

# High Cost Program

## **AN OVERVIEW**



November 2010

- Overview of High Cost Program
- High Cost Components
- Eligibility Criteria
- Resources
- Q & A

## High Cost Support

- Ensures telecom rates paid by customers that live in high-cost areas are reasonably comparable to rates paid in other areas
- Is provided to telecom carriers to cover a portion of the costs to provide telephone service in high-cost areas

## Delineation of Responsibilities

### USAC

- Administers USF as outlined in Part 54 of FCC rules

### NECA

- Responsible for collecting data outlined in Part 36 of FCC rules
- Administers FCC's "access charge" plan
- About 1,150 local telephone companies participate in access charge revenue pools

## Delineation of Responsibilities

NECA provides the following services to these companies:

- File access charge tariffs with the FCC
  - Collect and validate cost and revenue data
  - Ensure compliance with FCC rules
  - Distribute revenues from access charges among pool members, based on each company's costs of providing interstate access
- Provides agency services for incumbent carriers for ICLS and LSS

# High Cost Program

# COMPONENTS

# Components of High Cost

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**High Cost Loop** – provides intrastate support for the “last mile” of connection for rural companies in service areas where cost to provide service exceeds 115 percent of the national average

**High Cost Model** – provides intrastate support for the “last mile” of connection for non-rural carriers where cost to provide service in the state exceeds two standard deviations above the national average cost per line

**Interstate Access Support** – offsets interstate access charges for price-cap carriers

# Components of High Cost

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**Interstate Common Line Support** – provides interstate support for rate-of-return carriers, to the extent that subscriber line charge (SLC) caps do not permit them to recover their common line revenue requirements

**Local Switching Support** – provides intrastate assistance that helps cover the high fixed switching costs for companies that serve 50,000 or fewer access lines



# Carrier Classifications

*Helping Keep Americans Connected*

| Support Components  | Cap | Rural v. Non-Rural       | Price-Cap v. Rate-of-Return           | True-Up Data Required | Disaggregation              |
|---------------------|-----|--------------------------|---------------------------------------|-----------------------|-----------------------------|
| High Cost Loop      | YES | rural only               | Price-cap; rate-of-return             | No                    | Based on ILEC's disag plan  |
| High Cost Model     | NO  | non-rural only           | Mostly price-cap                      | No                    | Wire center                 |
| IAS                 | YES | non-rural;<br>some rural | Price-cap only                        | No                    | UNE zone                    |
| ICLS                | NO  | rural; some non-rural    | Rate-of-return only                   | Yes – 07/31 each year | Based on ILEC's disag plan  |
| LSS                 | NO  | rural only               | Mostly rate-of-return; Some price-cap | Yes – 12/31 each year | Based on ILEC's disag plan  |
| Safety Net Additive | NO  | rural only               | Price-cap; rate-of-return             | No                    | Based on ILEC's disag plan  |
| Safety Valve        | YES | rural only               | Price-cap; rate-of-return             | No                    | Based on acquired exchanges |

# High Cost Program **DISAGGREGATION**

## Incumbent Carrier Disaggregation

- Disaggregation (47 CFR 54.315) allows incumbent carriers to target High Cost support at a level below the study area in order to allocate support to areas with higher costs.
- Three paths for disaggregating and targeting High Cost support
- **Zones:** areas/wire centers selected for disaggregation (NOT to be confused with zones used for Interstate Access Support)

## Disaggregation Checklist Tool

Tool allowing searching of incumbent rate-of-return carrier disaggregation plans by state or territory

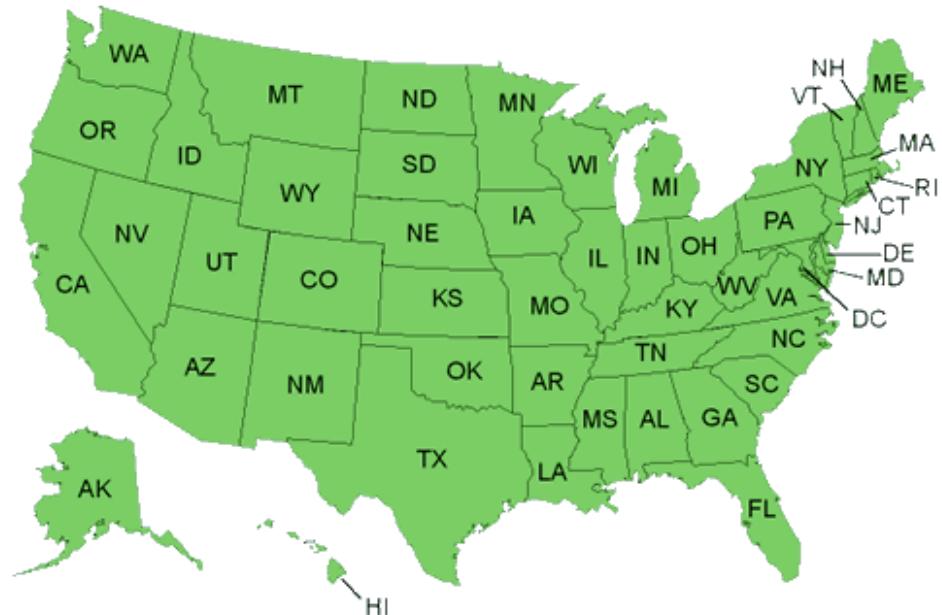
### Disaggregation Checklist

The Disaggregation Checklist tool allows for searching of incumbent rate-of-return carrier disaggregation plans.

Click on the applicable state or territory to download its corresponding Microsoft Excel file. An "X" in the Disaggregation column indicates that a Disaggregation Plan was received.

Please note that not all states have rural or rate-of-return carriers. If you select a state that does not have a rural or rate-of-return carrier, no search results will be found.

Carriers in need of a copy of their Disaggregation Plan may contact High Cost at 202-776-0200 or via e-mail at [hcinfo@usac.org](mailto:hcinfo@usac.org).



## Disaggregation Map Search

Tool retrieving map and zone information for incumbent carriers with disaggregation plans

### Disaggregation Map Search

The disaggregation map search tool retrieves map and zone information for incumbent carriers that have disaggregation plans. Search criteria include company name, study area code, and state.

Carriers in need of a copy of their Disaggregation Plan may contact High Cost at 202-776-0200 or via e-mail at [hcinfo@usac.org](mailto:hcinfo@usac.org).

Company:

Study Area Code:

State:

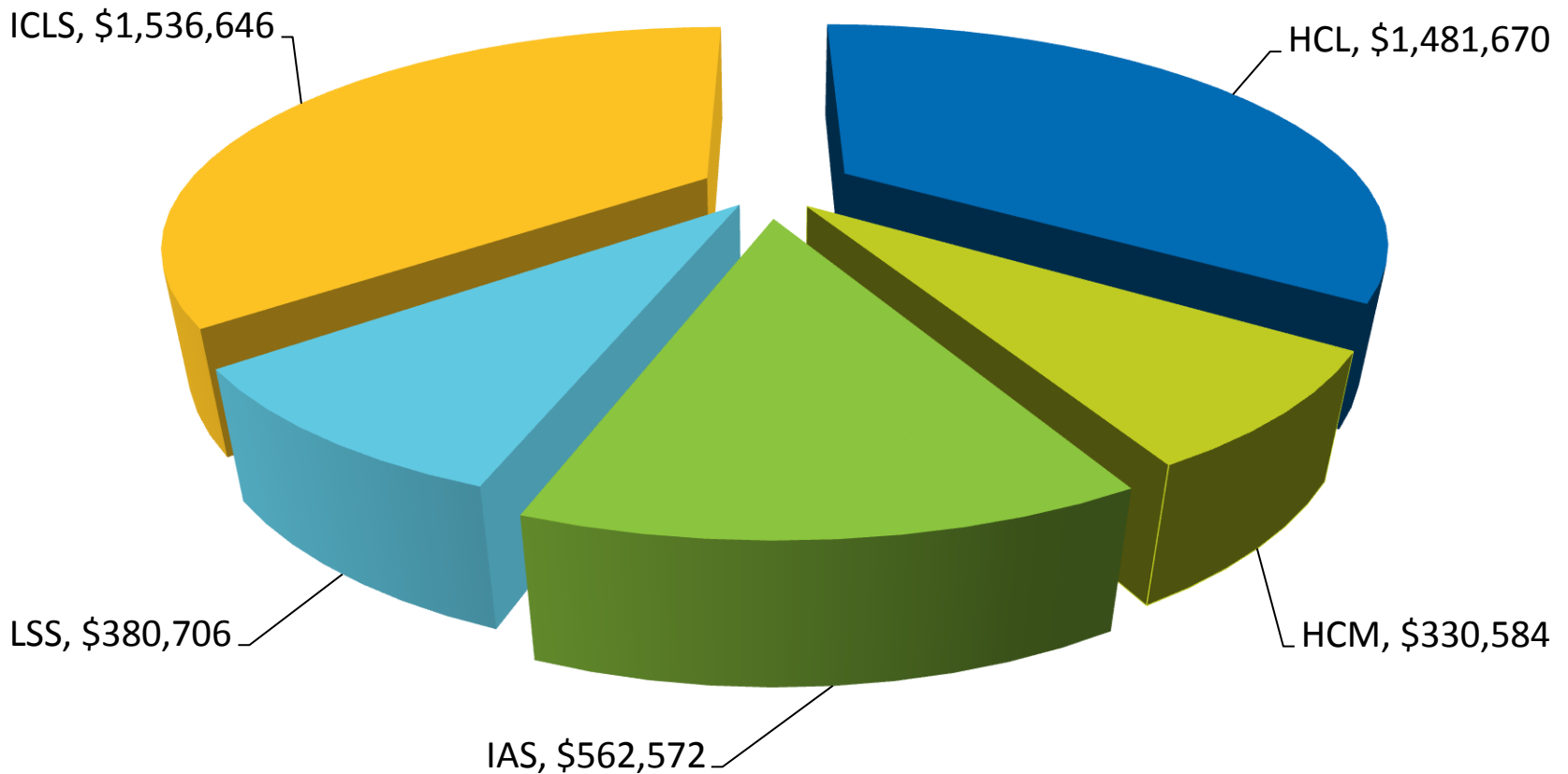
Search

# High Cost Program Component Overviews

# Support by Component

**2009 Total Support: \$4,292,180**

(in thousands – unaudited)



## High Cost Loop Support

- FCC rules require ILECs to submit information to NECA (47 CFR 36.611):
  - Investment and expense information
  - Line count data
  - Non-rural carriers must submit line count data quarterly (47 CFR 36.612)
  - Rural carriers must submit and can update data quarterly on a voluntary basis (47 CFR 36.612)



## High Cost Loop Support

- Subject to annual indexed cap (47 CFR 36.603) based on prior year HCL support grown by rural growth factor
- Algorithm used by NECA to develop individual study area and national average loop cost (NACPL) (47 CFR 36.621-22)
- Carrier with study area cost per loop greater than 115% of NACPL, eligible to receive HCL (47 CFR 36.631)

## High Cost Loop Support

- CETC support available to the extent that the ILEC is eligible for support in a study area (47 CFR 54.307)
- CETC support distributed based on disaggregation plans submitted by the ILEC (47 CFR 54.315)
- CETC support may be limited by operation of the Interim Cap

# Overview: High Cost Loop

Support is calculated differently depending on the number of loops within study areas served by rural carriers (47 CFR 36.631):

| <b>Study Areas ≤ 200,000 Working Loops</b> |   |
|--|---|
| <b>Cost Support</b>                        | <b>National Average Cost Per Loop Range</b> |
| 65%  | 115% to 150%                                |
| 75%  | > 150%                                      |
| <b>Study Areas ≥ 200,000 Working Loops</b> |   |
| 10%  | 115% to 160%                                |
| 30%  | 160% to 200%                                |
| 60%  | 200% to 250%                                |
| 75%  | > 250%                                      |

## Safety Net Additive

- Additional component of HCL which is calculated over and above the HCL cap (47 CFR 36.605)
- Available to rural ILECs that invest in their infrastructure
- CETC support available to the extent that the ILEC is eligible for support
- CETC support may be limited by operation of Interim Cap

## Safety Net Additive

- **To Qualify:** ILEC must notify USAC that, for a given period, its growth in telecommunications plant in service (TPIS) is at least 14% on a per loop basis
- Support is only available in years in which HCL cap is reached
- **SNA Formula:** (uncapped qualifying year HCL support – uncapped base year HCL support) – (capped qualifying year HCL support – capped base year HCL support) = Total SNA Support Available

## Safety Valve Support

- Additional component of HCL calculated over and above the HCL cap (47 CFR 54.305)
- Available to rural ILECs that acquire exchanges and invest in that infrastructure
- CETC support available to the extent that the ILEC is eligible for support
- CETC support may be limited by operation of the Interim Cap

## Safety Valve Support

To qualify, an ILEC must:

- Notify USAC that it has acquired exchanges that may be eligible for SVS
- Provide its index year (first year that acquiring companies operate acquired exchanges)

Safety Valve Support Formula: (Subsequent Year(s) HCL Support – Index Year HCL Support) X 50%

## High Cost Model

- Generates statewide average cost per line
- Statewide average compared with national average cost per line (NACPL) to determine eligibility for HCM
- Costs supported are forward-looking rather than historical embedded
- Support provided only if **statewide average** exceeds national average
- HCM support distributed at wire-center level



## High Cost Model

- If statewide average cost per line exceeds two standard deviations above NACPL (“national cost benchmark”), state qualifies for support
- Total support in a state is targeted: support is only available to carriers serving wire centers with forward-looking costs that exceed the benchmark
- Non-rural carriers in 10 states eligible in 2010 (AL, KY, ME, MS, MT, NE, SD, VT, WV, WY)
- CETC support available to the extent that the ILEC is eligible for support in a wire center

## Interstate Access Support (IAS)

- Helps offset interstate access charges for price-cap companies (47 CFR 54.800-809)
- \$650 million in implicit support removed from access charges of price-cap carriers
- \$650 million now in explicit, portable universal service support component, providing support to carriers serving lines in areas where they are unable to recover permitted revenues from subscriber line charges (SLCs)

## Interstate Access Support (IAS)

- Methodology for distributing support consists of a series of formulas that measure difference between common line, marketing, and transport (CMT) revenue under price caps and benchmarks based on the new SLC caps
- FCC 08-122 (Interim Cap Order) created two distinct capped pools for IAS for ILECs and CETCs

## Interstate Common Line Support (ICLS)

- Supports interstate common line costs by replacing carrier common line (CCL) charge with explicit support available to ETCs
- Provides interstate support for rate-of-return (RoR) carriers to the extent that SLC caps do not permit them to recover common line revenue requirements
- Based on projected data submitted March 31 and trued-up with actual data submitted December 31 for previous program year

## Interstate Common Line Support (ICLS)

- Based on carrier's embedded costs; not subject to a cap
- CETC support available to the extent that ILEC is eligible for support, subject to the operation of the Interim Cap for CETCs
- May also be available to price-cap ILECs on a per-line basis where an ILEC has converted from RoR regulation to price-cap regulation

## ICLS Formula

- Based Rate-of-Return Carrier's Common Line Revenue Requirement

|   |          |
|---|----------|
| Line port costs in excess of basic analog service | —        |
| Revenue from transitional CCL charge              | —        |
| Subscriber line charge (SLC) revenues             | —        |
| Special access surcharges                         | —        |
| Long Term Support (LTS), merged with ICLS in 2004 | —        |
| <b>Total ICLS Available</b>                       | <b>≡</b> |

## Local Switching Support (LSS)

- Rural ILECs serving  $\leq 50,000$  lines
- Covers some switching costs in recognition that companies serving few customers cannot reach economies of scale of bigger companies
- Subject to true-up no later than 15 months after end of the calendar year for which historical data are submitted
- CETC support available to the extent the ILEC is eligible for support, subject to the operation of the Interim Cap for CETCs

## LSS Formulas

Carrier's Annual Unseparated Local Switching  
Revenue Requirement X  
Carrier's Local Switching Support Factor

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**Local Switching Support** =

1996 Weighted Interstate Dial  
Equipment Minute (DEM) Factor

1996 Un-weighted DEM Factor —

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**LSS Factor** =



# High Cost Program Eligibility Criteria

## Eligibility Criteria

- Designated as an ETC by either a state commission or the FCC, if the state lacks jurisdiction
- Certify annually that all High Cost support will be used only for the provision, maintenance, and upgrading of services and facilities eligible for support
- CETCs qualify for same components of High Cost as the ILEC in whose service areas the CETC serve lines
- CETCs receive same per-line support as the ILEC in whose service areas the CETC serves lines but are subject to CETC Interim Cap

## Annual Certifications

- **October 1:** States certify for HCL, LSS, and HCM, unless state lacks jurisdiction, in which case carrier self-certifies (47 CFR 54.313 & 54.314)
- **June 30:** Carriers self-certify for IAS and ICLS (47 CFR 54.809 & 54.904)

# High Cost Program

## **USAC Resources**

<http://www.usac.org/hc/>

- Program overview
- Search Tools
- Disbursement data

## Disbursement Data

|                  |                                      |
|------------------|--------------------------------------|
| SPIN:            | <input type="text"/>                 |
| Study Area Code: | <input type="text"/>                 |
| Study Area Name: | <input type="text"/>                 |
| Year:            | ALL <input type="button" value="v"/> |
| Month:           | ALL <input type="button" value="v"/> |
| State:           | ALL <input type="button" value="v"/> |

|                                    |                    |   |
|------------------------------------|--------------------|---|
| <input type="checkbox"/> View in H | Component:         | ALL <input type="button" value="v"/> <a href="#">View Definitions</a> |
| This disbursement tool contains    | USAC Filing Month: | ALL <input type="button" value="v"/>                                  |
| <input type="button" value="Fi"/>  | Filer Type:        | ALL <input type="button" value="v"/> <a href="#">View Definitions</a> |

## Filing Requirements and Deadlines Tool\*

### **Disclaimer**

Failing to make the mandatory filings may impact High Cost support. If any filings or requirements have been omitted from this tool, carriers and state commissions are not relieved of their obligation to make such filings, and USAC assumes no liability or responsibility for such filings or requirements. If you are aware of any filings or requirements that may have been omitted from this tool, please contact Michael Spead, Manager of the High Cost Group, at 202-263-1646.

### About High Cost:

- Overview of the Program
- Overview of the Process
- Site Visits
- Training Events
- Filing Appeals
- Red Light Status (FCC site)
- Requesting Confidential Information
- Understanding Audits
- Understanding Disaggregation
- USAC FCC Filings

### High Cost Tools:

- Required Forms
- Filing Requirements and Deadlines
- High Cost Maps IAS
- HCM CLLI Tool
- Disaggregation Maps
- Disaggregation Checklist
- Disbursement Data Search
- Certification Search
- Latest News
- Program Compliance - Whistleblower Hotline
- Submitting A Complaint

<http://www.usac.org/about/>

- Rules and orders
- Brochures
- Annual Reports
- Newsletters



[www.gpoaccess.gov/ecfr/](http://www.gpoaccess.gov/ecfr/)

- Title 47 is Telecom
- Updated regularly

Part 54 (Universal Service)

Electronic Code of Federal Regulations

*e-CFR*  
TM

**e-CFR Data is current as of May 25, 2010**

| Title                         | Volume | Chapter | Browse Parts            | Regulatory Entity  |
|-------------------------------|--------|---------|-------------------------|--|
| Title 47<br>Telecommunication | 1      | I       | <a href="#">0-19</a>    | Federal Communications Commission  |
|                               | 2      |         | <a href="#">20-39</a>   |  |
|                               | 3      |         | <a href="#">40-69</a>   |  |
|                               | 4      |         | <a href="#">70-79</a>   |  |
|                               | 5      |         | <a href="#">80-199</a>  |  |
|                               |        | II      | <a href="#">200-299</a> | Office of Science and Technology Policy and National Security Council  |
|                               |        | III     | <a href="#">300-399</a> | National Telecommunications and Information Administration, Department of Commerce   |
|                               |        | IV      | <a href="#">400-499</a> | National Telecommunications and Information Administration, Department of Commerce, and National Highway Traffic Safety Administration, Department of Transportation |

## PART 54—UNIVERSAL SERVICE

### Section Contents

#### Subpart A—General Information

[§ 54.1 Basis and purpose.](#)

[§ 54.5 Terms and definitions.](#)

[§ 54.7 Intended use of federal universal service support.](#)

[§ 54.8 Prohibition on participation: suspension and debarment.](#)

#### Subpart B—Services Designated for Support

[§ 54.101 Supported services for rural, insular and high cost areas.](#)

#### Subpart C—Carriers Eligible for Universal Service Support

[§ 54.201 Definition of eligible telecommunications carriers, generally.](#)

[§ 54.202 Additional requirements for Commission designation of eligible telecommunications](#)

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Visit: [www.usac.org/hc](http://www.usac.org/hc)  
to learn more