

7. Pooling

Prior to 1989, all local exchange carriers (LECs) were required to be part of the National Exchange Carrier Association (NECA) common line (CL) pool, and CCL rates were uniform nationwide. The transition to jurisdictionally specific Carrier Common Line (CCL) access charges occurred on April 1, 1989. The following LECs withdrew from the CL pool on that date: Ameritech, Bell Atlantic, BellSouth, Centel, Cincinnati Bell, Continental Telcom, GTE, NYNEX, Pacific Telesis, Rochester Telephone, Seneca-Gorham Telephone, Southern New England Telephone, Southwestern Bell, US West, United Telephone System, and Warwick Valley. Seneca-Gorham has since been acquired by Rochester Telephone. On July 1, 1990, Great Plains Communications and Hughes Telephone also withdrew from the NECA CL pool. On July 1, 1991, Lincoln Telephone and Telegraph and Rochester Telephone's other cost study areas also withdrew from the NECA CL pool. On July 1, 1994, Citizens Utilities withdrew from the NECA CL pool.

The latest nationwide pool results provided by NECA are shown in Tables 7.1 and 7.2. Table 7.1 summarizes the CL pool revenues and expenses for the year 1996, as well as a comparison with the corresponding figures for 1995. Table 7.2 has comparable figures for NECA's voluntary traffic sensitive pool.

To reduce disparities in CCL rates among LECs after companies were permitted to withdraw from the CL pool, two support mechanisms were set up. Transitional support consisted of payments from low cost companies that withdrew from the pool to high cost companies that withdrew from the pool. The transition period has now ended. Long term support (LTS) consists of payments to the NECA CL pool from companies that withdrew from the NECA CL pool. Companies remaining in the pool, administered by NECA, have identical CCL rates, equal to the average CCL rate of the price cap companies, which is currently 0.77 cents per minute.

NECA calculates LTS payments as follows. It begins by computing the CCL revenue requirement of LECs in the NECA CL pool by subtracting their subscriber line charge (SLC) revenues from their total CL revenue requirements. NECA then calculates the average per-minute CCL charge for price cap LECs, and projects the revenues that LECs participating the NECA pool would expect to collect by charging that average CCL rate. The difference between these amounts is the projected pool member deficit, which is then provided to pool members in the form of LTS payments. LECs who are not in the pool fund LTS support in proportion to their share of the total number of common lines of all LECs contributing to the pool. LECs outside the pool then recover these LTS costs through their own CCL charges.

NECA's latest report on the dimensions of LTS payments among the LECs, based on the tariffs that became effective on April 15, 1997, follows. Table 7.3 shows the LTS payments made by Contributors, in support of those companies remaining in the NECA CL pool. Chart 7.1 summarizes the sources of revenue for the NECA CL pool, showing the distribution of funds from LTS, CCL charges, subscriber line charges, and special access surcharges. It also shows the distribution of LTS payments made by Contributors.

LTS subsidies per minute of use could be determined by dividing the total industry LTS payments by the total minutes of use in the NECA CL pool. However, FCC rules¹ limit the maximum premium originating CCL rate to one cent, while the premium terminating CCL rate has no maximum. Therefore, the subsidy per minute can be stated as an originating subsidy and a terminating subsidy. The originating subsidy is 0.23 cents per chargeable originating minute.² This is the one cent maximum less the current rate of 0.77 cents. The terminating subsidy is 3.20 cents per chargeable terminating minute. This can be calculated by multiplying the 0.23 cents by the NECA CL pool's 11,245,834,517 chargeable originating minutes and then subtracting the result from the LTS for the July 1, 1996, through June 30, 1997, Test Period of \$443,792,339. The difference of \$417,926,920 is then divided by the 13,080,482,036 chargeable terminating minutes to calculate the terminating subsidy per minute.

1 See Part 69.105(b)(2)(i).

2 Chargeable minutes of use are equal to premium minutes of use plus 45 percent of nonpremium minutes of use.

TABLE 7.1

**NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
SUMMARY OF COMMON LINE POOL RESULTS**

Line Item (Note 1)	Pool Year (Note 2)		Percentage Change (Note 3)
	1995	1996	
Carrier Common Line (CCL) Earned Revenues			
Premium	189,752,121	189,614,080	-0.07%
Non-Premium	3,302,087	2,564,806	-22.33%
Special Access Surcharge	463,442	433,321	-6.50%
CCL Net Realized Uncollectibles	12,462	28,530	128.94%
CCL Net Earned Revenue	193,505,188	192,583,677	-0.48%
End User Net Earned Revenue (Note 4)	409,871,512	432,953,709	5.63%
Total Common Line Net Earned Revenues	603,376,700	625,537,386	3.67%
Long Term Support	382,255,111	425,624,307	11.35%
Total Common Line Revenues	985,631,811	1,051,161,693	6.65%
NECA Administrative Costs	13,721,303	13,775,760	0.40%
Average Schedule Company Settlements	224,276,797	232,004,156	3.45%
Common Line Expenses and other Taxes	519,162,009	560,502,490	7.96%
Common Line Adjusted Federal Income Tax	53,507,216	58,210,423	8.79%
Total Common Line Expenses	810,667,325	864,492,829	6.64%
Common Line Residue for Distribution (Note 5)	174,964,486	186,668,864	6.69%
Common Line Average Net Investment	1,616,249,419	1,716,524,139	6.20%
Common Line Residue Ratio (Note 6)	10.83%	10.87%	0.46%

Note 1: All of the individual line items include some estimates and are subject to further adjustments under current NECA procedures.

Note 2: The Pool Year is the calendar year. The 1995 Pool Year data is reported as of February 29, 1996. The 1996 Pool Year data is reported as of February 28, 1997.

Note 3: Year to year changes are affected by changes in the number of companies participating in NECA tariffs, sales and acquisitions of assets by participating companies, average schedule to cost conversions, and mid-year tariff changes in rate levels.

Note 4: Amount includes End User SLC Waiver Revenue for NECA Tariff participants.

Note 5: Residue for Distribution is Total Revenues less Total Expenses.

Note 6: Residue Ratio is calculated by dividing the amount of Residue for Distribution by the amount of Average Net Investment and multiplying by 100.

TABLE 7.2

**NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
SUMMARY OF TRAFFIC SENSITIVE POOL RESULTS**

Line Item (Note 1)	Pool Year (Note 2)		Percentage Change (Note 3)
	1995	1996	
Traffic Sensitive Earned Revenue	899,393,500	906,624,326	0.80%
Traffic Sensitive Net Realized Uncollectibles	36,575	100,368	174.42%
Traffic Sensitive Net Earned Revenue	899,356,925	906,523,958	0.80%
Total Traffic Sensitive Revenues	899,356,925	906,523,958	0.80%
NECA Administrative Costs	12,627,854	11,758,135	-6.89%
Average Schedule Company Settlements	343,807,859	383,085,703	11.42%
Traffic Sensitive Expenses & Other Taxes	388,226,194	361,974,565	-6.76%
Traffic Sensitive Adjusted Federal Income Tax	35,182,609	32,341,763	-8.07%
Total Traffic Sensitive Expenses	779,844,516	789,160,166	1.19%
Traffic Sensitive Residue For Distribution (Note 4)	119,512,409	117,363,792	-1.80%
Traffic Sensitive Average Net Investment	976,610,102	898,760,928	-7.97%
Traffic Sensitive Residue Ratio (Note 5)	12.24%	13.06%	6.71%

Note 1: All of the individual line items include some estimates and are subject to further adjustments under current NECA procedures.

Note 2: The Pool Year is the calendar year. The 1995 Pool Year data is reported as of February 29, 1996. The 1996 Pool Year data is reported as of February 28, 1997.

Note 3: Year to year changes are affected by changes in the number of companies participating in NECA tariffs, sales and acquisitions of assets by participating companies, average schedule to cost conversions, and mid-year tariff changes in rate levels.

Note 4: Residue for Distribution is Total Revenues less Total Expenses.

Note 5: Residue Ratio is calculated by dividing the amount of Residue for Distribution by the amount of Average Net Investment and multiplying by 100.

TABLE 7.3

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
 NON-NECA COMMON LINE LONG TERM SUPPORT (LTS) PAYMENTS
 FOR TEST PERIOD JULY 1, 1996 THRU JUNE 30, 1997

LTS CONTRIBUTORS -----	(1) CONTRIBUTION FACTORS*	(2) = (1) x TOTAL LTS ANNUAL LTS ** -----
ALLTEL TELEPHONE	0.002187851622	\$970,952
AMERITECH	0.125536794012	\$55,712,267
BELL ATLANTIC	0.131054464705	\$58,160,967
BELL SOUTH	0.140181353969	\$62,211,411
CENTURY - OHIO	0.000474651924	\$210,647
CINCINNATI BELL	0.006027406335	\$2,674,917
CITIZENS UTILITIES	0.005426378466	\$2,408,185
CONTEL CORPORATION	0.017295168728	\$7,675,463
GREAT PLAINS	0.000177924573	\$78,962
GTE CORPORATION	0.093383180288	\$41,442,740
LINCOLN TEL. & TEL.	0.001747910627	\$775,709
NEVADA BELL	0.001911261857	\$848,203
NYNEX SVC. CO.	0.113336779481	\$50,297,994
OGDEN TELEPHONE COMPANY	0.000133728200	\$59,348
PACIFIC BELL	0.105287751524	\$46,725,898
FRONTIER CORP - I	0.005492162165	\$2,437,379
FRONTIER CORP - II	0.000486173908	\$215,760
SNET	0.012905347772	\$5,727,294
SOUTHWESTERN BELL	0.094063391599	\$41,744,613
UNITED TELEPHONE SYSTEM	0.044387172487	\$19,698,687
U.S. WEST	0.098355403399	\$43,649,375
WARWICK VALLEY	0.000147742358	\$65,567

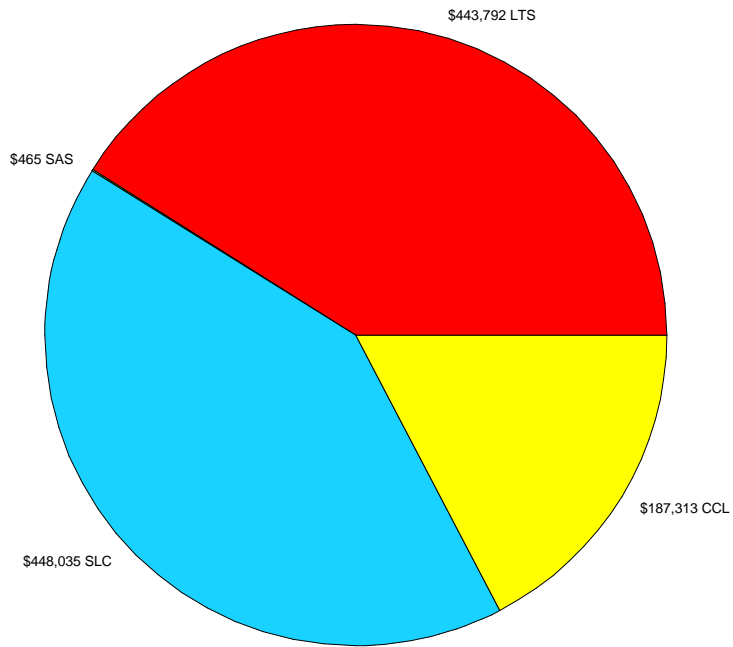
TOTAL	1.000000000000	\$443,792,339 -----

* BASED ON ACCESS LINES FROM 1995 USF DATA COLLECTION

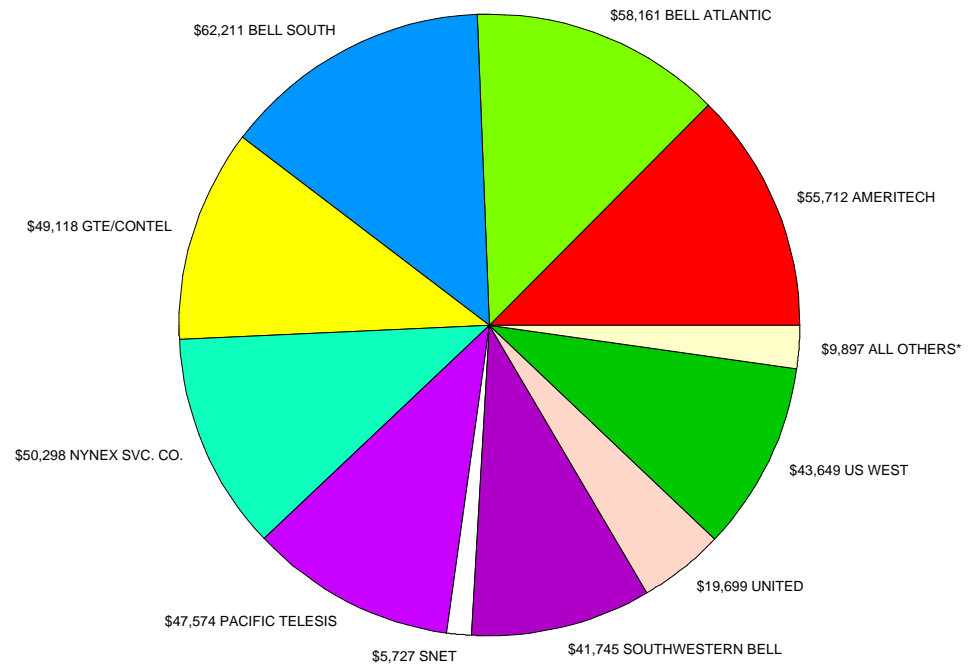
** ANNUALIZED USING EACH COMPANY'S CURRENT MONTHLY LTS OBLIGATION

CHART 7.1

7/96 THRU 6/97 COMMON LINE POOL SOURCES OF REVENUE (\$000s)



NECA POOL (\$1,079,605)



* "ALL OTHERS" INCLUDE ALLTEL, CENTURY, CINCINNATI BELL, CITIZENS UTILITIES, GREAT PLAINS, LINCOLN TEL, OGDEN TEL, FRONTIER CORP, AND WARWICK VALLEY

LONG TERM SUPPORT (\$443,792)