

**NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.**  
**Universal Service Fund**  
**Loop Cost and Expense Adjustment Algorithms**

**Cost Company Loop Cost Algorithm for 1997 and Subsequent Years**

<b>Line</b>	<b>Formula</b>	<b>Description</b>
1.	$(DL255 * (DL710/DL700)) + DL820$	Cable & Wire Facilities plus C&WF portion of Capital Leases assigned to Category 1
2.	$DL250 + DL810$	Central Office Equipment plus COE portion of Capital leases assigned to Category 4.13
3.	$AL1/(DL255 + DL815)$	"A" Factor Cable & Wire Facilities. C&WF Category 1 divided by Total C&WF
4.	$AL2/(DL230 + DL235 + DL240 + DL805)$	"B" Factor Central Office Equipment. COE Category 4.13 divided by Total COE
5.	$AL1/DL160$	"C" Factor Cable & Wire Facilities (Gross Allocator) C&WF Category 1 divided by Total Plant in Service
6.	$AL2/DL160$	"D" Factor Central Office Equipment (Gross Allocator) COE Category 4.13 divided by Total Plant In Service
7.	$AL5 * DL170$	Materials & Supplies assigned to Cable & Wire Facilities Category 1
8.	$AL6 * DL170$	Material & Supplies assigned to Central Office Equipment Category 4.13
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
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
11.	[Reserved]	
12.	[Reserved]	
13.	$AL3 * (DL430 - DL435 - DL440)$	Cable & Wire Facilities Maintenance Expense assigned to Category 1

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14.	$AL4 * (DL365 + DL380 + DL395 - DL370 - DL375 - DL385 - DL390 - DL400 - DL405)$	Central Office Equipment Maintenance Expense assigned to Category 4.13
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
16.	$AL16 = (AL5 + AL6) * (L450 - L455)$	Network Operations Expenses assigned to C&WF Category 1 and COE Category 4.13
17.	$AL3 * (DL530 + ((DL815/DL800) * DL830))$	Depreciation and Amortization Expense assigned to C&WF Category 1
18.	$AL4 * ((DL510 + DL515 + DL520) + ((DL805/DL800) * DL830))$	Depreciation and Amortization Expense assigned to COE Category 4.13
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)
20.	$(AL5 + AL6) * DL650$	Operating Taxes assigned to C&WF Category 1 and COE Category 4.13
21.	$(AL5 + AL6) * (DL600 - DL540 - DL555)$	Benefits other than Corporate Operations Expense assigned to C&WF Category 1 and COE Category 4.13
22.	$(AL5 + AL6) * DL610$	Rents assigned to C&WF Category 1 and COE Category 4.13
23.	$(AL1 + AL7 - AL9) * 0.1125$	Return Component for C&WF Category 1
24.	$(AL2 + AL8 - AL10) * 0.1125$	Return Component for COE Category 4.13
25.	Sum of AL13 thru AL24	Total Unseparated Costs
26.	$AL25/DL060$	Study Area Cost per Loop (SACPL)

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### Corporate Operations Expense Limitation

The Cost Company Loop Cost Algorithm at Line 19 limits Corporate Operation Expenses in accordance with §36.621(a)(4).

Step 1: **Total Reported Corporate Operations Expense per loop per month** is calculated by summing DL535 (Account 6710) and DL550 (Account 6720). This resulting amount is then divided by DL060 (Total Loops) and 12 (months) to yield a per line per month number.

Step 2: **Total Allowed Corporate Operations Expense per loop per month** is determined for specific working line groupings as defined in the FCC Part 36.621(a)(4) rules using DL070 (USF Loops):

- **Effective January 1, 2002**

Total Allowed Corporate Operations Expense per loop per month is adjusted annually to reflect the percentage change in Gross Domestic Product-Chained Price Index (GDPCPI).

- **Effective for all periods after January 1, 2002**

For study areas with 6,000 or fewer working loops:  
[\$33.30853 – (\$0.00246 x DL070)] x GDPCPI or  
[50,000 / DL070] x GDPCPI, whichever is or greater

For study areas with more than 6,000 but fewer than 18,006 working loops:  
[\$3.83195 + (88,429.20 / DL070)] x GDPCPI

For study areas with 18,006 or more working loops:  
\$8.74472 x GDPCPI

- The GDPCPI values currently in effect are as follows:

January 1, 2002 through December 31, 2002 (Applies to 2001-1, -2, -3, -4)	1.022740
January 1, 2003 through December 31, 2003 (Applies to 2002-1, -2, -3, -4)	1.046948
January 1, 2004 through December 31, 2004 (Applies to 2003-1, -2, -3, -4)	1.058813
January 1, 2005 through December 31, 2005 (Applies to 2004-1, -2, -3, -4)	1.078200
January 1, 2006 through December 31, 2006 (Applies to 2005-1, -2, -3, -4)	1.106517
January 1, 2007 through December 31, 2007 (Applies to 2006-1, -2, -3, -4)	1.140038

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**Step 3: *Limitation Test*** – compare the Total Reported Corporate Operations Expense per loop per month to the Total Allowed Corporate Operations Expense per loop per month.

- If the limitation is not exceeded, the Total Reported Corporate Operations Expense as reported for the study area is used in the cost per loop algorithm.
- If the limitation is exceeded, the Total Allowed Corporate Operations Expense is calculated by multiplying the Total Allowed Corporate Operations Expense per loop per month by DL060 (Total Loops) and 12 (months).

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**National Average Cost Per Loop Algorithm**

- **Cost Study Area USF Unseparated Costs =**

Cost Study Area Total Unseparated Costs \* (Study Area USF Loops/Study Area Total Loops)

- **Nationwide USF Unseparated Costs =**

Sum of Cost Study Area USF Unseparated Costs  
+ Sum of Average Schedule Study Area USF Unseparated Costs

- **Nationwide Average Cost Per Loop (NACPL) =**

(Nationwide USF Unseparated Costs) / (Nationwide USF Loops)

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**Expense Adjustment Algorithm**

- **Study Areas Reporting 200,000 or Fewer Loops**
  - In excess of 115% NACPL, but not greater than 150% NACPL, 65% SACPL X USF Loops
  - In excess of 150% NACPL, 75% SACPL X USF Loops
  
- **Study Areas Reporting More Than 200,000 Loops**
  - In excess of 115% NACPL, but not greater than 160% NACPL, 10% SACPL X USF Loops
  - In excess of 160% NACPL, but not greater than 200% NACPL, 30% SACPL X USF Loops
  - In excess of 200% NACPL, but not greater than 250% NACPL, 60% SACPL X USF Loops
  - In excess of 250% NACPL, 75% SACPL X USF Loops