. This modification consists of two adjustments: (1) removal of the pay telephone station equipment revenue requirements from the common line formula; and (2) revision of the common line formula to offset increases in the number of access lines counted, because ILECs' pay telephone lines must now be included in the total access line count.[8] Regarding the first adjustment, NECA proposes to subtract approximately one half of one percent of the current revenue requirement.[9] NECA proposes, for the second adjustment, to change the common line settlement formula through a factor that compensates for the increase in access lines.[10] NECA combines the revenue requirement adjustment and the access line adjustment to compute a composite adjustment to the current common line formula.[11] By applying this composite factor to the current formula, NECA states that the formula should be reduced by an amount sufficient to reflect both the removal of ILECs' pay telephone station equipment revenue requirements and the addition of ILEC pay telephone lines to access line counts used for settlements.

B. Comments and Reply Comments

7. In a Public Notice released December 31, 1996, we invited comments on NECA's

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[8] Because average schedule companies use the access lines subject to SLC to determine the access line count, as noted above, and because the *Pay Telephone Order* now requires that ILECs' pay telephones be subject to the SLC, average schedule companies must include access lines that service their pay telephone lines.

[9] NECA estimates the 1997 revenue requirement for the pay telephone portion of the common line revenue requirement for average schedule companies to be $837,781 and the total common line revenue requirement for average schedule companies to be $170,666,884. The pay telephone revenue requirement, therefore, is 0.4909 percent of total common line revenue requirement. *See NECA Filing*, Attachment B. NECA's estimates are based on a statistical sample of 200 average schedule companies and 187 cost companies.

[10] NECA estimates the number of ILEC pay telephone access lines and total access lines for June 1996 to be 12,544 and 2,545,333, respectively. *See NECA Filing*, Exhibit 5. Thus, NECA estimates that ILEC pay telephone access lines were 0.4928 percent of total access lines. NECA assumes that the same ratio will remain valid for 1997 and, therefore, adjusts for the increase in access line counts by dividing the common line settlement by 1 + 0.004928.

[11] The composite adjustment results from combining the two adjustments to yield (1-0.004909)/(1+0.004928), which equals approximately 0.99.

proposals.[12] Both USTA and NTCA recommend that the Commission approve NECA's proposed modification of the common line formula. USTA states that the supplemental modifications are reasonable, and that they are consistent with the requirements of the *Act* and the *Pay Telephone Order*.[13] NTCA also states that it is satisfied that the supplemental modification is a reasonable approach to adjust the interstate average schedule formula modifications in order to comply with the *Pay Telephone Order*.[14] No one objected to NECA's proposed adjustments.

IV. DISCUSSION

8. We have reviewed the methodologies and data NECA submitted as well as the comments that support its proposed modification to the common line formula for average schedule companies. We agree that the proposed methodology will adjust the common line formula appropriately to meet the requirements of the *Act* and the *Pay Telephone Order*.

9. The *Pay Telephone Order* required the removal of ILECs' payphone equipment costs from regulated service costs and the imputation of SLC charges to subscriber lines that are connected to payphones. The order requires ILECs to implement these changes by April 15, 1997. To implement these changes, NECA filed new common line tariff rates.[15] The new rates are based, in part, on a new average schedule formula[16] that incorporates the changes required by the *Pay Telephone Order*. The new tariff rates are scheduled to be effective on April 15, consistent with the *Pay Telephone Order* requirements. NECA proposes, however, that the new average schedule formula become effective on April 1. NECA proposes this date to facilitate the average schedule companies' April 1997 monthly pool submissions. We will not allow different effective dates for the new tariff rates and the new average schedule formula. To do so would lead to a mismatch of cost and cost recovery for the average schedule companies and the other participants in the NECA common line pool. Furthermore, we conclude that an April 15 effective date will not appreciably complicate the April pool submissions. Therefore, to be consistent with the *Pay Telephone Order* and the proposed tariff, we require that the new average

12 Pleading Cycle Established For Comments on NECA's Supplemental Modification to the Interstate Average Schedule Formulas, *Public Notice*, DA 96-2195.

13 *See* USTA comments at 1-3.

14 *See* NTCA comments at 1-3.

15 *NECA Transmittal No. 737*, which NECA has filed with the Commission, describes proposed common line tariff rates to meet the requirements of the *Act* and the *Pay Telephone Order*. As noted, NECA proposes that these new rates become effective April 15, 1997.

16 *See supra* note 1.

schedule formula become effective on April 15, 1997, or such other date that the NECA tariff revisions become effective.

V. ORDERING CLAUSES

10. Accordingly, IT IS ORDERED, pursuant to Sections 4(i), 5(c), 201-205, 218-220, and 276 of the Communications Act of 1934, as Amended, 47 U.S.C. §§ 154(i), 155(c), 201-205, 215, 218-220, and 276, and Sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§0.91 and 0.291, that NECA's 1996 Supplemental Modification of Average Schedules IS APPROVED with an effective date of April 15, 1997, or such other date that the NECA tariff revisions become effective.

11. IT IS FURTHER ORDERED pursuant to Sections 4(i), 5(c), 201-205, 218-220, and 276 of the Communications Act of 1934, as Amended, 47 U.S.C. §§ 154(i), 155(c), 201-205, 215, 218-220, and 276, and Sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§0.91 and 0.291, that THIS ORDER IS EFFECTIVE UPON ITS RELEASE.

FEDERAL COMMUNICATIONS COMMISSION

Regina M. Keeney
Chief, Common Carrier Bureau